



WALES AUDIT OFFICE
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Financial Audit Outline

Gwynedd Council

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Financial Audit Outline

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Status of this report

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Roles and responsibilities

1. This Financial Audit Outline has been prepared to meet the requirements of auditing standards and proper audit practices. It provides the Council with an outline of the financial audit work required for the 2010-11 financial statements.
2. Since 1 April 2005, the Public Audit (Wales) Act 2004 the Auditor General's functions have included the appointment of external auditors (Appointed Auditors) for local government bodies.
3. As Appointed Auditor, I am required by the Public Audit (Wales) Act 2004 to examine and certify the accounts of the Council, satisfying myself that the accounts:
 - give a true and fair view of the Council's financial position;
 - comply with all relevant legislative requirements; and
 - have been prepared in accordance with accounting proper practices.
4. I am also required to:
 - satisfy myself that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources; and
 - certify that the audit has been completed in accordance with the Public Audit (Wales) Act 2004.
5. The audit does not relieve the Council of its responsibility to:
 - put systems of internal control in place to ensure the regularity and lawfulness of transactions and to ensure that its assets are secure;
 - maintain proper accounting records;
 - prepare a Statement of Accounts in accordance with relevant requirements; and
 - establish and keep under review appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources.
6. The Public Audit (Wales) Act 2004 sets out the rights of the public and electors to inspect the Council's financial statements, to ask me, as the Appointed Auditor questions about the accounts and, where appropriate, to challenge items in the accounts.
7. The key requirements of the Auditor General and the Appointed Auditor are set out in Appendix 1.
8. A separate document, the Auditor General's Regulatory Programme for Performance Audit, will be issued setting out the work to be delivered by the Auditor General under the Local Government Measure 2009.
9. A separate Financial Audit Outline for the audit of the 2010-11 accounts of the Gwynedd Pension Fund has been issued.

10. The Auditor General is required to certify certain grant claims and returns. The Appointed Auditor, acting as an agent of the Auditor General, undertakes the audit work relating to those claims and returns.

The audit approach

11. Information regarding the financial audit team is provided in Appendix 2.

Audit of financial statements

12. Internal controls are designed, implemented and maintained to address identified business risks that threaten the achievement of an audited body's objectives regarding:
 - the reliability of its financial reporting;
 - the effectiveness and efficiency of its operations; and
 - its compliance with applicable laws and regulations.
13. I will:
 - assess the effectiveness of high level internal controls and key system level internal controls in preventing and detecting material errors in the accounting statements;
 - assess the effectiveness of Internal Audit;
 - review and seek to place reliance upon work undertaken by Internal Audit, as appropriate; and
 - develop substantive procedures to respond to specific significant risks.
14. I do not seek to obtain absolute assurance that the financial statements and related notes are true and fair, but adopt a concept of materiality. In planning and conducting the audit, I seek to identify material misstatements in the accounting statements and related notes, that is, those that might result in a reader of the accounts being misled.
15. The levels at which I judge such misstatements to be material will be reported in my report to the Audit Committee prior to completion of the audit.

Audit risks

16. Exhibit 1 provides information regarding the audit risks that have been identified during the initial audit planning process, based upon information currently available, and the actions proposed to address them. Changes to the audit may be required if any new risks emerge. No changes will be made without first discussing them with officers and, where relevant, those charged with governance.

Exhibit 1: Audit risks

Control environment risks	Action proposed
<p>Overall</p> <p>Risk that financial management and governance controls are insufficient, or are not operating as intended.</p> <p>In particular, the Council is facing significant financial pressures, including funding cuts and the wider difficult economic climate.</p>	<p>We will assess the robustness of the Council's arrangements for:</p> <ul style="list-style-type: none"> • financial management; • risk management; • anti-fraud and corruption; and • internal audit scope and quality.
Financial systems risks	Action proposed
<p>Overall</p> <p>Risk that the Council's high level financial controls are not designed or operating effectively to prevent and detect material misstatements in the financial statements.</p>	<p>We will review the design and test the operation of high level controls in the:</p> <ul style="list-style-type: none"> • main accounting system; • budgetary control system; and • the accounts preparation process.
<p>Issues arising from my previous audits</p> <p>There are a number of issues arising from my previous audits where improvements were required to systems controls. In particular, the need to :</p> <ul style="list-style-type: none"> • ensure that the fixed asset register (for accounting purposes) reconciles with asset registers held by other Council departments eg, Property; and • review long standing suspense and personal accounts and debtor balances identified as non recoverable. 	<p>We will:</p> <ul style="list-style-type: none"> • assess the controls in place during 2010-11 and conduct audit testing to consider their design, existence and maintenance; and • conduct follow-up work in respect of recommendations arising from our previous audits.
Preparation of the accounts risks	Action proposed
<p>International Financial Reporting Standards (IFRS) and the Code of Practice for Local Authority Accounting</p> <p>The Statement of Accounts for 2010-11 will be the first to be prepared in accordance with IFRS. The Statement of Accounts for 2010-11 is also required to be prepared for the first time in accordance with the Code of Practice on Local Authority Accounting (the Code). The Code, which replaces the Statement of Recommended Practice for Local Government, is based on IFRS but also introduces other changes to accounting and disclosure requirements.</p> <p>The requirement to comply with IFRS and the Code will require preparation and disclosure of the 2010-11 transactions and balances but also conversion of:</p> <ul style="list-style-type: none"> • the opening 1 April 2009 balance sheet; and • the conversion of the full 2009-10 Statement of Accounts. 	<p>We have largely completed the audit work of the restated opening 1 April 2009 balance sheet and conversion of the full 2009-10 accounts and have fed back our initial findings.</p> <p>We will also review the draft Statement of Accounts for 2010-11 to ensure that it has been prepared, in all material respects, in accordance with IFRS and the Code.</p>

