



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

2017 Audit Plan – Gwynedd Council

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Mae'r ddogfen hon hefyd ar gael yn Gymraeg. This document is also available in Welsh.

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2017 Audit Plan

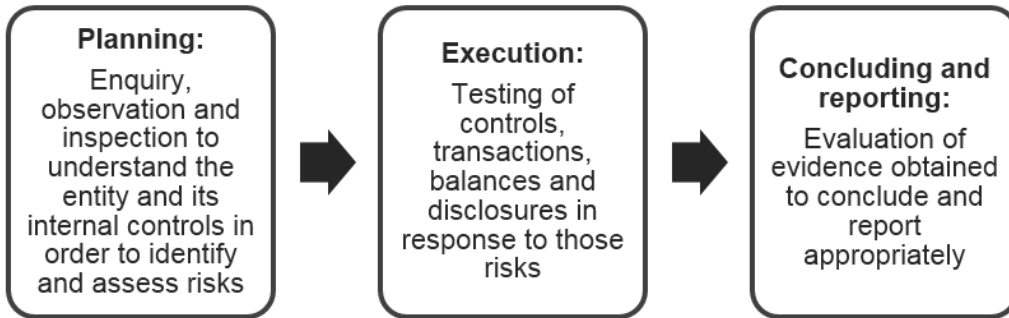
Summary

- 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.
- 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](#).

Audit of accounts

- 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 Gwynedd Council (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 [Appendix 1](#) sets out my responsibilities in full.
- 8 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



9 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 of controls</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 [ISA 240.31-33].</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • test the appropriateness of journal entries and other adjustments made in preparing the financial statements using enhanced data analytics to analyse the whole journal population for characteristics of interest; • perform design and implementation testing of controls over journal entries to the financial ledger; • review accounting estimates for biases; and • evaluate the rationale for any significant transactions outside the normal course of business.

Financial audit risk	Proposed audit response
<p>Completeness and recognition of grant income</p> <p>We have identified completeness and recognition of grant income as a significant risk as there is a need to apply management judgement on recognition of grant income, including determining whether a grant has conditions and whether they have been met to allow recognition. There are two types of grant income which we have considered to be relevant to this risk, these being specific revenue grants and capital grants and contributions.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • carry out detailed testing on a sample basis of grant income as the specific income risk to the financial statements to check that recognition of income properly reflects the grant scheme rules, that entitlement is in agreement with the draft or final grant claim and that the grant control account balance has been properly reconciled; • review correspondence attached to specific grants and test on a sample basis the Council's accounting treatment of the related expenditure; and • test the design and implementation of controls around recognition of grant income.
<p>Pension liability</p> <ul style="list-style-type: none"> • the Council currently holds a material net liability in respect of its pension obligations on the balance sheet, the calculation of which is based on a series of actuarial judgements and its calculation is sensitive to comparatively small changes in assumptions made about future changes in salaries, discount rates, mortality and other key variables. 	<p>My audit team will:</p> <ul style="list-style-type: none"> • obtain the IAS19 valuation as at 31 March 2017, and will engage experts to assist with our review of the appropriateness of the IAS19 valuation bases, assumptions and financial statement disclosures.

- 10 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.
- 11 For reporting purposes, we have determined an anticipated materiality of £4 million, based on forecast net expenditure of £200 million (as per the third-quarter Revenue Budget Monitoring Report). The materiality will be updated at the year-end in accordance with the year-end outturn of gross expenditure and we will update management and the Audit Committee of any changes. I will treat any misstatements below a 'trivial' level (the lower of 5% of materiality or £100,000) as not requiring consideration by those charged with governance and therefore I will not report them.

12 My fees are based on the following assumptions:

- information provided to support the financial statements is timely, to the quality expected and has 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;
- 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.

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.

Other work undertaken

13 I am also responsible for the audit of three joint committees for which the Council is the host authority; these are the GwE Joint Committee, the Special Educational Needs Joint Committee and the Joint Planning Policy Committee. In addition, I am responsible for the four harbours; these are Pwllheli, Barmouth, Porthmadog and Aberdyfi for which the Council is the harbour authority. I wish to draw your attention to the following risk area I have identified in relation to the GwE Joint Committees which are over and above those mandated by ISA 240.

