



WALES **AUDIT** OFFICE
SWYDDFA **ARCHWILIO** CYMRU

Annual Financial Audit Outline

Gwynedd Council

Audit year: 2011-12

Issued: June 2012

Document reference: 367A2012

Status of document

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This document was produced by Amanda Hughes.

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Annual Financial Audit Outline

Roles and responsibilities

1. This Annual Financial Audit Outline has been prepared to meet the requirements of auditing standards and proper audit practices. It provides Gwynedd Council (the Council) with an outline of the financial audit work required for the 2011-12 financial statements.
2. Under the provisions of the Public Audit (Wales) Act 2004, the Auditor General is responsible for appointing external auditors (Appointed Auditors) to 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 proper accounting 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.
9. A separate Annual Financial Audit Outline for the audit of the 2011-12 accounts of the Gwynedd Pension Fund will be issued.

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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

The audit team

11. Information regarding the financial audit team is provided in [Appendix 2](#).

Audit of financial statements

12. Internal controls are designed, implemented and maintained by the Council 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 in preventing and detecting material errors in the accounting statements;
 - review the performance of Internal Audit in meeting their professional standards and seek to place reliance upon their work wherever possible; and
 - develop control and substantive procedures to respond to specific risks of material misstatement in the accounting statements.
14. I do not seek to obtain absolute assurance that the financial statements and related notes are true and fair, but adopt the 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.

Risks of material misstatement in the accounting statements

16. **Exhibit 1** provides information regarding the main operational and financial risks faced by the Council that could impact on my audit. These are the main 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: Summary of main audit risks and proposed responses

Risks	Action proposed
Control environment risks	
<p>Overall</p> <ul style="list-style-type: none"> Risk that financial management and governance controls are insufficient, or are not operating as intended. In particular, the Council is facing continued significant financial pressures, including funding savings and cuts and the wider difficult economic climate. 	<ul style="list-style-type: none"> We will assess the robustness of the Council's arrangements for: <ul style="list-style-type: none"> financial management; risk management; anti-fraud and corruption; and internal audit scope and quality.
Financial systems risks	
<p>Overall</p> <ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> We will review the design and test the operation of high-level controls in the: <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> <ul style="list-style-type: none"> There are a number of issues arising from my previous audits where improvements were required to systems controls. In particular, the need to: <ul style="list-style-type: none"> Review longstanding 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 2011-12; and where appropriate conduct follow-up work in respect of recommendations arising from our previous audits.

Risks	Action proposed
Preparation of the accounts risks	
<p>International Financial Reporting Standards (IFRS) and the Code of Practice for Local Authority Accounting (Code)</p> <ul style="list-style-type: none"> • risk that the continued preparation of IFRS-compliant accounts (now in its second year) may be incorrectly completed; and • risk that changes to the financial statements to comply with the 2011-12 Code may be incorrectly completed. 	<ul style="list-style-type: none"> • Review the draft Statement of Accounts for 2011-12 to ensure that it has been prepared, in all material respects, in accordance with IFRS and the Code.
Financial statements risks	
<ul style="list-style-type: none"> • Risk of material misstatement in the financial statements arising from error or omission of transactions, balances and disclosure. 	<ul style="list-style-type: none"> • Final accounts testing based on work undertaken during the year and review of the draft financial statements.

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;
 - 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 relevant auditing and ethical standards, which 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 the 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 Cabinet/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	Planned start date	Report finalised
Annual Financial Audit Outline	January 2012	June 2012
Annual Assessment of Internal Audit	March 2012	June 2012
Audit of Financial Statements (ISA 260) Report	August 2012	September 2012
Audit Opinion on the 2011-12 Financial Statements	September 2012	September 2012
Annual Audit Letter	October 2012	November 2012

Audit fee

24. The proposed fee for 2011-12 financial audit work is £168,036 (plus VAT), and will be charged in equal instalments between November 2011 and October 2012. This fee is in line with the Auditor General's fees letter and is based on the zero-based fee model for financial audit.
25. Overall, the 2011-12 financial audit fee represents a two per cent decrease on the equivalent element of the Appointed Auditors' responsibilities included as part of my 2010-11 fee, £171,516.

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- 26.** In previous years, there have been few formal objections 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.
 - 27.** 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.
 - 28.** 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.
 - 29.** 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 £100,000 and £130,000.

Appendix 1

Key elements of the audit engagement

Key elements	Requirements	Position at the 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 are 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 leads	It is the Auditor General's responsibility to appoint local government external auditors and to assign responsibility for each engagement to an engagement lead.	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 leads 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 Lead has established appropriate review levels based on the experience of the staff undertaking the audit work.

Appendix 2

Financial audit team

The Appointed Auditor is Anthony Barrett; the team responsible for your audit will be:

Name	Role	Contact number	E-mail address
Derwyn Owen	Financial Audit Engagement Lead	029 2032 0651	derwyn.owen@wao.gov.uk
Amanda Hughes	Audit Manager	079 6991 9986	amanda.hughes@wao.gov.uk
Alan Hughes	Financial Audit Team Leader	077 9141 1985	alan.hughes@wao.gov.uk



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