

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Annual Financial Audit Outline

Gwynedd Council (Including:

The Special Educational Needs Joint Committee

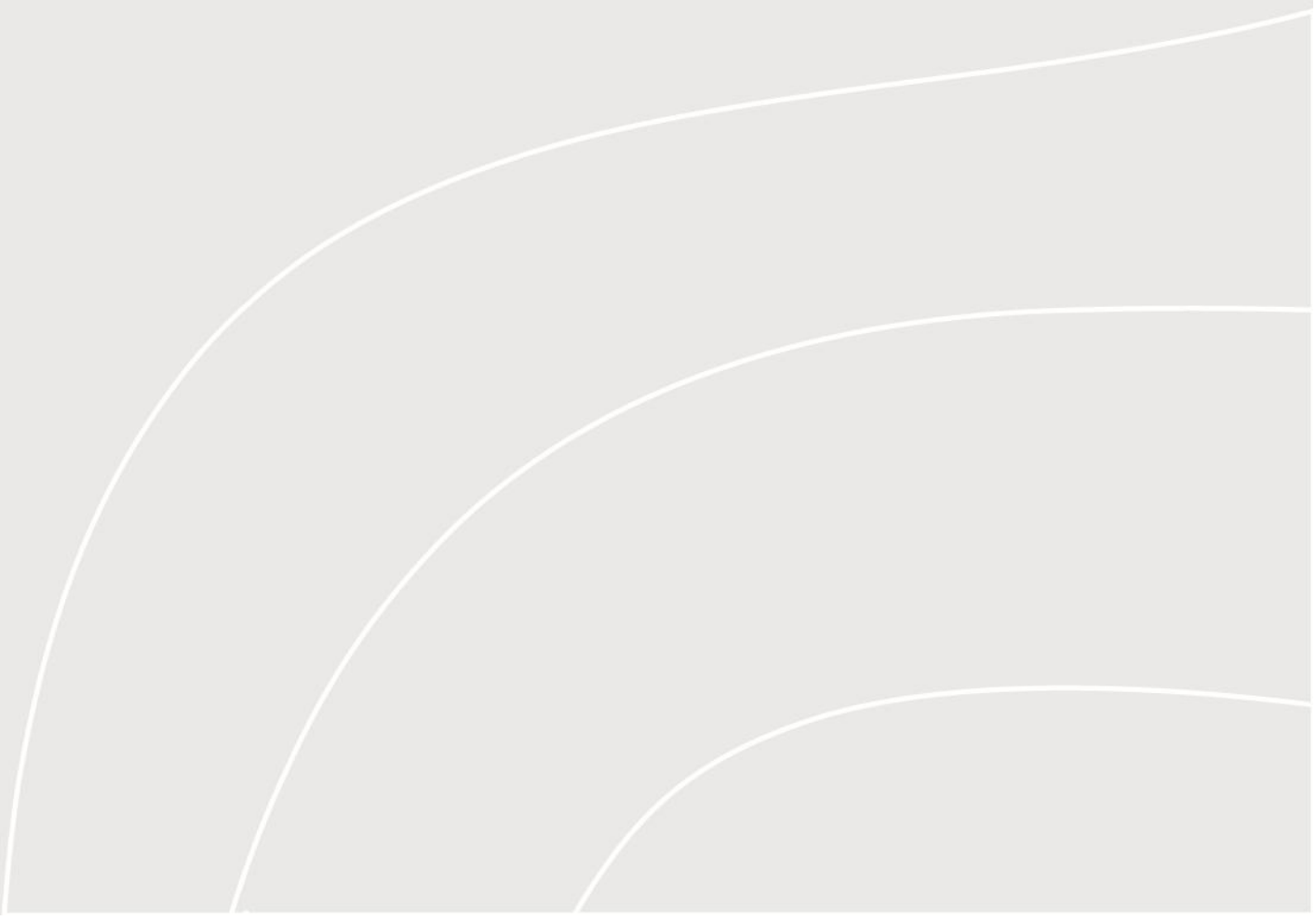
The Joint Planning Policy Joint Committee

GwE Joint Committee)

Audit year: 2013-14

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Status of document

The Auditor General is independent of government, and is appointed by Her Majesty the Queen. The Auditor General undertakes his work using staff and other resources provided by the Wales Audit Office, which is a statutory board established for that purpose and to monitor and advise the Auditor General. The Wales Audit Office is held to account by the National Assembly.

Together with appointed auditors, the Auditor General audits local government bodies in Wales, including unitary authorities, police, probation, fire and rescue authorities, national park authorities and community councils. He also conducts local government value for money studies and assesses compliance with the requirements of the Local Government (Wales) Measure 2009.

