

Meeting of:	Governance and Audit Committee
Date of Meeting:	Monday, 24 May 2021
Relevant Scrutiny Committee:	All Scrutiny Committees
Report Title:	Audit Wales 2021 Audit Plan
Purpose of Report:	To present to Members the Audit Wales Audit Plan 2021
Report Owner:	Report of the Head of Finance
Responsible Officer:	Carys Lord, Section 151 Officer
Elected Member and Officer Consultation:	No specific ward member consultation has been undertaken
Policy Framework:	This report is in accordance with the policy framework and budget
<p>Executive Summary:</p> <p>Audit Wales (AW), as the nominated auditor for the Vale of Glamorgan Council, is required to undertake work in relation to the following :</p> <ul style="list-style-type: none"> • Audit of Financial Statements • Value for money • Continuous Improvement • Sustainable Development principle <p>The report provides details regarding how AW will complete this work in 2021</p> <p>Committee is requested to consider and agree the proposed audit plan for 2021.</p>	

Recommendation

1. THAT Members review and note the content of this report

Reason for Recommendation

1. To facilitate monitoring of the audit function

1. Background

- 1.1 As the external auditor, the objective of AW is to carry out an audit which discharges the statutory duties of Auditor General, which include :

- Audit of Financial Statements
- Value for money
- Continuous Improvement
- Sustainable Development principle.

2. Key Issues for Consideration

- 2.1 The report at Appendix 1 details the work planned by Audit Wales in the current year to meet the duties outlined above.

- 2.2 With regard to the financial statements, the key additions for the current year will be:

- Work on the Welsh Government funding received in relation to Covid 19 ; and
- The audit of the financial statements for the Vale of Glamorgan Council Group, which includes the Big Fresh Catering Company Limited, for the first time.

- 2.3 Audit Wales will also undertake certification work on a number of the Council's grant claims and returns relating to 2020/2021.

- 2.4 In addition to the financial audit work, Audit Wales will also undertake Performance Audits and these are detailed in Exhibit 3 of Appendix 1.

3. How do proposals evidence the Five Ways of Working and contribute to our Well-being Objectives?

- 3.1 The management and reporting of the financial activity of the Council reflects the requirements of the Well-being of Future Generations (Wales) Act 2015. By

aligning our financial framework with the Well-being Goals of the Act, enables the Council to better evidence our contribution to the Goals.

- 3.2** External Regulation is an important vehicle for driving continuous improvement across our services. Progressing the improvement areas identified by our regulators not only enables us to demonstrate our commitment to continuous service improvement, but also contributes to further strengthening our impact on the national well-being goals through the achievement of our well-being objectives.

4. Resources and Legal Considerations

Financial

- 4.1** The estimated fee for the Audit work in 2021 is £302,95. Any proposed changes to this will be discussed with the Sec 151 Officer prior to implementation. The detail of these fees are shown in Exhibit 4
- 4.2** The costs of the other financial audit work detailed in Exhibit 4 will be charged to those services

Employment

- 4.3** There are no direct employment issues relating to this report

Legal (Including Equalities)

- 4.4** The statutory duties of the Auditor General are contained within the Public Audit (Wales) Act 2004, the Local Government (Wales) Measure 2009 (the Measure), Wellbeing of Future Generations (Wales) Act 2015, the Local Government Act 1999, and the Code of Audit Practice, and these are namely to:
- examine and certify whether the financial statements are ‘true and fair’; and
 - assess whether the proper arrangements have been made for securing economy, efficiency and effectiveness in the use of resources.
 - Under Paragraph 20 of Schedule 8 to the Government of Wales Act 2006 the Auditor General shall, if required by a local government or other grant-receiving body, make arrangements for certifying claims and returns

5. Background Papers



2021 Audit Plan – Vale of Glamorgan Council & Vale of Glamorgan Council Group

Audit year: 2021

Date issued: May 2021

Document reference: 2398A2021-22

This document has been prepared as part of work performed in accordance with statutory functions.

Audit Wales is the non-statutory collective name for the Auditor General for Wales and the Wales Audit Office, which are separate legal entities each with their own legal functions as described above. Audit Wales is not a legal entity and itself does not have any functions.

No responsibility is taken by the Auditor General or the staff of Audit Wales in relation to any member, director, officer or other employee in their individual capacity, or to any third party.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 Code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales, Audit Wales and, where applicable, the auditor acting on behalf of the Auditor General are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to Audit Wales at infoofficer@audit.wales.

