

Meeting of:	<b>Shared Regulatory Services Joint Committee</b>
Date of Meeting:	<b>Wednesday, 27 September 2023</b>
Relevant Scrutiny Committee:	No Relevant Scrutiny Committee
Report Title:	Shared Regulatory Services Audit Wales 2023 Audit Plan
Purpose of Report:	To present to Members the Draft Audit Wales Plan 2023
Report Owner:	Report of the Head of Finance
Responsible Officer:	Matt Bowmer, Head of Finance/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>Appendix 1 outlines the Draft Audit Wales Audit Plan.</p> <p>The report provides details regarding how Audit Wales will complete the work in 2023. The Committee are requested to consider and agree the proposed audit plan for 2023.</p>	

## **Recommendations**

1. That members review and note the content of this report and appendix.

## **Reasons for Recommendations**

1. To facilitate monitoring of the external audit function.

### **1. Background**

- 1.1 As the external auditor, the objective of Audit Wales 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 A provides members with the draft Detailed Audit Plan for 2023. The detailed plan sets out the Auditor General's statutory responsibilities and the work planned by the Audit Wales team to address audit risks and other key areas of focus during 2023. The Plan sets out the estimated audit fee, details of the audit team and key dates for delivering different aspects of the work.
- 2.2 The draft Audit Plan set out the following:
  - The Auditor General's audit responsibilities
  - Details of the audit of the financial statements identifying key risks and other areas of focus
  - Audit Timetable
  - Details of the fee and audit team
  - Appendix 1 of the plan outlines key ISA315 changes and impact.
- 2.3 In relation of financial audit work, draft accounts were provided to the Auditor General on the 30th June 2023 on the Shared Regulatory Services 2022/23 Statement of Accounts. Initial work has now commenced on the external audit of these accounts.

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

- 3.1 Performance Management is an intrinsic part of corporate governance and integrated business planning which underpins the delivery of the Shared Regulatory the Annual Plan and its Well -being Outcomes.

- 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. Climate Change and Nature Implications**

- 4.1** There are no implications directly arising from this report, although failure to respond to our regulatory recommendations could have a negative impact on any future external regulatory assessments and could result in a special inspection by the Auditor General for Wales if deemed that the Council is not meeting the performance requirements.

## **5. Resources and Legal Considerations**

### **Financial**

- 5.1** There is an annual fee aligned with the Shared Regulatory Services Annual Audit Work Programme, the estimated fee for the Audit work in 2022/23 is £16,953. Any proposed changes to this will be discussed with the Section 151 Officer prior to implementation. The details of these fees are shown at Appendix 1.

### **Employment**

- 5.2** There are no direct workforce related implications associated with this report.

### **Legal (Including Equalities)**

- 5.3** The statutory duties of the Auditor General are contained within the Local Government (Wales) Act 2021, Well-being of Future Generations (Wales) Act 2015, the Public Audit (Wales) Act 2004 Local Government Act 1999 and the Code of Audit Practice.

## **6. Background Papers**

None.

# Shared Regulatory Services Joint Committee Audit Plan 2023

Audit year: 2022-23

Date issued: September 2023

Document reference:

This document is a draft version pending further discussions with the audited and inspected body. Information may not yet have been fully verified and should not be widely distributed.



This document has been prepared as part of work performed in accordance with statutory functions. Further information can be found in our [Statement of Responsibilities](#).

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, the staff of the Wales Audit Office or, where applicable, the appointed auditor in relation to any member, director, officer or other employee in their individual capacity, or to any third party.

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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.

# About Audit Wales

## Our aims and ambitions

### Assure



the people of Wales that public money is well managed

### Explain



how public money is being used to meet people's needs

### Inspire



and empower the Welsh public sector to improve



Fully exploit our unique perspective, expertise and depth of insight



Strengthen our position as an authoritative, trusted and independent voice



Increase our visibility, influence and relevance



Be a model organisation for the public sector in Wales and beyond

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# Introduction

I have now largely completed my planning work.

This Detailed Audit Plan specifies my statutory responsibilities as your external auditor and to fulfil my obligations under the Code of Audit Practice.

It sets out the work my team intends undertaking to address the audit risks identified and other key areas of focus during 2023.

It also sets out my estimated audit fee, details of my audit team and key dates for delivering my audit team's activities and planned outputs.



**Adrian Crompton**

Auditor General for  
Wales

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## My audit responsibilities

I audit the Shared Regulatory Services Joint Committee's financial statements to make sure that public money is being properly accounted for.

## Audit of financial statements

I am required to issue a certificate and report on your financial statements which includes an opinion on their 'truth and fairness' and an assessment as to whether the Narrative Report and Annual Governance Statement is prepared in line with the CIPFA Code and relevant guidance and is consistent with your financial statements and my knowledge of the Joint Committee.

