

Archwilydd Cyffredinol Cymru
Auditor General for Wales



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

2015 Audit Plan

Powys County Council

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2015 Audit Plan

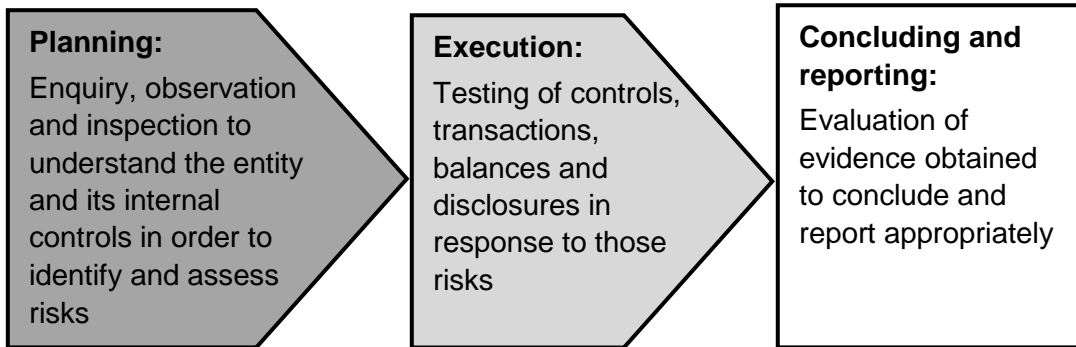
Summary

1. As your external auditor, my objective is to carry out an audit which discharges my statutory duties as Auditor General and fulfils my obligations under the Public Audit (Wales) Act 2004, the Local Government (Wales) Measure 2009 (the Measure), the Local Government Act 1999, and the Code of Audit Practice, namely to:
 - examine and certify whether your financial statements are ‘true and fair’;
 - assess whether you have made proper arrangements for securing economy, efficiency and effectiveness in the use of resources;
 - audit and assess whether you have discharged duties and met requirements of the Measure; and
 - undertake studies to enable me to make recommendations for improving economy, efficiency and effectiveness or for improving financial or other management arrangements.
2. The purpose of this plan is to set out my proposed work, when it will be undertaken, how much it will cost and who will undertake it. There have been no limitations imposed on me in planning the scope of this audit.
3. There have been no limitations imposed on me in planning the scope of this audit.
4. My responsibilities, along with those of management and those charged with governance, are set out in [Appendix 1](#).

Financial audit

5. It is my responsibility to issue a certificate and report on the financial statements which includes an opinion on their ‘truth and fairness’.
6. I also consider whether or not the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and report by exception if the Annual Governance Statement does not comply with requirements.
7. The audit work I undertake to fulfil my responsibilities responds to my assessment of risks. This understanding allows me to develop an audit approach which focuses on addressing specific risks whilst providing assurance for the financial statements as a whole. My audit approach consists of three phases as set out in [Exhibit 1](#).

Exhibit 1: My audit approach



8. The risks of material misstatement which I consider to be significant and which therefore require special audit consideration, are set out in [Exhibit 2](#) along with the work I intend to undertake to address them.

Exhibit 2: Financial audit risks

Financial audit risk	Proposed audit response
<p>Management Override</p> <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.</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; • review accounting estimates for biases; and • evaluate the rationale for any significant transactions outside the normal course of business.
<p>Revenue recognition</p> <p>There is also a potential risk across all public sector entities of misstatement due to fraud or error in revenue recognition.</p>	<p>We will evaluate if there is a risk and if so which types of revenue give rise to such risks, obtain an understanding of the Council's related controls relevant to such risks and focus its testing on the timing and value of revenue where appropriate.</p>

