

MEETING: **Audit Committee**

DATE: **12 March 2009**

TITLE: **The Wales Audit Office's Regulatory Plan for Gwynedd Council 2008/09 – Financial Aspects**

PURPOSE: **To present, for information, the Wales Audit Office's intention with regard to their financial audit work during the next year.**

AUTHOR: **Dafydd L Edwards, Head of Finance**

1. Please find on the following paper the Wales Audit Office's 2008/09 Regulatory Plan for Gwynedd Council.
2. Whilst the whole of the Wales Audit Office's Regulatory Plan is submitted here to the Audit Committee, the Audit Committee is asked to focus on the financial aspects of the plan.
3. Relevant aspects of the plan which might interest members of the Audit Committee are as follows:
 - The introduction to the Wales Audit Office's work at Gwynedd Council on pages 4-5, paragraphs 1-10.
 - The Wales Audit Office's audit of Gwynedd Council's accounts on pages 5-7, paragraphs 11-15, and in particular 'Exhibit 2' regarding the Council's Financial Accounts.
 - The Wales Audit Office's audit and certification of grant claims and returns on page 11, paragraphs 28-29.
 - The Wales Audit Office's Regulatory Team is listed in Appendix 1 on page 13.
 - Roles and responsibilities, including appointed auditors' statutory duties and communication with those charged with governance (i.e. the Audit Committee at Gwynedd Council) under ISA 260 on pages 14-15.
4. This Regulatory Plan will also be submitted to the Council's Resources and Corporate Policy Scrutiny Committee, where value for money aspects, audit of our Improvement Plan, Performance audit, non-financial inspection and other Wales Audit Office work will be discussed.
5. The Wales Audit Office's Financial Audit Engagement Partner, Kevin Thomas, and Client Manager, Amanda Hughes, will be in attendance to respond to any questions from members of the Audit Committee.



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

2008-09

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Regulatory Plan 2008-09

Gwynedd Council

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Status of this document

This document has been prepared for the internal use of Gwynedd Council as part of work performed in accordance with statutory functions, the Code of Audit and Inspection Practice and the 'Statement of Responsibilities' issued by the Auditor General for Wales.

No responsibility is taken by the Wales Audit Office (the Auditor General and his staff) and, where applicable, the appointed auditor in relation to any member, director, officer or other employee in their individual capacity, or to any third party.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 Code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales (and, where applicable, his appointed auditor) is a relevant third party.

Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at infoofficer@wao.gov.uk.

Wales Audit Office work at Gwynedd Council

1. The Relationship Manager (RM) is responsible for the co-ordination of all audit and inspection work at specified Local Government Bodies. Consequently, the RM has prepared this Regulatory Plan (the Plan) setting out the work to be delivered by and on behalf of the Auditor General and by his appointed auditors. It also covers the work of the Care and Social Services Inspectorate Wales (CSSIW) and Estyn. The Plan will be supplemented with a more detailed Financial Accounts Plan and with additional information on the scope of performance and inspection studies as these are agreed during the year. We have designed a programme of work to address the significant operational and financial risks that impact on our responsibilities.
2. The Plan focuses on the following main areas:
 - the audit of the accounts;
 - the auditor's conclusion on whether the Council has arrangements in place to deliver value for money;
 - the audit of the Improvement Plan;
 - performance (value for money) audit work;
 - inspection; and
 - All Wales Studies.
3. The audit, inspection and regulatory team members are all independent of Gwynedd Council (the Council) and your officers. We are not aware of any potential conflicts of interest which we need to bring to your attention. Appropriate contacts are set out at Appendix 1.
4. The roles and responsibilities of the regulatory team are set out in Appendix 2.
5. We will liaise closely with the Council:
 - when completing the more detailed Financial Accounts Plan and will keep you fully informed of any risks or issues as and when they arise; and
 - on the timing, scope and delivery of the performance work, some of which may take more than one audit cycle to complete.
6. We will ensure our planned work is appropriate, and changes to the Plan may be required if any significant new risks emerge. No changes will be made without first discussing them with officers, and where relevant, those charged with governance.
7. The fee for 2008-09 is £338,970 (plus VAT) and will be charged in equal instalments between November 2008 and October 2009. This fee is in line with the Auditor General's fees letter and represents a 3.8 per cent increase on the 2007-08 fee. Our fee is set out in Exhibit 1.

8. This year's increase reflects our view, based primarily on recent inspection work and the significant challenges facing the Council, that the level of risk to the management and delivery of services has increased slightly.