We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

Contents

2021 Audit Plan

About this document	4
My duties	4
Impact of COVID-19	5
Audit of financial statements	5
Performance audit	10
Certification of grant claims and returns	12
Statutory audit functions	12
Fee, audit team and timetable	13

2021 Audit Plan

About this document

- 1 This document sets out the work I plan to undertake during 2021 to discharge my statutory responsibilities as your external auditor and to fulfil my obligations under the Code of Audit Practice.

My duties

- 2 I complete work each year to meet the following duties.

Audit of financial statements

- 3 Each year I audit the Vale of Glamorgan Council's (the Council) financial statements to make sure that public money is being properly accounted for. In 2020-21, I will also audit the financial statements of the Vale of Glamorgan Council Group (the Group), which incorporates Big Fresh Catering Company Limited, for the first time.

Value for money

- 4 The Council has to put in place arrangements to get value for money for the resources it uses, and I have to be satisfied that it has done this.

Continuous improvement

- 5 Under the Local Government (Wales) Measure 2009 (the Measure) the Council has to put in place arrangements to make continuous improvements, including related plans and reports, and the Auditor General has to assess whether the Council is likely to (or has) met these requirements. Some requirements of the Measure will cease during 2021-22 due to changes in legislation arising from the Local Government and Elections (Wales) Act 2021. However, I anticipate that during 2021-22, I will still be required to audit the Council's published assessment of its performance that covers the 2020-21 year.

Sustainable development principle

- 6 Public bodies need to comply with the sustainable development principle when setting and taking steps to meet their well-being objectives. The Auditor General must assess the extent to which they are doing this.

Impact of COVID-19

- 7 The COVID-19 pandemic continues to have a significant impact across the United Kingdom and on the work of public sector organisations. As in 2020, it is likely to significantly impact on the preparation of the 2020-21 accounts and my financial audit and performance audit work.
- 8 Recent developments in relation to a vaccine programme indicate that the Welsh Government's restrictions on movement and anticipated sickness absence levels are expected to ease through 2021. However, I recognise that there remains significant uncertainty and I understand that many local authorities may not be able to prepare accounts in line with the timetable set out in the Accounts and Audit (Wales) Regulations 2014. As well as the delivery of my statutory responsibilities as the Auditor General, my priority is to ensure the health, safety and well-being of Audit Wales staff, their families and those of our partners elsewhere in the public service at this incredibly challenging time.
- 9 Audit Wales staff will continue to work flexibly to deliver the audit work set out in this plan. In response to the government advice and subsequent restrictions, we will continue to work remotely, building on the arrangements made in 2020, until such time that it is safe to resume on-site activities. I remain committed to ensuring that the work of Audit Wales staff will not impede the vital activities that public bodies need to do to respond to ongoing challenges presented by the COVID-19 pandemic.
- 10 Consequently, while this audit plan sets out an initial timetable for the completion of my audit work, the ongoing uncertainties around the impact of COVID-19 on the sector mean that some timings may need to be revisited. My audit team will discuss any amendments required to the proposed timetable with the authority as the 2021 position becomes clearer.

Audit of financial statements

- 11 It is my responsibility to issue a certificate and report on the financial statements. This includes:
 - an opinion on the on the 'truth and fairness' of the Council and the Group's financial statements for the financial year ended 31 March 2021; and
 - an assessment as to whether the Council and Group's Narrative Report and Annual Governance Statement are prepared in line with the CIPFA Code and relevant guidance and is consistent with the financial statements and with my knowledge of the Council.
- 12 In addition to my responsibilities for auditing the Council and Group's financial statements, I also have responsibility for:
 - certifying a return to the Welsh Government which provides information to support preparation of Whole of Government Accounts;

- responding to questions and objections about the accounts from local electors (additional fees will be charged for this work, if necessary);
- the audit of the Shared Regulatory Services (SRS) Joint Committee's financial statements (a separate audit plan has been produced for presentation to the SRS Joint Committee);
- the audit of the Annual Return of the Vale Valleys and Cardiff Adoption Service; and
- the certification of a number of grant claims and returns as agreed with the funding bodies.

- 13 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 and Council prior to completion of the audit.
- 14 Any misstatements below a trivial level (set at 5% of materiality) I judge as not requiring consideration by those charged with governance and therefore will not report them.
- 15 There have been no limitations imposed on me in planning the scope of this audit.
- 16 I will also report by exception on a number of matters which are set out in more detail in our [Statement of Responsibilities](#), along with further information about my work.

Audit of financial statements risks

- 17 The following table sets out the significant risks I have identified for the audit of the Council.