Financial audit risk	Proposed audit response
<p>Accounting for schools</p> <p>In 2014-15 CIPFA provided updated guidance on the accounting arrangements for local authority maintained schools. There is a risk that the new guidance will not be fully adopted by the Council and that the accounts will therefore be misstated.</p>	<p>We will review the work undertaken by the Council to ensure the guidance has been adopted and that the relevant accounting entries are correct.</p>
<p>Potential holiday pay accruals</p> <p>Recent European and UK case law has changed the way employers must calculate holiday pay to include overtime, shift allowances etc, where applicable. There is a risk that the impact of this change has not been evaluated by the Council to consider whether a provision should be made for potential backdated claims.</p>	<p>We will review what has been done by the Council to evaluate its potential exposure to backdated claims.</p>
<p>Internal Recharges</p> <p>As reported in our 2013-14 Audit of Financial Statements Report, the Council's draft Accounts submitted for audit contained material errors within the Comprehensive Income and Expenditure Statement relating to internal recharges that should have been removed.</p>	<p>We will review the action taken by the Council to ensure that appropriate year-end procedures are in place to ensure that all internal recharges are identified and excluded from the financial statements. We will then substantively test a sample of expenditure items to give additional assurance over this area.</p>
<p>Quality of Draft Financial Statements and Closedown Procedures</p> <p>In 2013-14 the Draft Financial Statements and supporting working papers needed improvement, and contained material errors identified during the course of the audit. The lack of internal challenge and quality assurance checks was a key weakness.</p>	<p>We will review the closedown plans of the Council and monitor what improvements are being put in place, and review the internal Quality assurance check procedures and their implementation.</p>

9. I do not seek to obtain absolute assurance on the truth and fairness of the financial statements and related notes, but adopt a concept of materiality. My aim is to identify material misstatements, 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, I 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 I will not report them.

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11. My fees are based on the following assumptions:
- information provided to support the financial statements is timely, to the quality expected and have been subject to quality assurance review;
 - appropriate accommodation and facilities are provided to enable my audit team to deliver the audit in an efficient manner;
 - all appropriate officials will be available during the audit; and
 - 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.
12. In addition to my responsibilities in respect of the audit of the Council'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.
13. My audit fee for this work is set out in [Exhibit 6](#).

Certification of grant claims and returns

14. I have been requested to undertake certification work on the Council's grant claims and returns. A total of 20 grant claims were audited in 2013-14 and I anticipate being required to audit between 26 to 28 claims in 2014-15.
15. An estimate of my audit fee for 2014-15 and the cost of auditing the grant claims in 2013-14 are set out in [Exhibit 6](#). I plan to issue a separate report, Certification of Grants and Returns 2013-14, in June 2015. This will set out the key issues I have identified in relating to the individual claims and returns audited.

Other work undertaken

16. In addition to my responsibilities in respect of the audit of the statutory financial statements set out above, I am also responsible for the audit of the Welsh Church Act and Rhayader Leisure Centre charity accounts. My team will undertake the audit of these accounts on my behalf in accordance with the timescales agreed with the Council and the Charity Commission. The fee for this work is set out in [Exhibit 6](#), and at this stage assumes we will be undertaking an Independent Examination rather than a full audit. If a full audit is required there will be an additional fee for this work which we will discuss with the Strategic Director for Resources.

Performance audit

- 17.** I am required by the Measure to carry out an improvement assessment for each improvement authority every year, to determine whether the authority is likely to comply with requirements to make arrangements to secure continuous improvement. I must also carry out audits of whether the authority has discharged its duties under the Measure. My improvement assessment work, combined with my work on financial matters, also discharges my responsibility to satisfy myself that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 18.** To discharge the requirements of the Measure, I undertake periodic corporate assessments at each improvement authority. Since 2013-14, I have undertaken this programme of corporate assessments on a cyclical basis. Currently I have agreed with the Welsh Government that I may use the grant that I receive from the Welsh Government to fund the corporate assessment. This means that, in addition to fee-funded improvement assessment and audit work, each authority will receive an in-depth corporate assessment once during a four-year period. In the intervening years, I will maintain a 'light-touch' overview of developments and of the progress made by the authority. In the event of emerging issues of concern or matters of priority, I do reserve the flexibility to undertake a more frequent corporate assessment.
- 19.** In addition to my programme of audit and assessment work under the Measure, I undertake a programme of local government studies as required under sections 41 and 42 of the Public Audit (Wales) Act 2004. This work is not included within the local performance audit fee, but is included within the Wales Audit Office estimates for funding from the Welsh Consolidated Fund.
- 20.** I set out in this section the 12-month programme of performance audit work to be undertaken at Powys County Council. The content of the programme has been determined by a consideration of the risks and challenges facing Powys County Council, the extent of accumulated audit and inspection knowledge, including that of other external review bodies, as well as other available sources of information including the Council's own mechanisms for review and evaluation.
- 21.** The components of my performance audit work are shown in [Exhibit 4](#) and have been designed in order to help deliver the high-level objectives set out in our 2013-2016 corporate strategy (www.wao.gov.uk/publication/wales-audit-office-corporate-strategy-2013-2016).