Exhibit 1: The fee

	Fee 2007-08 £	Planned fee 2008-09 £
Accounts*	168,454	175,709
Performance audit	77,630	79,961
Performance inspection	80,490	83,300
Total	326,574	338,970

**We have adjusted the 2007-08 fee for the element that related to the audit of the Gwynedd Pension Fund, which will be billed separately in 2008-09. We have done this to allow for comparison between the two years.*

9. We will produce a Regulatory Calendar showing all the current or planned work to be undertaken at the Council by the regulators. We will share it with the Council and all the regulators and update it quarterly.
10. The Auditor General has appointed Anthony Snow as the Appointed Auditor to the Council.

The audit of accounts

11. The Appointed Auditor is required to issue an audit report on the Financial Statements which includes an opinion on:
- Whether the Financial Statements present fairly the state of affairs of the Council. This will provide assurance that the Financial Statements:
 - are free from material misstatement, whether caused by fraud or other irregularity or error;
 - comply with the statutory and other applicable requirements; and
 - comply with all relevant requirements for accounting presentation and disclosure.
 - Whether the Statement on Internal Control has been presented in accordance with relevant requirements and is not inconsistent with our knowledge of the Council.
12. In order to issue the audit report on the Financial Statements, the Appointed Auditor must ensure that all the audit risks associated with the above are identified and addressed. An initial assessment of the risks has been undertaken, and these are set out in Exhibit 2 Financial Accounts.

Exhibit 2: Financial Accounts

Financial Accounts Risk	Key questions
<p>The Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice (SoRP) introduces further changes to Local Authority accounting from 1 April 2008. Whilst the changes are not significant, they include:</p> <ul style="list-style-type: none"> • changes to Financial Reporting Standards (FRS) 17 measurement bases for pension scheme assets; • refinement to rules surrounding Financial Instruments; and • revaluation of fixed assets at point of disposal is not permitted. 	<p>Do the Council's Financial Statements comply with the relevant statutory and other applicable requirements, including the new SoRP?</p>
<p>The Council has to complete a consolidation pack to support the consolidation of public sector resource accounts, which are to be prepared under International Financial Reporting Standards (IFRS) for 2008-09. The Assembly Government has not yet decided how this will be achieved, although it is hoped that an adjustment for IFRS will be made 'centrally', rather than locally by each Council.</p>	<p>Does the Council's 2008-09 Whole of Government Accounts (WGA) pack present financial information fairly?</p>
<p>The Council will move to accounting under IFRS from year ending 31 March 2011. As part of the conversion process the balance sheet for 31 March 2009 will form the opening balance sheet position for the Council's first IFRS accounts. We expect there to be an exercise after the closure of the 2009 accounts to convert this balance sheet to be compliant with IFRS.</p>	<p>Does the Council have the appropriate processes and procedures in place in readiness for the adoption of IFRS?</p>
<p>The Council has closed a waste disposal site during the 2008-09 financial year. The Council now faces considerable capping and aftercare costs both in the immediate future, and medium to long term. The Council will need to make appropriate accounting provisions for these costs.</p>	<p>Has the Council put appropriate plans in place to provide for future liabilities relating to the capping and aftercare costs at its waste disposal sites?</p>
<p>Cwmni Gwastraff Mon-Arffon Cyf, a joint waste disposal company with Isle of Anglesey County Council, is to be wound up in 2008-09 and its remaining assets and liabilities will be distributed to the two Councils. The Council must account for the assets and liabilities it receives from the Company correctly, and use any resources distributed from the Company prudently.</p>	<p>Has the Council accounted for the residual assets and liabilities of the Cwmni Gwastraff Mon-Arffon Cyf correctly, and has it been prudent in its use of resources in relation to the distribution of the assets from the Company?</p>

Financial Accounts Risk	Key questions
<p>The Council has an outstanding deposit in a UK subsidiary of an Icelandic Bank. The carrying value of this financial asset may exceed the estimated recoverable amount and be impaired.</p> <p>The Council will need to estimate the recoverable amount of the investment and determine whether there is impairment. The impairment must be accounted for correctly across the relevant funds (Council Fund, HRA and Pension Fund).</p>	<p>Has the Council assessed whether its financial asset is impaired and, if so, accounted for it appropriately?</p>
<p>The current economic climate impacts on the Council both in terms of its own finances and financial standing and on the demand for services (which in turn further impacts on its finances).</p>	<p>What is the Council doing to address the issues arising out of the current economic situation and how is the Council managing its financial standing?</p>

13. The Appointed Auditor will be updating this risk assessment during the year and will produce a more detailed Financial Accounts Plan prior to any work being completed.
14. Currently there is no mandated requirement to audit declared efficiency gains for either 2007-08 or 2008-09. However, the Appointed Auditor may wish to review an authority's arrangements or follow up earlier findings as part of risk based audit work. Any reservations on the way in which an authority is reporting efficiency gains will be recorded in the Annual Letter.
15. It is the Council's responsibility to:
 - put in place systems of internal control to ensure the regularity and lawfulness of transactions;
 - maintain proper accounting records; and
 - prepare Financial Statements in accordance with relevant requirements.