Exhibit 1: financial statement audit risks

This table summarises the key financial statement audit risks identified at the planning stage of the audit.

Audit risk	Proposed audit response
Significant risks	
Management Override The risk of management override of controls is present in all entities. Due to	My audit team will:

Audit risk	Proposed audit response
<p>the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].</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>Impact of COVID-19 – disclosures Last year, two ‘Emphasis of matter’ paragraphs were in my audit report, drawing attention to material valuation uncertainties in the financial statements in respect of the valuation of:</p> <ul style="list-style-type: none"> • land and buildings (including Council Dwellings); and • certain pension fund assets. <p>These uncertainties arose from the COVID-19 pandemic, and the audit opinion was modified in respect of these matters. However, with the pandemic continuing it is possible that similar disclosures may be required this year.</p>	<p>I will review the valuer’s valuation reports and the actuary’s pension report and consider the impact on my audit of any reported material uncertainties.</p>
<p>Impact of COVID-19 The COVID-19 national emergency continues and the pressures on staff resource and of remote working may impact on the preparation, audit and publication of accounts. There is a risk that the quality of the accounts and supporting working papers, eg around estimates and valuations, may be compromised leading to an increased incidence of errors. Quality monitoring arrangements may be compromised due to timing issues and/or resource availability.</p>	<p>We will discuss your closedown process and quality monitoring arrangements with the accounts preparation team and make arrangements to monitor the accounts preparation process. We will help to identify areas where there may be gaps in arrangements.</p>

Audit risk	Proposed audit response
<p>Covid-19 – Welsh Government funding and other related risks</p> <p>The COVID-19 pandemic will have a significant impact on the risks of material misstatement and the shape and approach to my audit. The Welsh Government has made available various funding streams to the Council. In some cases, these monies provide financial support to the authority itself. In other cases, the funds have been administered by the Council to make payments to third parties on behalf of the Welsh Government. The amounts involved are material to the accounts and there is a risk of incorrect accounting treatment for COVID-19 funding, ie principal or agency arrangement.</p> <p>Examples of other COVID-19 audit risks include:</p> <ul style="list-style-type: none"> • fraud/error risks; • potential year-end valuation uncertainty; and • estimation of accrued annual leave provisions. 	<p>We will review the funding streams received from the Welsh Government and confirm the appropriate accounting treatment with the authority.</p>
Areas of audit attention	
<p>City deal</p> <p>City deals are arrangements negotiated with government that give greater accountability for actions in return for new powers to help encourage growth and jobs. The Cardiff Capital Region City Deal (the City Deal) involves ten councils (including the Vale of Glamorgan). The councils have established a joint committee (the Regional Cabinet) to oversee delivery of a range of programmes designed to increase connectivity and to improve physical and digital infrastructure over the course of 20 years. This significant programme will</p>	<p>Liaising closely with the external auditors of the other councils, my audit team will:</p> <ul style="list-style-type: none"> • monitor progress with the City Deal Project and carry out early work, as necessary, to assess the existing and proposed financial and governance arrangements; and • consider the work undertaken by HM Treasury to scrutinise the effectiveness of the region's governance arrangements.

Audit risk	Proposed audit response
<p>have financial, governance and delivery risks that need to be managed. There will be a number of accounting issues to address, including the potential consolidation of the joint committee's financial statements, if they are material.</p>	
<p>McCloud judgement</p> <p>In 2015 the Government introduced reforms to public sector pensions, meaning most public sector workers were moved into new pension schemes in 2015.</p> <p>In December 2018, the Court of Appeal ruled that the 'transitional protection' arrangements amounted to unlawful discrimination.</p> <p>Consultations on proposed remedies for the Local Government, Police and Fire pensions schemes closed in October 2020. The Government recently announced that for unfunded schemes, the underpin will be the deferred choice model for the remedy. No announcement has yet been made on the Local Government Pension Scheme. Final details are expected to be published during 2021.</p> <p>The impact of the judgement is likely to have a significant impact on the IAS 19 disclosed liabilities.</p>	<p>My audit team will review the provision previously made in relation to the McCloud judgement and monitor progress on the development of proposals for a remedy to be applied in the local government pension schemes.</p>

Other matters

- 18 There are three further matters on which my audit team will undertake early work in preparation for the 2021-22 audit.

Exhibit 2: Other matters

This table summarises the key financial statement audit risks identified at the planning stage of the audit.

