



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

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Financial Audit Strategy

Gwynedd Council

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Status of this report

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Audit work at the Council

1. This Financial Audit Strategy has been prepared to meet the requirements of the auditing standards and proper audit practices. It sets out the work to be undertaken by the Appointed Auditor at Gwynedd Council (the Council) under the Public Audit (Wales) Act 2004 (the 2004 Act).
2. A separate document, *the Auditor General Regulatory Programme for Performance Audit*, has been prepared to outline work to be delivered by the Auditor General under the Local Government Measure 2009. This also includes work under the remaining functions of the Local Government Act 1999 (the 1999 Act).
3. The formal roles and responsibilities of the Appointed Auditor are outlined in Appendix 1. At the Council, the Appointed Auditor is Anthony Barrett, who will be supported by Ceri Stradling as the Engagement Partner.
4. The Appointed Auditor is required to examine and certify the accounts of the Council, satisfying himself that the accounts:
 - give a true and fair view of the Council's financial position;
 - comply with all the relevant legal requirements; and
 - have been prepared in accordance with proper practice.
5. In addition, the Appointed Auditor is required to:
 - satisfy himself that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources;
 - certify that the audit has been completed in accordance with the 2004 Act (in particular in relation to electors' rights); and
 - certify grant claims and returns.
6. As well as satisfying the legal requirements, the Appointed Auditor must comply with International Standards on Auditing. International Standards on Auditing require formal reporting at various stages during the audit to those charged with governance (see Appendix 1). In particular, as part of the audit planning arrangements, auditors must report:
 - relationships that may bear on the auditor's independence; and
 - audit planning information.
7. Appendix 2 highlights the key elements of the audit engagement at the Council, and confirms that there are no known threats to the independence of the Appointed Auditor or other audit staff.

Audit of the accounts

8. In planning their work, auditors are required to identify and report significant risks that relate to the accuracy and reliability of the financial statements. Exhibit 1 contains the identified risks and the actions proposed to address them.

Exhibit 1: Financial accounts risks

Risks	Action proposed
Control environment risks	
Failure to achieve budgeted spend and secure planned savings could adversely impact on financial standing and deplete reserves.	Review budgetary processes for identifying overspends and effectiveness of mitigating action.
Internal Audit is a key element of the control environment but may not be fully effective.	Consider the effectiveness of Internal Audit by assessing the section against the CIPFA internal audit standards.
The Council may not have robust financial management arrangements in place.	Assess the high-level arrangements for financial management and governance.
Financial systems risks	
Implementation of the new fixed asset register system may result in financial transactions that are misstated.	Review the implementation process, data transfer and output from the system.
IT controls over significant financial systems may not be sufficiently robust.	IT systems reviews of Academy systems, debtors and creditors will be carried out.
In October 2009, the Office of Fair Trading identified widespread cover pricing in construction contracts in England. Processes at the Council may not be sufficiently robust to mitigate against this risk.	Review the arrangements established by the Council to award, manage, monitor and audit construction and engineering contracts and particularly any overspent contracts.
Preparation of the accounts risks	
Preparations for the full implementation of the International Financial Reporting Standards (IFRS) in 2010-11 may be insufficient.	Review the Council's progress towards IFRS conversion, including the restatement of the 2008-09 closing balance sheet and 2009-10 financial statements.
Changes to the financial statements to comply with the 2009 Statement of Recommended Practice (SoRP) may be incorrectly completed.	Review compliance with new SoRP requirements.
The Council's Whole of Government Accounts (WGA) consolidation return which the government intends to publish for 2009-10 may be incorrectly completed or late.	Ensure arrangements are in place to complete the WGA in a timely manner and review the WGA return.

Risks	Action proposed
Financial statements risks	
Risk of material misstatements in the financial statements.	Final accounts testing, based on work undertaken during the year and review of the draft financial statements.

Electors' rights

9. The 2004 Act sets out the rights of the public and electors to inspect the Council's financial statements, to ask the Appointed Auditor questions about the accounts and, where appropriate, to challenge items in the accounts.
10. Whilst in recent years there has only been one formal objection to the Council's financial statements, we do receive a number of queries and items of correspondence from members of the public and other interested parties. A small amount of time has been included within the fee to deal with minor queries, as part of the overall management of the audit.
11. Any detailed investigations or other work required to respond to queries and objections will result in an additional fee. Any such additional fee will be charged at daily rates based on the specific grade or skill mix required for the work, but will be discussed with the Council prior to undertaking the work.

Certification of grant claims and returns

12. 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, 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.
13. Grant and return certification work is charged on a daily basis in line with the skill-related fee scales set out in the Auditor General's local government fees letter. The fees will reflect the size, complexity and particular issues relating to the specific grants.
14. Although grant work fluctuates from year to year, based on past experience and initial indications of changes in grant schemes and conditions, we estimate that the total fee for grant work will be in the range of between £90,000 and £120,000.

Working with the Council

15. The planned work addresses identified risks and is based on the information currently available. Changes to the Strategy 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.
16. The more detailed Financial Accounts Plan will also be discussed with officers and, if appropriate, those charged with governance.

17. Discussions will also take place with Internal Audit to establish which of their work is relevant to the audit and to evaluate the extent to which their work can be relied upon.