Beyond local government, the Auditor General is the external auditor of the Welsh Government and its sponsored and related public bodies, the Assembly Commission and National Health Service bodies in Wales.

The Auditor General and staff of the Wales Audit Office aim to provide public-focused and proportionate reporting on the stewardship of public resources and in the process provide insight and promote improvement.

This document was produced by Derwyn Owen, Amanda Hughes and Alan Hughes.

Contents

Annual Financial Audit Outline

Introduction	4
Financial statements audit	4
Use of resources audit	10
Joint Committees Financial statements audit	10
Certification of grant claims and returns	11
Other work undertaken	11
Auditor General's Regulatory Programme	11
Fee, audit team and timetable	12
<hr/>	
Appendices	
Roles and responsibilities	15

Annual Financial Audit Outline

Introduction

1. This Annual Financial Audit Outline has been prepared by Derwyn Owen, Engagement Lead on behalf of Anthony Barrett, the Appointed Auditor.
2. As your external auditor my objective is to carry out an audit which discharges my statutory duties as Appointed Auditor and fulfils my obligations under the Code of Audit Practice, namely to:
 - examine and certify whether your financial statements are ‘true and fair’; and
 - assess whether you have made proper arrangements for securing economy, efficiency and effectiveness in the use of resources.
3. The purpose of this outline is to explain to you:
 - My audit team’s approach to:
 - the audit of your financial statements for the year ending 31 March 2014 including the significant risks of material misstatement in your financial statements and how we plan to address them; and
 - the assessment of your arrangements for securing economy, efficiency and effectiveness in the use of resources.
 - The planned timetable, fees and audit team.
 - The scope of the audit, our respective responsibilities and how we ensure independence and objectivity in our work.
4. There have been no limitations imposed on me in planning the scope of this audit.

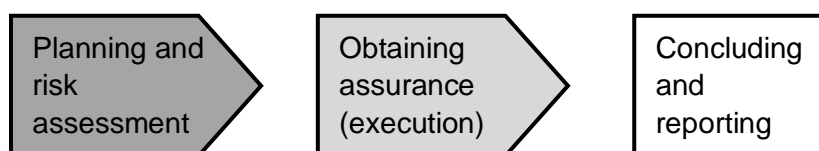
Financial statements audit

5. It is my responsibility to issue a report on the financial statements which includes an opinion on:
 - Whether or not the accounts give a ‘true and fair view’ of Gwynedd Council’s (the Council) financial outturn and position. This provides assurance that the accounts:
 - are free from material misstatement, whether caused by fraud or error;
 - comply with statutory and other applicable requirements; and
 - comply with all relevant requirements for accounting presentation and disclosure.
 - The consistency of information in the Explanatory Foreword with the financial statements.
6. My report must also state by exception if the Annual Governance Statement for 2013-14 does not comply with requirements.

Audit approach

7. My team's audit work uses a range of techniques to assess risk and obtain audit evidence and assurance and is based on a thorough understanding of your business. This understanding allows my team to develop an audit approach which focuses on addressing specific risks whilst providing assurance for the financial statements as a whole. Our audit approach consists of three phases as set out in [Exhibit 1](#).

Exhibit 1: Our audit approach

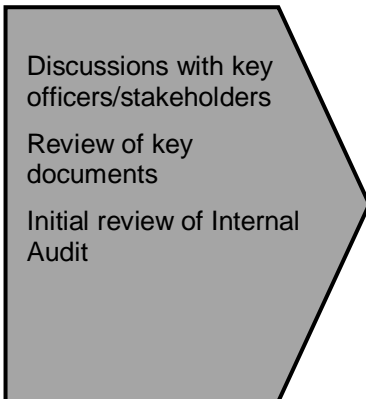


8. The work undertaken in each of these three areas is set out in more detail in [Exhibit 2](#).
9. I do not seek to obtain absolute assurance that the financial statements and related notes are true and fair, but adopt a concept of materiality. In planning and executing the audit, we aim to identify material misstatements in the financial statements and related notes, that is, those that might result in a reader of the accounts being misled. The levels at which I judge such misstatements to be material will be reported to the Audit Committee prior to completion of the audit.
10. For reporting purposes, we will treat any misstatements below a 'trivial' level (the lower of five per cent of materiality or £100,000) as not requiring consideration by those charged with governance and therefore will not report them.