Exhibit 4: Components of my performance audit work



22. The performance work I propose to undertake is summarised in [Exhibit 5](#).

Exhibit 5: Contents of my 2015-16 performance audit work programme

	Specific projects
Improvement audit and assessment	<p>‘Improvement Plan’ Audit Audit of discharge of duty to publish an improvement plan.</p> <p>‘Assessment of performance’ audit Audit of discharge of duty to publish an assessment of performance - Key test of Council’s ability to demonstrate accountability to its citizens (following decision on OnePowys Plan).</p> <p>Financial management review Further work on financial management arrangements following up our 2014-15 review, and looking forward to 2016-17 budget setting and savings proposals. There will also be a focus on reserves position, policy and use of reserves.</p> <p>Establish clarity on planned service change proposals to meet ‘2020 vision’ (£70 million savings required) in order to identify tracer for Governance review.</p> <p>Governance reviews</p> <ul style="list-style-type: none"> • Review of decision-making arrangements in relation to service change proposals – accountabilities; member engagement and scrutiny; citizen engagement. • Evaluate lessons learnt from commissioning of domiciliary care and liaise closely with CSSiW Inspection and reporting.

	Specific projects
	<p>Performance Management review</p> <ul style="list-style-type: none"> Review of the Council's arrangements for managing improvement and integration with Powys tHealth Board, including: <ul style="list-style-type: none"> development of business management systems in Adult Social Care; commissioned review of organisational development plan; and impact and outcomes of Transformation Boards in relation to delivering OnePowys Improvement Objectives.
Follow-up work	<p>I will maintain a focus on assessing the progress that has been made in implementing recommendations from my previous work. As part of this work, I will seek assurance that Powys County Council has appropriate corporate processes for responding to my reports, tracking implementation of my recommendations and reporting this to the appropriate committee.</p> <p>I will also be assessing the impact of the WAO work.</p>
Local government studies	<p>The strategic approach of councils to income generation and charging for services.</p> <p>Council funding of third-sector services.</p> <p>The effectiveness of local community safety partnerships.</p>
Good practice	<p>In line with the my commitment to identify and share good practice, I will continue to host shared learning seminars, identify relevant case studies and focus my work on identifying and promoting effective practice.</p>

23. We have completed all audit projects included in last year's Audit Plan. We expect to finalise the Annual Improvement Report in April 2015.

Fee, audit team and timetable

Fee

24. The Council's estimated fee for 2015 is set out in [Exhibit 6](#).

Exhibit 6: Audit fee

Audit area	Proposed fee (£) ¹	Actual fee last year (£)
Financial audit work¹	207,830	228,553
Performance audit work:²		
• Improvement audit and assessment work and follow-up	99,323	99,654
• The strategic approach of councils to income generation and charging for services	£0 ³	
• Council funding of third-sector services	£0 ³	
• The effectiveness of local community safety partnerships	£0 ³	
Performance audit work total		
Total fee	307,153	328,207
Grant certification work ⁴	95,000	86,000
Other financial audit work ⁵	3,688	3,377
Total fee for other audit work	98,688	89,377

¹ Payable November 2014 to October 2015.

² Payable April 2015 to March 2016.

³ Funded by WPI Grant.

⁴ Payable as work is undertaken, the 2013-14 fee is an estimate as some returns not yet received, and the 2014-15 is again a best estimate at this stage.

⁵ Charity Independent Examination (Welsh Church Act and Rhayader Leisure Center).