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 is set out later in this plan.

I will also report by exception on a number of matters which are set out in more detail in our Statement of Responsibilities.

There have been no limitations imposed on me in planning the scope of this audit.

# Your audit at a glance



**My financial statements audit will concentrate on your risks and other areas of focus**

My audit planning has identified the following risks:

Significant financial statement risk:

- Management override

Other areas of audit focus:

- Pension fund accounting (IAS19); and
- Related party disclosures and senior officer remuneration.



## Materiality

Materiality	£232,000
Reporting threshold	£12,000

# Financial statements' materiality



**Materiality £232,000**

My aim is to identify and correct material misstatements, that is, those that might otherwise cause the user of the accounts to be misled.

Materiality is calculated using:

- 2022-23 draft accounts gross expenditure of £11.614 million
- Materiality percentage of 2%

I report to those charged with governance any misstatements above a trivial level (set at 5% of materiality).



**Areas of specific interest**

There are some areas of the accounts that may be of more importance to the user of the accounts and we have set a lower materiality level for these:

- Remuneration report/senior pay disclosure – £1,000; and
- Related party disclosures – £10,000 for individuals' interests.

# Significant financial statements' risks

Significant risks are identified risks of material misstatement for which the assessment of inherent risk is close to the upper end of the spectrum of inherent risk or those which are to be treated as a significant risk in accordance with the requirements of other ISAs. The ISAs require us to focus more attention on these significant risks.

## Exhibit 1: significant financial statement risks

Significant risk	Our planned response
<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 [ISA 240.32-33].</p>	<p>The audit team will:</p> <ul style="list-style-type: none"><li>• test the appropriateness of journal entries and other adjustments made in preparing the financial statements;</li><li>• review accounting estimates for bias; and</li><li>• evaluate the rationale for any significant transactions outside the normal course of business.</li></ul>

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# Other areas of focus

I set out other identified risks of material misstatement which, whilst not determined to be significant risks as above, I would like to bring to your attention.

## Exhibit 2: other areas of focus

Audit risk	Our planned response
<p><b>Related Parties and Senior Officer Remuneration</b></p> <p>I judge some of the disclosures in the financial statements, such as related parties and the remuneration of senior officers, to be material by nature, and so apply a lower level of materiality. These disclosures are therefore inherently prone to material misstatement.</p>	<p>As for past audits, I will enhance my examination of all areas that I determine to be material by nature, to ensure that they are complete and accurate.</p>
<p><b>Valuation of pension fund net liability</b></p> <p>The Local Government Pension scheme (LGPS) pension fund liability as reflected in the financial statements represents a material estimate.</p> <p>The nature of this estimate means that it is subject to a high degree of estimation uncertainty as it is sensitive to small adjustments in the assumptions used in its calculation.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> <li>• evaluate the instructions issued by management to their management experts (the actuary) for this estimate and the scope of the actuary’s work;</li> <li>• assess the competence, capabilities and objectivity of the actuary who carried out the valuations;</li> <li>• assess the accuracy and completeness of the information provided by the Joint Committee to the actuary to estimate the liability;</li> <li>• test the accuracy of the pension fund net liability and disclosures in the financial statements with the actuarial report from the actuary; and</li> <li>• assess the reasonableness of the assumptions made by the actuary by reviewing the report of the consulting actuary (auditor’s expert) and undertaking any additional procedures required.</li> </ul>

My audit team is yet to conclude all areas of my risk assessment. Should any further significant financial risks arise on completion of this work, I shall update the Head of Finance and the Governance and Audit Committee Chair and re-issue my Detailed Audit Plan if required.

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# Financial statements' audit timetable

I set out below key dates for delivery of my accounts audit work and planned outputs.

## Exhibit 3: key dates for delivery of planned outputs

Planned output	Work undertaken	Report finalised
2023 Detailed Audit Plan	July – September 2023	September 2023
Audit of financial statements work: <ul style="list-style-type: none"><li>• Audit of Financial Statements Report</li><li>• Opinion on the Financial Statements</li></ul>	September – November 2023	November 2023

# Statutory audit functions

## Statutory audit functions

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.

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.

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# Fee and Audit Team

I have increased the baseline fee by 20%. The baseline fee has not been set at the correct level since the inception of the Joint Committee resulting in cost overruns which have historically been absorbed by Audit Wales. The revised baseline fee is £14,742.

In January 2023 I published the [fee scheme](#) for the 2023-24 year as approved by the Senedd Finance Committee. My fee rates for 2023-24 have increased by 4.8% for inflationary pressures. My financial audit fee has a further increase of 10.2% for the impact of the revised auditing standard ISA 315 on my financial audit approach. In addition, I have revised the baseline fee on the basis that it does not reflect the appropriate level of fee for the audit to be undertaken. More details upon the revised auditing standard and what it means for the audit I undertake is set out in **Appendix 1**.