Exhibit 2: Our audit approach

Planning and risk assessment

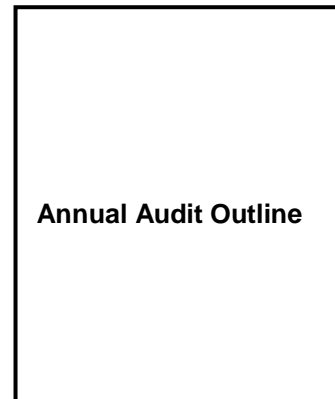
Key tasks



Objectives

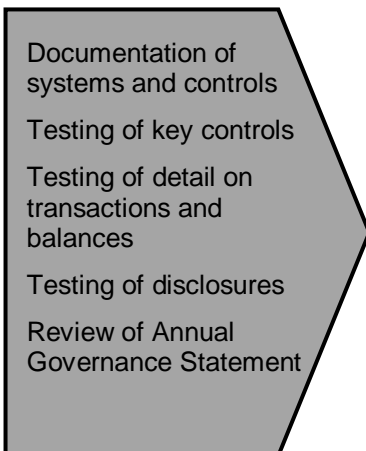


Output

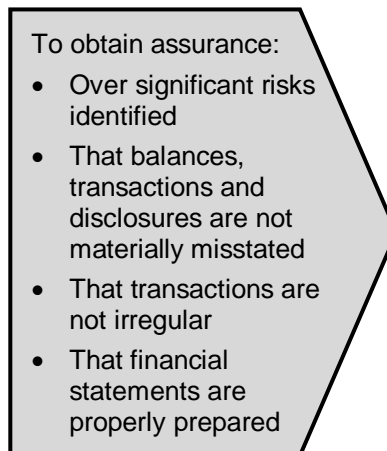


Obtaining assurance (execution)

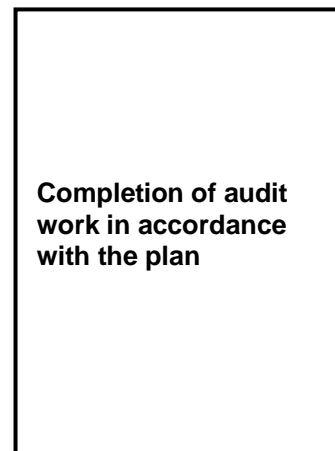
Key tasks



Objectives

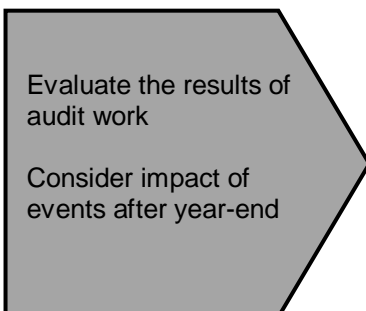


Output

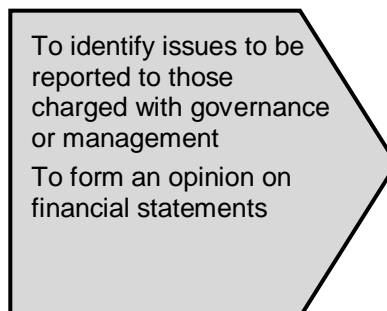


Concluding and reporting

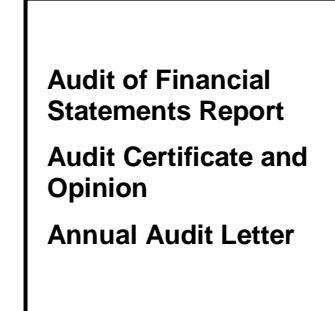
Key tasks



Objectives



Output



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11. In planning my work and obtaining an understanding of the Council I consider the control environment including the activities of Internal Audit to determine the potential impact of its work on my planned procedures and to evaluate the extent to which I can rely on that work.
12. As part of the planning process, my staff considered the information which would be required to support the accounts submitted for audit. The fees, once agreed, will assume that this information will be provided by the timescales agreed and to the quality standards that we expect. My other main assumptions in setting the estimated fees will be that:
- the financial statements and supporting working papers have been subject to review and validation by management, to provide the Responsible Financial Officer with assurance that they are 'true and fair';
 - all appropriate officials will be available during the audit;
 - you have all the necessary controls and checks in place to enable the Responsible Financial Officer to provide all the assurances that I require in the Letter of Representation addressed to me; and
 - Internal Audit has completed its planned programme of work and that management has taken all necessary remedial action on issues that could have affected the financial statements.