25. 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 Council.

26. Further information on my fee scales and fee setting can be found on the Wales Audit Office website at: www.wao.gov.uk/about-us/fee-scales-and-fee-setting.

¹ The fees shown in this document are exclusive of VAT, which is no longer charged to you.

Audit team

27. The main members of my team, together with their contact details, are summarised in [Exhibit 7](#).

Exhibit 7: My team

Name	Role	Contact number	E-mail address
Anthony Barrett	Engagement Director and Engagement Lead – Financial Audit	02920 320500	anthony.barrett@wao.gov.uk
Jane Holownia	Engagement Lead – Performance Audit	029 20320565	jane.holownia@wao.gov.uk
Mike Jones	Financial Audit Manager	02920 320500	mike.jones@wao.gov.uk
Nadeem Ashraf	Financial Audit Team Leader - Accounts	02920 320500	nadeem.ashraf@wao.gov.uk
Gareth Rees	Financial Audit Team Leader - Grants	02920 320500	gareth.rees@wao.gov.uk
Colin Davies	Performance Audit Manager	07786 800 258	colin.davies@waog.gov.uk
Justine Morgan	Performance Audit Lead	07799476 570	justine.morgan@wao.gov.uk

28. I can confirm that my team members are all independent of Powys County Council and your officers. In addition, I am not aware of any potential conflicts of interest that I need to bring to your attention.

Timetable

29. I will provide reports, or other outputs as agreed, to Powys County Council 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
2015 Audit Plan	November 2014 – February 2015	March 2015
Financial accounts work: <ul style="list-style-type: none"> • Audit of Financial Statements Report • Opinion on Financial Statements • Financial Accounts Memorandum • Annual Audit Letter 	February – September 2015	September 2015 September 2015 November 2015 November 2015
Performance work: <ul style="list-style-type: none"> • Improvement Plan Audit • Governance Reviews • Financial Management Review • Performance Report Audit • Performance Assessment • Performance Management Reviews 	Estimated May - June 2015 April - Dec 2015 Nov - Jan 2016 Oct - Nov 2015 July - Nov 2015 April - Dec 2015	Estimated July 2015 Jan 2016 Feb 2016 Nov 2015 Jan 2016 Jan 2016
Annual Improvement Report	Throughout the year	March 2016
2016 Audit Plan	October – December 2015	January 2016

Appendix 1

Respective responsibilities

Financial audit

As amended by the Public Audit (Wales) Act 2013, the Public Audit (Wales) Act 2004 sets out my powers and duties to undertake your financial audit. It is my responsibility to issue a certificate and report on the financial statements which includes an opinion on:

- Their 'truth and fairness', providing assurance that they:
 - are free from material misstatement, whether caused by fraud or error;
 - comply with the statutory and other applicable requirements; and
 - comply with all relevant requirements for accounting presentation and disclosure.
- The consistency of information in the Annual Report with the financial statements.

I must also state by exception if the Annual Governance Statement does not comply with requirements, if proper accounting records have not been kept, if disclosures required for remuneration and other transactions have not been made or if I have not received all the information and explanations I require.

The Public Audit (Wales) Act 2004 requires me to assess whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in the use of resources. To achieve this, I consider:

- 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 other work carried out 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.

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. I must also consider whether in the public interest, I should make a report on any matter which comes to my notice in the course of the audit.

My audit work does not relieve management and those charged with governance of their responsibilities which include:

- the preparation of the financial statements and Annual Report in accordance with applicable accounting standards and guidance;
- the keeping of proper accounting records;
- ensuring the regularity of financial transactions; and
- securing value for money in the use of resources.

Management agrees to provide me with:

- access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- additional information that I may request from management for the purpose of the audit; and
- unrestricted access to persons within the Council from whom I determine it necessary to obtain audit evidence.

Management will need to provide me with written representations to confirm:

- that it has fulfilled its responsibilities for the preparation of the financial statements;
- that all transactions have been recorded and are reflected in the financial statements;
- the completeness of the information provided to me for the purposes of the audit; and
- to support other audit evidence relevant to the financial statements or specific assertions in the financial statements if I deem it necessary or if required by ISAs.