Other matters	
<p>Group Accounts</p> <p>The Council will produce group financial statements for the first time in 2020-21 to include the accounts of Big Fresh Catering Company Limited.</p>	<p>My audit team will:</p> <ul style="list-style-type: none">• perform early audit work to confirm the consolidation process for the 2020-21 financial statements; and• review the accounting entries and disclosures made by the Council to ensure that they are in line with Code requirements.
<p>Leases</p> <p>CIPFA/LASAAC has once again deferred the introduction of IFRS 16 until 1 April 2022. The Council will, however, need to undertake considerable work to identify leases, and the COVID-19 pandemic may pose implementation risks.</p>	<p>My team will undertake some early work to review preparedness for the introduction of IFRS 16 Leases.</p>
<p>Local Government and Elections (Wales) Act</p> <p>The Local Government and Elections (Wales) Act has received Royal Assent. Included in its provisions is the establishment of Corporate Joint Committees (CJC) to deliver certain types of services.</p>	<p>My team will liaise with management to determine the impacts of this new legislation on the Council, and any accounts or audit requirements arising.</p>

Performance audit

- 19 In addition to my Audit of Financial Statements I also carry out a programme of performance audit work to discharge my duties as Auditor General as set out on **page 4** in relation to value for money and sustainable development.
- 20 In response to the pandemic, I have adopted a flexible approach to my performance audit work both in terms of topic coverage and methodology. My work on recovery planning, COVID-19 learning and my assurance and risk assessment

work are examples of this. This has enabled me to respond to the fast-moving external environment and provide more real-time feedback in a range of formats.

- 21 For 2021-22, I intend to build on this approach to help enable my work to be responsive and timely, and where possible to share learning more quickly. As part of this approach, I anticipate that a significant proportion of my local performance audit programme will be delivered through the Assurance and Risk Assessment Project, that will be ongoing throughout the year.
- 22 Given the high degree of commonality in the risks facing councils at this time, I also intend to deliver a number of thematic projects examining risks common to all councils.
- 23 I have consulted public bodies and other stakeholders on how I will approach my duties in respect of the Wellbeing of Future Generations (Wales) Act 2015. This consultation was extended due to the pandemic.
- 24 In my consultation I have set out and sought views on proposals to:
- a) continue to undertake specific examinations to assess the setting of well-being objectives and how steps are being taken to meet them, respectively;
 - b) integrate the examination of steps alongside value for money studies and local audit work, wherever possible; and
 - c) strengthen and expand the co-ordination of work with the Future Generations Commissioner.
- 25 I have written to the 44 public bodies designated under the Act setting out the results of the consultation and how I intend to approach this work over the reporting period 2020-2025.
- 26 In view of the above factors I intend to retain a high degree of flexibility in my local performance audit programme at the Council and will continue to update the Council as the audit programme changes.
- 27 For 2020-21 this work is set out below.

Exhibit 3: Performance Audit Programme 2021-22

This table summarises the performance audit programme for 2021-22

Performance audit programme	Brief description
Well-being of Future Generations Act (Wales) 2015 (WFG Act) examinations	Further details to follow.
Improvement reporting audit	Audit of discharge of duty to publish an assessment of performance.

Performance audit programme	Brief description
Assurance and Risk Assessment	<p>Project to identify the level of audit assurance and/or where further audit work may be required in future years in relation to risks to the Council putting in place proper arrangements to secure value for money in the use of resources. At the Council, this will include focusing on:</p> <ul style="list-style-type: none"> • financial position; • self-assessment arrangements; • recovery planning; • implications of the Local Government and Elections (Wales) Act; and • carbon reduction plans.
Springing Forward – Examining the building blocks for a sustainable future	<p>As the world moves forward, learning from the global pandemic, this review looks at how effectively councils are strengthening their ability to transform, adapt and maintain the delivery of services, including those delivered in partnership with key stakeholders and communities.</p>
Local projects	<p>We are currently discussing with the Council the focus of one or more potential local projects. The topics currently being discussed are homelessness and workforce planning.</p>

Certification of grant claims and returns

28 I have been requested to undertake certification work on a number of the Council's grant claims and returns for the 2020-21 financial year.

Statutory audit functions

29 In addition to the audit of the accounts, I have statutory responsibilities to receive questions and objections to the accounts from local electors. These responsibilities are set out in the Public Audit (Wales) Act 2004:

- Section 30 Inspection of documents and questions at audit; and
- Section 31 Right to make objections at audit.

30 As this work is reactive, I have made no allowance in the fee table below. If I do receive questions or objections, I will discuss potential audit fees at the time.