Audit risks and issues

Risks of material misstatement in the accounting statements

13. **Exhibit 3** 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 3: Summary of main audit risks and proposed responses

Risks	Action proposed
Control environment risks	
<p>The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk. In addition, the Council continues to face significant financial pressures, including funding cuts. The current financial pressures on the Council increase the risk that management judgements and estimates could be biased in an effort to meet its financial challenges.</p>	<p>We will:</p> <ul style="list-style-type: none"> • test the appropriateness of journal entries and other adjustments made in preparing the financial statements; • focus its testing on areas of the financial statements which could contain reporting bias; and • evaluate the rationale for any significant transactions outside the normal course of business.
<p>There is a risk of material misstatement due to fraud in revenue recognition and as such it is viewed as a significant risk.</p>	<p>We will review the design and test the operation of controls in the systems relating to:</p> <ul style="list-style-type: none"> • treasury management; • grant income; and • other income sources.
<p>Following an issue identified in the 2013-14 audit, there is a risk that membership data provided to the actuary for use in the preparation of the annual disclosures under International Accounting Standard 19 (Employee Benefits), is not sufficiently robust.</p>	<p>We will review the exercise undertaken by Council staff to review the accuracy of the data provided to the actuary and consider whether we can obtain assurance over its accuracy.</p>
Financial systems risks	
<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.
Preparation of the accounts risks	
<p>There is a risk that exit packages for officers leaving local government do not fully comply with the requirements of the Code and individual council's policy. Such payments are considered sensitive and material by nature.</p>	<p>We will consider the accounting treatment and disclosure of exit packages.</p>

Risks	Action proposed
<p>The preparation of the Statement of Accounts will involve the estimation of a number of account figures such as provisions for the Council's liabilities (e.g. equal pay claims, legal disputes).</p>	<p>We will review:</p> <ul style="list-style-type: none"> the annual assessment made by officers of the basis on which estimates are made and revised in line with the latest information; and documentation held to support estimates derived and judgements made, and refer to papers provided in support of them. <p>We will also ensure that appropriate accounting and disclosure requirements are included within the financial statements.</p>
Financial statements risks	
<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>We have identified a number of disclosures as being material by nature. These include the disclosure of Related Parties and the Remuneration note.</p>	<p>We will design detailed testing to obtain the required assurance that disclosures identified as material by nature have not been misstated.</p>

Accounting and reporting issues

14. In addition to the significant audit risks set out above, I also need to consider any new financial accounting and reporting requirements which impact on my responsibilities. I summarise the more significant accounting and reporting changes that apply to 2013-14 in [Exhibit 4](#).

Exhibit 4: Significant accounting and reporting changes for 2013-14

Accounting and reporting change
<p>IAS 1 <i>Presentation of Financial Statements</i></p> <p>The Comprehensive Income and Expenditure Statement has been amended as a result of the June 2011 amendments to IAS 1 <i>Presentation of Financial Statements</i> (where relevant to an authority) and the June 2011 amendments to IAS 19. The requirement for Financing and Investment Income and Expenditure to include 'pensions interest cost and expected return on pensions assets' has been replaced by 'net interest on the net defined benefit liability (asset)'. Financing and Investment Income and Expenditure also now includes 're-measurements of the net defined benefit liability (asset) for long-term employee benefits recognised in accordance with section 6.2'.</p>

Accounting and reporting change

IAS 19 *Employee Benefits*

Chapter 6 of the code includes revisions as a result of the June 2011 amendments to IAS 19 *Employee Benefits*:

- amendments to the definitions in section 6.1;
- updated terminology, amendments to the recognition requirements and clarifications of the disclosure requirements in section 6.2;
- amendments to the recognition requirements of section 6.3 Termination Benefits and clarification of the disclosure requirements; and
- amendments to the classification, recognition, measurement and disclosure requirements in section 6.4 Post-employment Benefits.

Use of resources audit

15. 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 (the Measure), 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.

Joint Committee Financial Statements Audit

16. Gwynedd Council is the lead authority for three Joint Committees, namely, the Special Educational Needs Joint Committee, GwE Joint Committee and the Joint Planning Policy Joint Committee.
17. All Committees are required to either prepare financial statements, or an annual return that are subject to audit.
18. My audit approach for the Joint Committees will, in principle, be the same as set out above for the Council.
19. **Exhibit 5** provides information regarding the main operational and financial risks faced by the Joint Committees that could affect my audits.

Exhibit 5: Summary of Joint Committee main audit risks and proposed responses

Risks	Action proposed
GwE Joint Committee	
This is the first year of operation of the Joint Committee and therefore it is the first time that financial statements have been prepared.	We will design detailed testing to obtain the required assurance that the accounts have been prepared in accordance with proper practices and are materially stated.

20. I will issue my report on the financial statements to the respective committee for consideration prior to the Appointed Auditor issuing his opinion.