Financial audit fee

18. The proposed fee for 2009-10 financial audit work is £177,791 (plus VAT) and will be charged in equal instalments between November 2009 and October 2010. This fee is in line with the Auditor General's fees letter.
19. Overall, the 2009-10 financial audit fee represents a 1.75 per cent increase on the equivalent element of Appointed Auditor's responsibilities included as part of our 2008-09 fee. The fee allows for an adjustment with the Pension Fund audit fee of £4,618 (increase to the Pension Fund fee).

International Financial Reporting Standards

20. The Auditor General's local government audit and inspection 2009-10 fees letter (the fees letter) issued in September 2009 highlighted the impact on audit fees of the introduction of the IFRS. There are two main elements:
- the recognition of PFI/PPP schemes based on the principles of IFRIC 12 in 2009-10; and
 - the introduction of an IFRS-based Code of Practice on Local Authority Accounting in 2010-11.
21. Any audit work undertaken in reviewing the restated opening IFRS Balance Sheet at 1 April 2009 and the restatement of the 2009-10 comparative figures will be preparatory work relating to the 2010-11 accounts. Although that work may be undertaken during the current year, the fee will be included in the 2010-11 audit fee (as outlined in the fees letter).

Financial audit team

Exhibit 2: The financial audit team

Name	Role	Contact number	E-mail address
Anthony Barrett	Appointed Auditor	01244 525970	anthony.barrett@wao.gov.uk
Ceri Stradling	Financial Audit Engagement Partner	01244 525970	ceri.stradling@wao.gov.uk
Amanda Hughes	Audit Manager	01286 679974	amanda.hughes@wao.gov.uk
Alan Hughes	Financial Audit Team Leader	01286 679158	alan.hughes@wao.gov.uk

Delivering the work

22. We will provide reports, or other output as agreed, and our key milestones are set out below.

Exhibit 3: Key milestones

Planned output	Planned start date	Report finalised
Audit Strategy	February 2010	May 2010
Internal Audit Assessment	March 2010	June 2010
Financial statements report – to those charged with governance	June 2010	September 2010
Annual Audit Letter	September 2010	November 2010

Appendix 1

Roles and responsibilities

The office of the Auditor General was re-established under the Government of Wales Act 2006. From 1 April 2005, the 2004 Act extended the Auditor General's functions to include the appointment of external auditors for local government bodies.

Appointed auditors

Appointed auditors must carry out an audit that discharges the statutory duties placed upon them by the 1999 Act and the 2004 Act. The Auditor General publishes a Code of Audit Practice (the Code) which prescribes the way in which auditors are to carry out their functions. The Auditor General is currently consulting on a revised Code.

Regulation 7 of the Accounts and Audit (Wales) Regulations 2005 (as amended) requires local government bodies in Wales to produce annual statements of accounts¹, prepared in accordance with the proper practices set out in the relevant *Code of Practice on Local Authority Accounting in the United Kingdom – a SoRP*.

The Assembly Government's Social Justice and Local Government Department also 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 that includes ideas of good practice and practical advice and provides details of where generally recognised published codes setting out proper practice may be found.

Section 13 of the 2004 Act requires local government bodies in Wales 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:
 - give a true and fair view of the Council's financial position and transactions;
 - comply with legislative requirements; and
 - have been prepared in accordance with proper practice.
- the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources; and
- 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.

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

Communication of audit matters with those charged with governance – International Standards on Auditing (UK and Ireland) 260

International Standards on Auditing (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 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 Audit Committee and where necessary to the Board/Council in a timely manner, prior to the completion of audit.

Appendix 2

Key elements of the audit engagement

Key elements	Requirements	Position at the Council
Engagement activities		
Terms of the audit engagement	The 2004 Act sets out responsibility for appointment of local government external auditors in Wales.	Roles and responsibilities of appointed auditors outlined above and in Appendix 1. The full statement of responsibilities can be found at: http://www.wao.gov.uk/assets/english_documents/statement_of_responsibilities_of_auditors_eng.pdf
Appointment of auditors and engagement partners	It is the Auditor General's responsibility to appoint local government external auditors and to assign responsibility for each engagement to an engagement partner.	Under the Auditor General's Single Appointed Auditor arrangements, the Appointed Auditor is Anthony Barrett, who will be supported by Ceri Stradling as the Engagement Partner.
'Non-statutory' work	The Auditor General has set out clear criteria for approval of any 'non-statutory' work requested by audited and inspected bodies.	No 'non-statutory' work has been requested or is proposed.
Ethical considerations		
Independence	Appointed auditors are required to consider the following: <ul style="list-style-type: none"> • threats to auditor independence (including litigation); • family and other personal relationships; • long association with the audited body, based on the Wales Audit Office rotation of audits policy; and • contentious or difficult issues. 	We can confirm that there are no known threats to the independence of the Appointed Auditor or other audit staff and we have complied with the Wales Audit Office rotation policy.
Engagement performance	Engagement partners need to consider what level of quality assurance and review levels are appropriate.	Wales Audit Office quality control review mechanisms are in place for all audits, and the Engagement Partner has established appropriate review levels based on the experience of the staff undertaking the audit work.



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