Fee, audit team and timetable

31 My fees and planned timescales for completion of the audit are based on the following assumptions:

- the financial statements are provided in accordance with a timescale to be agreed taking into account the impact of COVID-19, to the quality expected and have been subject to a robust quality assurance review;
- information provided to support the financial statements is in accordance with the agreed audit deliverables document;
- 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;
- 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's planned programme of work is complete and management has responded to issues that may have affected the financial statements.

32 If I do receive questions or objections, I will discuss potential audit fees at the time.

Fee

33 Your estimated fee for 2021 is set out in **Exhibit 4**. There is no overall increase in audit fee year on year. However, there are two specific points to note:

- there was an additional bill of £1,500 issued in respect of the 2019-20 accounts in relation to work we undertook in relation to correspondence; and
- our fee for the Audit of Accounts work has increased in 2020-21 by £1,500 (equivalent fee in 2019-20 £164,000) which relates to the additional audit work required this year as result of the Council needing to produce Group Accounts.

34 We are unable to charge more than the cost of the work undertaken in any given year, such that any underspend against the estimated fee will be refunded to the Council at year-end.

Exhibit 4: audit fee

This table sets out the proposed audit fee for 2021, by area of audit work, alongside the actual audit fee for last year.

Audit area	Proposed fee (£) ¹	Actual fee last year (£)
Audit of accounts ²	165,500	164,000
Additional fee for correspondence work		1,500
Performance audit work ³	97,405	97,405
Grant certification work (estimated) ⁴	40,000	40,000
Other financial audit work ⁵		
• Shared Regulatory Service	11,844	11,844
• Adoption Services	1,130	1,130
• Welsh Church Fund	1,400	1,400

35 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.

36 Further information on my [fee scales and fee setting](#) can be found on our website.

Audit team

37 The main members of my team, together with their contact details, are summarised in **Exhibit 5**.

¹ Notes: The fees shown in this document are exclusive of VAT, which is not charged to you.

² Payable November 2020 to October 2021.

³ Payable April 2021 to March 2022.

⁴ Payable as work is undertaken.

⁵ Payable as work is undertaken.

Exhibit 5: my audit team

This table lists the members of the local audit team and their contact details.

Name	Role	Contact number	E-mail address
Anthony Veale	Engagement Director & Engagement Lead – Financial Audit	02920 320585	anthony.veale@audit.wales
Huw Rees	Engagement Lead – Performance Audit	02920 320599	huw.rees@audit.wales
Steve Wyndham	Audit Manager (Financial Audit)	02920 320664	steve.wyndham@audit.wales
Rachel Freitag	Audit Lead (Financial Audit)	02920 829359	rachel.freitag@audit.wales
Sara-Jane Byrne	Audit Manager (Performance Audit)	07786 111385	sara-jane.byrne@audit.wales
Ian Phillips	Audit Lead (Performance Audit)	07811 757163	ian.phillips@audit.wales

- 38 I can confirm that my team members are all independent of the 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

- 39 The key milestones for the work set out in this plan are shown in **Exhibit 6**. As highlighted earlier, there may be a need to revise the timetable in light of developments with COVID-19.
- 40 The Public Audit (Wales) Act 2004 provides electors with the right to ask questions and to make objections to the Authority's accounts to the Auditor General. The rights to ask questions and make objections at audit are linked to electors' rights to inspect the accounts that are also set out in the 2004 Act. The current COVID

restrictions may impose restrictions on the Authority's ability to facilitate the inspection of accounts. Therefore, we have not yet set a date for the exercise of electors' rights and will continue to monitor the situation before confirming a date with you. We anticipate that we will be in a position to agree a date with you in late May 2021.

Exhibit 6: Audit timetable

Planned output	Work undertaken	Report finalised
2021 Audit Plan	March to April 2021	May 2021
Audit of Financial statements work: <ul style="list-style-type: none"> • Audit of Financial Statements Report • Opinion on Financial Statements 	January to September 2021	September 2021
Performance audit work: <ul style="list-style-type: none"> • Annual Audit Summary • Well-being of Future Generations • Assurance and risk assessment • Thematic work – Springing Forward • Local project(s) – to be determined 	Timescales for individual projects will be discussed with you and detailed within the specific project briefings produced for each study.	
Grants certification work <ul style="list-style-type: none"> • Housing Benefit • Non-Domestic rates • List other schemes 	September to November 2021	January 2022
Annual Audit Summary	N/A	December 2021

Planned output	Work undertaken	Report finalised
2022 Audit Plan	March to April 2022	May 2022



Audit Wales

24 Cathedral Road
Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

E-mail: info@audit.wales

Website: www.audit.wales

We welcome correspondence and telephone calls in Welsh and English.
Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.