Certification of grant claims and returns

21. The Appointed Auditor, acting as an agent of the Auditor General, undertakes certification work on the Council's grant claims and returns in accordance with instructions issued by the Auditor General.
22. In 2012-13 my team audited 62 grant claims and returns. This work will be summarised in a separate report 'Certification of Grants and Returns 2012-13', which will be issued in May 2014.
23. In 2013-14 I expect to audit a similar number of claims, a number of which are complex in nature, namely; the Housing Benefits and Council Tax Benefits claim; the Teachers Pension Return; Communities First grant claims; and, a number of European Funds grant claims.

Other work undertaken

24. In addition to my responsibilities in respect of the audit of the body's statutory financial statements set out above, I am also required to certify a return to the Welsh Government which provides information about the council to support preparation of Whole of Government Accounts.

Auditor General's Regulatory Programme

25. 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 Measure.

Fee, audit team and timetable

Fee

26. We are currently unable to provide you with an estimate of our fee for our 2013-14 audit work.
27. Owing to the requirements of the Public Audit (Wales) Act 2013, we have needed to revise our approach to fee setting. This act introduces a slightly revised fee-setting requirement on the new Wales Audit Office for all our audit work once its provisions come into effect from 1 April 2014. In anticipation of this new requirement, we have needed to take legal advice to clarify a number of its provisions. In the light of that advice, we have reviewed our cost allocation and apportionment processes to ensure that going forward our fee setting will fully comply with these new statutory requirements. This unfortunately has been a time-consuming process. The exercise has now been completed and the Auditor General has consulted on his fee scales, which take account of revisions made in anticipation of the new legislation. That consultation provides further information about the new legislative requirements.
28. We are currently considering the consultation responses and we anticipate being able to provide you with an estimate of your 2013-14 fee in April 2014.
29. Planning will be ongoing, and changes to my programme of audit work and therefore my fee may be required if any key new risks emerge. I shall make no changes without first discussing them with the Director of Finance. Further information on the new Wales Audit Office fee scales and fee setting will be provided once finalised.
30. In previous years, there have been no 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 will be included within the fee to deal with minor queries, as part of the overall management of the audit.
31. 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.

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32. 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.
33. Further information on the Auditor General's fee scales and fee setting can be found on our website at: www.wao.gov.uk/aboutus/4240.asp.

Audit team

Exhibit 7: My team

Name	Role	Contact number	E-mail address
Derwyn Owen	Engagement Lead – Financial Audit	02920 320651	derwyn.owen@wao.gov.uk
Amanda Hughes	Financial Audit Manager	07969 919986	amanda.hughes@wao.gov.uk
Alan Hughes	Financial Audit Team Leader	01286 679158	alan.hughes@wao.gov.uk

34. **Exhibit 7** highlights the key members of the audit engagement at the Council. I can confirm that with the exception of one member of staff, there are no known threats to my independence as Appointed Auditor or on the independence of staff or contractors working for me.
35. With regards to the exception noted above, one member of the audit team is related to a temporary junior member of the Council's internal audit staff. As a result we have taken steps to ensure that our member of staff is not involved in any work we may do that covers the review of internal audit or its programme of work.

Timetable

36. I will provide reports, or other outputs as agreed, to the Audit Committee covering the areas of work identified in this document. My key milestones are set out in **Exhibit 8**.

Exhibit 8: Timetable

Planned output	Work undertaken	Report finalised
Annual Financial Audit Outline for 2014	December 2013 – March 2014	April 2014
Financial accounts work: <ul style="list-style-type: none">• Audit of Financial Statements Report• Opinion on Financial Statements• Whole of Government Accounts	July - September 2014 September 2014 September 2014	September 2014 September 2014 September 2014
Use of Resources Work	September – October 2014	November 2014
Annual Audit Letter 2014	October 2014	November 2014

Appendix 1

Roles and responsibilities

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 2013-14 financial statements.

The Public Audit (Wales) Act 2013 (the 2013 Act) sets out that the Auditor General is to be the auditor of local government bodies in Wales. The 2013 Act does, however, provide transitional arrangements where the appointment of a person as an auditor under section 13 of the Public Audit (Wales) Act 2004 continues to have effect until the end of the period for which the appointment was made (subject to any earlier termination). The Auditor General has appointed me as the auditor of the Council's accounts for the year ending 31 March 2014.

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.

I am also required to certify that the audit has been completed in accordance with the Public Audit (Wales) Act 2004.

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.

The Public Audit (Wales) Act 2004 sets out the rights of the public and electors to inspect the Council's 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.

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.

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