



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

Annual Financial Audit Outline

Gwynedd Council

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Status of document

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Contents

Annual Financial Audit Outline

Roles and responsibilities	4
The audit approach	5
Reporting	8
Audit fee	9

Appendices

Key elements of the audit engagement	10
Financial audit team	11

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 2012-13 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. In accordance with professional standards that apply by virtue of the Code of Audit Practice set under the act, this involves giving an opinion on whether the accounts give a true and fair view of the Council's financial position and of its income and expenditure for the year. The act also requires me to satisfy myself of these things:
 - that the accounts are prepared in accordance with regulations under section 39 of the act (the Accounts and Audit (Wales) Regulations 2005);
 - that the accounts comply with the requirements of all other statutory provisions applicable to them;
 - that proper practices have been observed in the compilation of the accounts; and
 - that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
4. I am also required to 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:
 - establish systems of internal control 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 financial statements and related documents, to ask me, as the Appointed Auditor questions about the accounts and, where appropriate, to challenge items in the accounts.
7. The key elements of the audit 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 (Wales) Measure 2009.
9. A separate Annual Financial Audit Outline for the audit of the 2012-13 accounts of the Gwynedd Pension Fund has been 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. I understand that 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 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 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. Therefore 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 affect my audit. These are the main risks that I have identified during the initial audit planning process, based upon information currently available, and the actions proposed to address them. I may need to change the audit plan if any new risks emerge. I will not make any changes to the audit plan 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 Risk that financial management and governance controls are insufficient, or are not operating as intended. In particular, the Council continues to face significant financial pressures within 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"> ensuring effective budgetary control and financial planning; and providing internal audit coverage which meets the professional standards set by The Chartered Institute of Public Finance and Accountancy (CIPFA).
Financial systems risks	
<p>Overall 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.
Preparation of the accounts risks	
<p>Overall Risk that changes to the financial statements to comply with the 2012-13 Code of Practice on Local Authority Accounting in the United Kingdom (the Code), may be incorrectly completed.</p>	<p>We will review the draft financial statements to ensure that it has been prepared, in all material respects, in accordance with the Code.</p>

Risks	Action proposed
<p>Issues arising from my previous audits</p> <p>There are risks arising from issues raised in my previous audits where improvements were required. In particular, the need to:</p> <ul style="list-style-type: none"> • ensure that the bank reconciliation is properly prepared; • ensure that the classification of creditor balances is in accordance with the Code of Practice; and • ensure that all Council members submit details of related party interests to ensure that the related party disclosure note is complete. 	<p>We will:</p> <ul style="list-style-type: none"> • assess the controls in place during 2012-13 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.
<p>Financial statements risks</p>	
<p>Overall</p> <p>Risk of material misstatement in the financial statements arising from error or omission of transactions, balances and disclosure.</p>	<p>We will undertake a programme of audit testing to address risks identified as part of our planning work and review of the draft financial statements.</p>
<p>Accounting for obligations relating to Landfill Sites</p> <p>As we have previously identified, where a local authority operates or has operated landfill sites for which it has a responsibility, there is a duty to restore the site and undertake appropriate aftercare and monitoring for several decades after closure. As a result, financial obligations arise and these must be recognised in the Council's financial statements.</p> <p>There is a risk that insufficient accounting provision is set aside for the liabilities associated with landfill sites.</p>	<p>We will obtain an understanding of the Council's responsibilities in relation to landfill sites and consider whether the authority has made appropriate accounting provision within its financial statements.</p>
<p>Joint committees, pooled budgets and collaboration</p> <p>The Council is working collaboratively with other organisations in a number of areas and leads some projects.</p> <p>There are potential risks (eg, financial, reputational, governance) to the Council if it does not effectively manage these relationships and account for them correctly in its Accounts.</p>	<p>I will review the Council's processes and systems to collaborate with others.</p> <p>I will also review the accounting and disclosures made in respect of such arrangements to ensure compliance with the Code for 2012-13.</p>

Use of resources

17. To discharge my responsibilities regarding the arrangements that the Council has established 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 Council's system of internal control, as reported in the Annual 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 my 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. These standards require formal reporting at various stages during the audit to those charged with governance.
19. In particular, auditors must report:
- relationships that may affect 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 I confirm that there are no known threats to my independence as Appointed Auditor or on the independence of staff or contractors working for me.
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.

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23. I will provide other reports or 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	March 2013	April 2013
Audit of Financial Statements (ISA 260) Report	August 2013	September 2013
Audit Opinion on the 2012-13 Financial Statements	September 2013	September 2013
Annual Audit Letter	October 2013	November 2013

Audit fee

24. The proposed fee for 2012-13 financial audit work is £168,036 (plus VAT) and will be charged in equal instalments between November 2012 and October 2013. This fee is set at the same level as in 2011-12 and is in line with the Auditor General's fees letter and is based on the zero-based fee model for financial audit. We have recently received a ruling from HMRC regarding changes in the VAT status of the Auditor General which will take effect from 1 April 2013. We are currently liaising with HMRC regarding the precise scope of this ruling and will shortly be writing to you separately to explain the implications of this ruling.
25. 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.
26. 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.
27. 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.
28. Although grant certification 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 £100,000 to £130,000.

Appendix 1

Key elements of the audit engagement

Key elements	Requirements	Position at the [Council/Authority]
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 this appendix. 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.
Discretionary work by agreement	The Auditor General has set out clear criteria for approval of any discretionary work requested by audited bodies.	No discretionary agreement 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 (see Wales Audit Office rotation of audits policy); and • contentious or difficult issues. 	I can confirm that there are no known threats to my independence as the Appointed Auditor or to the independence of staff or contractors working for me, and I have complied with the Wales Audit Office rotation policy. In instances where other audit staff have relations with the Council mitigating arrangements will be put in place to ensure independence is maintained.
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 the audit, 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 audit team are:

Name	Role	Contact number	E-mail address
Derwyn Owen	Financial Audit Engagement Lead	029 2032 0500	derwyn.owen@wao.gov.uk
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Alan Hughes	Financial Audit Team Leader	01244 525970	alan.hughes@wao.gov.uk



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