Conclusion on arrangements for securing value for money

16. The Appointed Auditor has a duty to satisfy himself that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The main focus of this work will continue to be a review of the key corporate performance and financial management arrangements you are required to put in place as part of your system of internal control.
17. The Appointed Auditor's review of your arrangements will include the following aspects:
 - strategic and operational objectives;
 - policy and decision making;
 - meeting the needs of users and taxpayers;
 - internal controls;
 - risk management;
 - best value;

- resource management;
 - performance management; and
 - standards of conduct.
18. The Appointed Auditor's conclusion on the existence of your arrangements will draw primarily on evidence secured as part of the routine audit work across the Code areas. The conclusion will also take into account any other available relevant sources of evidence, such as the results of local performance studies and inspection work carried out during the year.
19. It is the Council's responsibility to prepare and publish with its financial statements, a statement made by those charged with governance relating to their review of the effectiveness of the systems of internal control.

Auditing your Improvement Plan

20. In relation to your Improvement Plan, the Appointed Auditor is required to issue a report:
- certifying that he has audited the Plan;
 - stating whether he believes that it was prepared and published in accordance with Section 6 of the Local Government Act 1999 (the 1999 Act) and any order or guidance under that section;
 - if appropriate, recommending how it should be amended so as to accord with Section 6 and any order or guidance under that section;
 - if appropriate, recommending procedures to be followed by the Council in relation to the Plan;
 - recommending whether the Auditor General should carry out a best value inspection of the Council under Section 10A of the 1999 Act; and
 - recommending whether Welsh Ministers should give a direction under Section 15 of the 1999 Act.

Performance audit, inspection and studies

21. Performance audit, inspection and studies work delivered on behalf of the Auditor General will not always be completed within one audit cycle. The Auditor General's forward programme is flexible and responsive to external change.
22. Work delivered during the year on behalf of the Auditor General is reported in the Annual Letter to the Council which is presented by the RM and the Appointed Auditor.

Performance Audit

23. The risks identified (locally and nationally) as part of the risk assessment are set out in Exhibit 3.

Exhibit 3: Performance Audit Work

Risk Based Performance Audit	
Risk	Key Questions
<p>Joint Risk Assessment The Council is required to undertake an annual risk assessment and agree the outcomes with its regulators. Failure to discharge this task effectively could result in the Council being exposed to unidentified service and corporate risks and the establishment of incorrect improvement priorities.</p>	Has the Council effectively completed its annual updated risk assessment?
<p>Scrutiny support and challenge: Scrutiny currently varies in its effectiveness and arrangements for the scrutiny of the Local Service Board are at an early stage of development. Weaknesses in the scrutiny of policy and performance place at risk the improvement of outcomes for customers and the community.</p>	Are Scrutiny Committees and associated Working Groups effective in their intended roles?
<p>Project management: The Council is making increasing use of project management techniques to plan and implement major changes.</p>	Are project management resources being deployed effectively and making a positive impact on project delivery?
<p>Response to the Civil Contingencies Act: There remains much to do in response to the requirements of the Act and to the recommendations made by the Wales Audit Office in 2006.</p>	Is the Council taking adequate steps to comply with the requirements of the Civil Contingencies Act?
<p>Information and Communications Technology: Focus of work to be determined after further planning</p>	TBC
<p>Human Resources: Continuation of 2007-08 work in support of the changes being introduced by the Council.</p>	Is the introduction of flexible working being managed effectively?

Inspections

24. The areas for inspection work are set out in Exhibit 4.
25. As part of the UK Government initiative to streamline inspectorates the Wales Audit Office is undertaking the inspection of Housing and Council Tax Benefits (H&CTB) services. Any inspection activity will be fully funded from the Benefits Inspection grant.