I estimate your total audit fee will be **£16,953** (£12,285 for 2021-22). 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 Joint Committee.

## Our financial audit fee is based on the following assumptions:

- The agreed audit deliverables sets out the expected working paper requirements to support the financial statements and includes timescales and responsibilities.
- No matters of significance, other than as summarised in this plan, are identified during the audit.

The main members of my team are summarised in **Exhibit 6**.

### Exhibit 6: my local audit team

Name	Role	Contact number	E-mail address
Anthony Veale	Engagement Director	07896 271873	<a href="mailto:anthony.veale@audit.wales">anthony.veale@audit.wales</a>
Steve Wyndham	Audit Manager	02920 320664	<a href="mailto:steve.wyndham@audit.wales">steve.wyndham@audit.wales</a>
Anthony Ford	Audit lead	02920 829348	<a href="mailto:Anthony.ford@audit.wales">Anthony.ford@audit.wales</a>

I can confirm that my team members are all independent of the Vale of Glamorgan Council, the Joint Committee and officers.

# Audit quality

Our commitment to audit quality in Audit Wales is absolute. We believe that audit quality is about getting things right first time.

We use a three lines of assurance model to demonstrate how we achieve this. We have established an Audit Quality Committee to co-ordinate and oversee those arrangements. We subject our work to independent scrutiny by QAD\* and our Chair, acts as a link to our Board on audit quality. For more information see our [Audit Quality Report 2022](#).

## Our People



The first line of assurance is formed by our staff and management who are individually and collectively responsible for achieving the standards of audit quality to which we aspire.

- Selection of right team
- Use of specialists
- Supervisions and review

## Arrangements for achieving audit quality



The second line of assurance is formed by the policies, tools, learning & development, guidance, and leadership we provide to our staff to support them in achieving those standards of audit quality.

- Audit platform
- Ethics
- Guidance
- Culture
- Learning and development
- Leadership
- Technical support

## Independent assurance



The third line of assurance is formed by those activities that provide independent assurance over the effectiveness of the first two lines of assurance.

- EQCRs
- Themed reviews
- Cold reviews
- Root cause analysis
- Peer review
- Audit Quality Committee
- External monitoring

\* QAD is the quality monitoring arm of ICAEW.

# Appendix 1

## The key changes to ISA315 and the potential impact on your organisation

Key change	Potential impact on your organisation
<b>More detailed and extensive risk identification and assessment procedures</b>	<p>Your finance team and others in your organisation may receive a greater number of enquiries from our audit teams at the planning stage of the audit. Requests for information may include:</p> <ul style="list-style-type: none"><li>• information on your organisation’s business model and how it integrates the use of information technology (IT);</li><li>• information about your organisation’s risk assessment process and how your organisation monitors the system of internal control;</li><li>• more detailed information on how transactions are initiated, recorded, processed, and reported. This may include access to supporting documentation such as policy and procedure manuals; and</li><li>• more detailed discussions with your organisation to support the audit team’s assessment of inherent risk.</li></ul>
<b>Obtaining an enhanced understanding of your organisation’s environment, particularly in relation to IT</b>	<p>Your organisation may receive more enquiries to assist the audit team in understanding the IT environment. This may include information on:</p> <ul style="list-style-type: none"><li>• IT applications relevant to financial reporting;</li><li>• the supporting IT infrastructure (e.g. the network, databases);</li><li>• IT processes (e.g. managing program changes, IT operations); and</li><li>• the IT personnel involved in the IT processes.</li></ul> <p>Audit teams may need to test the general IT controls and this may require obtaining more detailed audit evidence on the operation of IT controls within your organisation.</p> <p>On some audits, our audit teams may involve IT audit specialists to assist with their work. Our IT auditors may need to engage with members of your IT team who have not previously been involved in the audit process.</p>

Key change	Potential impact on your organisation
<p><b>Enhanced requirements relating to exercising professional scepticism</b></p>	<p>Our audit teams may make additional inquiries if they identify information which appears to contradict what they have already learned in the audit.</p>
<p><b>Risk assessments are scalable depending on the nature and complexity of the audited body</b></p>	<p>The audit team's expectations regarding the formality of your organisation's policies, procedures, processes, and systems will depend on the complexity of your organisation.</p>
<p><b>Audit teams may make greater use of technology in the performance of their audit</b></p>	<p>Our audit teams may make use of automated tools and techniques such as data analytics when performing their audit. Our teams may request different information or information in a different format from previous audits so that they can perform their audit procedures.</p>

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