Preparation of the accounts risks	Action proposed
<p>Other changes to impact on accounting for 2010-11</p> <p>The Statement of Accounts for 2010-11 will also need to reflect other changes to accounting and disclosure requirements, including those made in respect of the Capital Financing and Accounting Regulations 2010.</p>	<p>I will review the draft Statement of Accounts for 2010-11 to ensure that they have been prepared in accordance with other accounting developments and guidance.</p>
<p>Other Matters</p> <p>We have identified the following risks that are inherent in the preparation of the Statement of Accounts for 2010-11:</p> <ul style="list-style-type: none"> • that the accounting policies are revised to present an improved financial position; • accounting estimates are used in a number of account balances, such as provisions ; and • the accounts will reflect judgements made by officers in terms of how to account for or fund items. 	<p>We will:</p> <ul style="list-style-type: none"> • consider the Council's accounting policies and their application; • review the annual assessment made by officers of the basis on which estimates are made and revised in line with the latest information; and • review documentation held to support estimates derived and judgements made and refer to papers provided in support of them.
Financial statements risks	Action proposed
<p>Housing Stock transfer</p> <p>In April 2010, the Council transferred its Housing Stock, and related activities, to Gwynedd Community Homes.</p> <p>There are a number of risks relating to the accounting of the transfer of the assets and services and the residual impact on the Council.</p>	<p>We will review:</p> <ul style="list-style-type: none"> • the process of the transfer and consider the financial implications; and • the accounting transactions and disclosures to ensure that they have been prepared in accordance with guidance.
Financial statements risks	Action proposed
<p>Overall</p> <p>There is a risk of material misstatement in the financial statements arising from error or omission of transactions, balances and disclosure.</p>	<p>We will undertake a series of audit tests and procedures to seek to identify any material misstatements.</p>

Use of resources

17. To discharge my responsibilities regarding the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources, I shall place reliance upon:
- the results of the audit work undertaken on the financial statements;
 - the audited body's system of internal control, as reported in its governance statement and my report thereon;

- the results of work carried out by the Auditor General, including work carried out under the Local Government (Wales) Measure 2009, certification of claims and returns and data matching exercises;
- the results of the work of other external review bodies where relevant to our responsibilities; and
- any other work that addresses matters not covered by the above, and which I consider necessary to discharge my responsibilities.

Reporting

18. The Code of Audit Practice issued by the Auditor General requires Appointed Auditors to comply with auditing and ethical standards. International Standards on Auditing (ISAs) require formal reporting at various stages during the audit to those charged with governance.
19. In particular, auditors must report:
 - relationships that may bear on the auditor's independence;
 - audit planning information; and
 - certain matters to those charged with governance (as distinct from management) before they give an opinion on the financial statements.
20. Appendix 1 highlights the key elements of the audit engagement at Gwynedd Council, and confirms that there are no known threats to the independence of the Appointed Auditor or other audit staff.
21. This document provides information regarding the planning of the audit.
22. I will submit reports to the Audit Committee and where necessary to the Council in a timely manner, prior to the completion of audit.
23. I will provide reports, or other output as agreed. The key milestones are set out in Exhibit 2.

Exhibit 2: Key milestones

Planned output	Target Date
Financial Audit Outline	May 2011
Annual assessment of Internal Audit	May 2011
Financial statements report to those charged with governance	September 2011
Opinion on the Financial Statements	September 2011
Annual Audit Letter	November 2011

Audit fee

- 24.** The proposed fee for 2010-11 financial audit work is £171,516 (plus VAT) and will be charged in equal instalments between November 2010 and October 2011. This fee is in line with the Auditor General's fees letter and is based on the new zero-based fee model for financial audit.
- 25.** Overall, the 2010-11 financial audit fee represents a 3.5 per cent decrease on the equivalent element of Appointed Auditor's responsibilities included as part of my 2009-10 fee, £177,791.
- 26.** I am required to undertake additional audit work arising from the change to IFRS. I have decided to bear the cost of this work without passing it on to the Council.
- 27.** In recent years, there has been one formal objection to the Council's financial statements. However, I 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.
- 28.** 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 Head of Finance prior to undertaking the work.
- 29.** 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. 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.
- 30.** Although grant work fluctuates from year to year, based on past experience and initial indications of changes in grant schemes and conditions, I estimate that the total fee for grant work will be in the range of between £90,000 and £120,000.

Appendix 1

Key elements of the audit engagement

Key elements	Requirements	Position at Gwynedd Council
Engagement activities		
Terms of the audit engagement	The Public Audit (Wales) Act 2004 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/englishdocuments/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.	Details of the Appointed Auditor and the Engagement Lead are provided in Appendix 2 of this document.
'Non-statutory' work	The Auditor General has set out clear criteria for approval of any 'non-statutory' work requested by audited bodies.	No 'non-statutory' work has been requested or is proposed.
Limitations on audit work	I am required to advise you of any limitations on the work that I propose to undertake, including limitations imposed by management.	No limitations have been placed on the work that I propose to undertake.
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. 	I can confirm that there are no known threats to the independence of the Appointed Auditor or other audit staff and I 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.

Appendix 2

Financial audit team**The financial audit team**

Name	Role	Contact Number	E-mail address
Anthony Barrett	Appointed Auditor and Engagement Lead	07771 505882 02920 320685	Anthony.Barrett@wao.gov.uk
Amanda Hughes	Audit Manager	07969 919986 01286 679974	Amanda.Hughes@wao.gov.uk
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