Exhibit 4: Performance Inspection Work

Risk Based Performance Inspection	
Risk	Key Questions
Waste Management: The Council is working with four other North Wales authorities to procure waste treatment facilities. There is a risk that the need to ensure rapid results may jeopardise the effective governance of the partnership arrangements.	Are the risks associated with the development of partnership arrangements for waste treatment and disposal being managed effectively?
Coastal Protection follow-up: There are barriers that limit the Council's ability to plan and deliver this service. Resources are stretched and are unlikely to be sufficient for emergencies or to meet future responsibilities.	Has the Council made adequate progress in response to the recommendations of the Wales Audit Office report issued in May 2008?
Social Services support and challenge: The findings of the Joint Review indicate that the Council needs to address significant issues, particularly with regard to business planning and performance management.	Are the Council's performance management arrangements for Social Services clear, sustainable, operational and achieving their intended purpose?
Housing Services: Following initial delays, the Council will ballot tenants about the Large-Scale Voluntary Transfer (LSVT) of its housing stock during 2009. Until this process is complete, the achievement of the Welsh Housing Quality Standard (WHQS) remains an area of high risk. In addition, our work in 2007-08 has identified scope for improvement in quality of the Council's Housing Strategy and its delivery.	Is the Council making adequate progress towards meeting the WHQS and in the implementation of its Housing Strategy?
Regeneration: Our regeneration work in 2007-08 identified limited clarity in terms of the Council's intended outcomes and a lack of co-ordination of the contributions of Council services. Our work in 2008-09 will build on these findings by supporting the Council in developing appropriate governance arrangements including the identification of outcome-based indicators and measures for its regeneration activity.	Does the Council have effective governance arrangements to ensure the successful delivery of its regeneration objectives?
Public Transport: The Council has identified Public Transport as an area of high risk; an inadequate public transport structure will undermine the Council's aims of fostering sustainable and inclusive communities, particularly in rural areas.	Is the Council making adequate progress in planning its public transport infrastructure?

Local government studies

26. The Auditor General has a duty to undertake studies that lead to recommendations for improving value for money in the discharge of functions, services and financial and other management in local government. The Auditor General's studies in local government will often, although not always, include all 22 unitary authorities and may form part of a wider cross-cutting or whole systems study.
27. Exhibit 5 below sets out the work to be delivered as part of the local government studies programme. This work is partly funded through WPI grant and partly through the Council's performance and inspection fee.

Exhibit 5: Local Government Studies

Making the Connections: Buildings Management
Good Practice Exchange: Smarter Ways of Working
Good Governance

Certification of grant claims and returns

28. In carrying out work in relation to government grant claims and other returns, under paragraph 20 of Schedule 8 of the Government of Wales Act 2006, the Auditor General's Appointed Auditors act as agents of the Auditor General. The Auditor General is required to recover, in respect of each grant or return, an amount that covers the full cost of the relevant work undertaken.
29. Charges for this work will be based on the skill-related fee scales set out in the local government fee letter published by the Auditor General. The actual fees to be charged will be determined in discussion with you and will reflect the size, complexity and any particular issues in respect of the grants in question. Although grant work fluctuates from year to year, based on past experience and the Council's current arrangements and procedures, we estimate that the total fee for grant work will be between £130,000 and £160,000. If improvements to the general arrangements were made, as set out in the Annual Letter issued in November 2008 then the fee could be reduced. We will continue to discuss these improvements and their impact with officers.

Other Wales Audit Office work

30. The Wales Audit Office undertakes other work which will impact on councils as set out in Exhibit 6. This includes work undertaken as part of:
- the Auditor General's forward programme for the Audit Committee of the National Assembly; and
 - bespoke work.

Exhibit 6: Auditor General's Forward Programme for the Audit Committee

Affordable housing
Roll-out of the 2007 – 2013 EU funding round
Nutrition in schools
Waste management follow-up

The work of other regulators

31. Housing and Council Tax Benefit Inspection - this work is funded by the Department for Work and Pensions and is risk based. We will discuss the scope of this work with you as part of general planning.
32. Estyn and the CSSIW also undertake work that may impact on councils. The nature of that work and the legislative powers supporting it are described in Appendix 2.
33. Exhibit 7 sets out the other regulatory activity which is currently known. This and other work which may arise will be included in updates of the Regulatory Calendar.