Performance audit

The Measure places a general duty on improvement authorities to 'make arrangements to secure continuous improvement in the exercise of [their] functions'. It also places specific requirements on authorities to set improvement objectives, and to publish annual improvement plans and assessments of performance. Improvement authorities are defined as county and county borough councils, national park authorities, and fire and rescue authorities.

The Measure also requires me to carry out an improvement assessment for each improvement authority every year, to determine whether the authority is likely to comply with its general duty and requirements of the Measure. I must also carry out an audit of whether the authority has discharged its improvement planning and reporting duties.

To discharge the requirements of the Measure, I undertake periodic corporate assessments at each improvement authority. Since 2013-14, I have undertaken this programme of corporate assessments on a cyclical basis. Currently I have agreed with the Welsh Government that I may use the grant that I receive from the Welsh Government to fund the corporate assessment. This means that, in addition to fee-funded improvement assessment and audit work, each authority will receive an in-depth corporate assessment once during a four-year period. In the intervening years, I will maintain a 'light-touch' overview of developments and of the progress made by the authority.

In the event of emerging issues of concern or matters of priority, I do reserve the flexibility to undertake a more frequent corporate assessment.

I may also, in some circumstances, carry out special inspections (under section 21), in respect of which I will provide a report to the relevant authorities and Ministers, and which I may publish (under section 22). I will summarise audit and assessment reports in my published Annual Improvement Report (under section 24). This will also summarise any reports of special inspections.

In addition to my programme of audit and assessment work under the Measure, I undertake a programme of local government studies as required under sections 41 and 42 of the Public Audit (Wales) Act 2004. This work is not included within the local performance audit fee, but is included within the Wales Audit Office estimates for funding from the Welsh Consolidated Fund.

Appendix 2

National value-for-money studies

Powys County Council may also be interested in the national value-for-money examinations which I undertake, some of which will be of particular relevance to, and may involve evidence gathering across, local government. These studies are funded by the National Assembly and are presented to the National Assembly's Public Accounts Committee to support its scrutiny of public expenditure.

The table below covers all of the value-for-money studies work currently programmed, although some of this work is still at an early stage of development. The programme includes all-Wales summaries of audit work undertaken locally in the NHS and reactive examinations into specific issues of public concern that have been raised with me. I will shortly be considering and consulting on potential topic areas for future value-for-money studies to start, and potentially in some cases to be reported, in 2015-16.

Further updates on my programme of value-for-money studies will be provided to you within the regular progress reports prepared by my team.

Topic	Anticipated publication timeframe
GP prescribing	April to June 2015
Welsh Government investment in next generation broadband infrastructure	April to June 2015
Regional education consortia	April to June 2015
Welsh Government acquisition of Cardiff Airport	April to June 2015
Rail services	April to June 2015
Orthopaedic services	April to June 2015
NHS clinical coding	Summer 2015
NHS waiting lists and private practice	Summer 2015
Picture of public services	Autumn 2015
Development of Natural Resources Wales	Autumn 2015
Regeneration Investment Fund for Wales ²	To be confirmed
Wales Life Sciences Investment Fund ³	To be confirmed
Flood and erosion risk management (likely to focus on coastal flooding)	To be confirmed

² While in clearance, the timescale for publication is uncertain for reasons specific to the project.

³ While in clearance, the timescale for publication is uncertain for reasons specific to the project.

Topic	Anticipated publication timeframe
Early intervention and public behaviour change ⁴	To be confirmed
Welsh Government interventions in local government ⁵	To be confirmed
Welsh Government responses to audit recommendations	To be confirmed
Public procurement and the National Procurement Service	To be confirmed

⁴ In the short-term, development of a new picture of public services report will take priority over this work. However, the picture of public services report is likely to reflect on these themes in some way. Wales Audit Office staff will also be exploring opportunities to take forward work in this area as part of our good practice exchange programme.

⁵ Plans for this work are being revisited in light of the Welsh Government commissioned review of the Anglesey intervention and to take into account any wider implications arising from the local government reform programme.

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