Exhibit 7: Other regulatory activity

Estyn	
Autumn 2009	Inspection of School Improvement, Additional Learning Needs and Support Services
CSSIW	
Autumn 2009	Performance Evaluation
January 2009	Fostering Service
TBA	Adoption Service
Ongoing	Inspection of all registered services

Appendix 1

Regulatory Team

Name	Role	Phone	Email
Huw Lloyd Jones	Relationship Manager	01248 681980 07813 822017	huw.lloyd.jones@wao.gov.uk
Nigel Griffiths	Performance Project Manager	07798 503065	nigel.griffiths@wao.gov.uk
Anthony Snow	Appointed Auditor	02920 320514	anthony.snow@wao.gov.uk
Kevin Thomas	Financial Audit Engagement Partner	01244 525981 07799 133475	kevinp.thomas@wao.gov.uk
Amanda Hughes	Client Manager	01286 679974	amanda.hughes@wao.gov.uk
Arwyn Thomas	Estyn, Regional Team Inspector	02920 446500 01970 624512	arwyn.thomas@estyn.gsi.gov.uk
Peter Graham	CSSIW, North Wales Regional Inspector	01352 707900	peter.graham@wales.gsi.gov.uk

Appendix 2

Roles and responsibilities

The office of the Auditor General was re-established under the Government of Wales Act 2006. From 1 April 2005, the Public Audit (Wales) Act 2004 (the 2004 Act) extended the Auditor General's functions to include the appointment of external auditors for local government bodies, and for undertaking inspections under the Wales Programme for Improvement (WPI), under the 1999 Act.

The Wales Audit Office comprises the Auditor General and his staff. The Auditor General's inspection powers, and the role of the RM, are derived from the 1999 Act and additional guidance as amended by the 2004 Act and the Local Government and Public Involvement in Health Act 2007.

Appointed auditors

Appointed auditors must carry out audits that discharge the statutory duties placed upon them by the 1999 and 2004 Acts. The Auditor General publishes a Code of Audit and Inspection Practice (the Code) which prescribes the way in which auditors are to carry out their functions.

Under Section 7 of the Accounts and Audit (Wales) Regulations 2005, local government bodies in Wales are required to produce annual statements of accounts¹. The Assembly Government's Social Justice and Local Government Department supplements these regulations with guidance to assist local government bodies in their operation of the accounting regime. That guidance is not intended to be part of the statutory framework but is an informal commentary and provides details of where generally recognised published codes setting out proper practice may be found.

Under Section 13 of the 2004 Act, local government bodies in Wales are required to ensure that their accounts are audited by one or more auditors appointed by the Auditor General under section 14 of the Act. Sections 17 and 23 of the Act require appointed auditors to examine and certify the accounts, satisfying themselves that:

- the accounts are prepared in accordance with the Accounts and Audit (Wales) regulations;
- the accounts comply with the requirements of all other statutory provisions applicable to them;
- proper practices have been observed in the compilation of the accounts;
- the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources; and

¹ These regulations are made by the Assembly under the statutory powers contained in section 39 of the 2004 Act.

- the audited body has made such arrangements for collecting, recording and publishing information on standards of performance as are required by any direction under Section 47 of the Act.

Communication of audit matters with those charged with governance – ISA (UK and Ireland) 260

ISA (UK and Ireland) 260:

- provides guidance on the communication of 'relevant matters relating to the audit' of Financial Statements between auditors, and those charged with governance of an audited body; and
- requires the Appointed Auditor to report to those charged with governance (as distinct from management) certain matters before they give an opinion on the Financial Statements.

The Appointed Auditor will discharge the responsibility to report to those charged with governance by submitting reports to the Corporate Governance Committee and where necessary to the Board in a timely manner, prior to the completion of audit.

Relationship Managers

- 34.** The Auditor General's inspection powers are set out in the 1999 Act. The 1999 Act also requires each local authority to prepare and publish a Best Value Performance Plan (known in Wales as an Improvement Plan). The Assembly Government's Circular 28/2005 sets out how the WPI should be implemented, including the role of the RM.

Other regulators

The principal functions and powers under which CSSIW operates are contained in Chapter 6 of the Health and Social Care (Community Health and Standards) Act 2003.

Estyn normally agrees in advance with each council the focus and timing of education service inspections under Section 38 of the Education Act 1997. The details of these inspections are shared with the RM and are set out in the first version of the regulatory plan at the beginning of the financial year.

Estyn also has powers established under the Education Act 2005 and Section 86 of the Learning and Skills Act 2000. Other Estyn inspections which may involve council provision are carried out under these powers or through an agreement between Estyn and Jobcentre Plus. The period of notice for these inspections has been established by agreement between Estyn and the service providers in each sector. As this period is often quite short (normally three months), it is not possible to publish at the beginning of the financial year details of any inspections for which the provider has not received notification. In these cases, as soon as the provider is notified of the inspection the details will be made available to Wales Audit Office, who will update the regulatory calendar accordingly.



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