Exhibit 3: financial audit risks

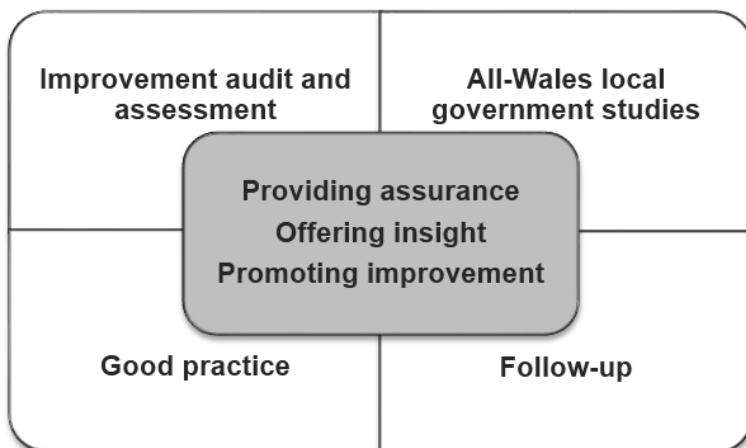
Financial audit risk	Proposed audit response
<p>GwE grant income and expenditure</p> <p>The committee receives significant grant funding, most of which is distributed to local authorities and schools. There is a risk that the financial statements inappropriately include or exclude this grant funding as the committee will need to make an assessment of whether it is acting as an agent or principal body.</p>	<p>My audit team will seek to understand the committee's recognition policy for grant income and expenditure which will include a review of whether the committee is acting as principal or agent. We will perform tests of detail to confirm whether recognition criteria have been met.</p>

- 14 There are no additional financial audit risks that I wish to draw to your attention in relation to the Special Educational Needs Joint Committee, the Joint Planning Policy Committee or the harbour authority.
- 15 My audit fee for this work is set out in [Exhibit 7](#).
- 16 You will be aware that the CIPFA/LASAAC Local Authority Accounting Code Board (Code Board) has deferred the planned move to measuring the local authority highways network asset at depreciated replacement cost. The Code Board will consider whether the central GRC rates and central assurance processes will be delivered in a timely manner to enable successful implementation in 2017-18 at its meeting in March 2017. The requirements will be introduced in the 2017-18 code.
- 17 Any required additional audit work in relation to the highways network asset cannot be contained within existing fees. The additional audit cost will be agreed based on the quality of the Council's systems and records and the availability of central assurances. I anticipate that the additional fees related to the highways network asset will be reflected in the audit fee for 2017-18.
- 18 It will, however, be important for authorities to maintain their momentum in preparing for this significant change and may wish to engage with their external auditor as they make progress. I will discuss with you the scope of any additional preparatory work required in 2017 and any additional audit fee for such work.

Performance audit

- 19 The components of my performance audit work are shown in [Exhibit 4](#).

Exhibit 4: components of my performance audit work



- 20 Local government in Wales is going through an unprecedented period of change. Austerity continues to bite, audited bodies will be required to adopt the principle of sustainable development from April 2016, and Local Government Reform remains under consideration.
- 21 For 2017-18 the Measure will still be in place, and I will still need to examine whether authorities will meet their duty to make arrangements for continuous improvement. The challenge for me in these uncertain times is to balance my existing, new and proposed statutory duties with the need to continue to undertake meaningful, risk-based and proportionate audits and assessments.
- 22 During 2016, I consulted with public service bodies on how I can best discharge my various duties whilst striking the most appropriate balance and adding value by:
- providing assurance on the governance and stewardship of public money and assets;
 - offering insight on the extent to which resources are used wisely in meeting people’s needs; and
 - identifying and promoting ways by which the provision of public services may be improved.
- 23 In addition to the annual programme of audit and assessment work, the Wales Audit Office also undertakes a programme of local government studies. This work is included within the Wales Audit Office estimates for funding from the Welsh Consolidated Fund and not local fees. **Exhibit 5** summarises the present position on the current programme of studies. These studies primarily lead to a national report augmented by good practice and shared learning outputs rather than by local reports. Local findings, where relevant, will be captured in improvement assessment work and reported in annual improvement reports depending on the timing and the focus of conclusions.

Exhibit 5: local government studies

Study	Status
2015-16 studies	
Community Safety	Published October 2016
Income Generation and Charging	Published November 2016
Council Funding of Third Sector Services	Published January 2017
2016-17 studies	
How Local Government Manages Demand	Fieldwork complete; report drafting
Strategic Commissioning	Fieldwork complete; report drafting
Improving Well-Being through Housing Adaptations	Fieldwork complete; report drafting

24 Taking all these factors into consideration, my 2017-18 programme of work will comprise:

Exhibit 6: performance audit programme

Performance audit programme	Brief description
Improvement audit and assessment work including: <ul style="list-style-type: none"> • improvement planning and reporting audit • follow-up of local and national proposals for improvement/recommendations • local risk-based projects – topic to be agreed and confirmed • Annual Improvement Report 	<ul style="list-style-type: none"> • basic certification of improvement plan and annual report • follow-up review of a sample of local and national proposals for improvement/recommendations • project briefs will be shared before the project work begins • summary of performance audit work undertaken in the year
Well-being of Future Generations (WFG) baseline assessment	The Year One Commentary: we will gather evidence on how the 44 bodies are beginning to respond to the requirements of the WFG Act and identify examples of notable emerging practice. The work will be designed to support improvement and inform future audit work under the act.
WFG Scrutiny review	This review will examine the impact of the WFG Act on the work of scrutiny committees, including public services board scrutiny, facilitating improvement and the sharing of good practice.
Service User Perspective review	Building on work undertaken on the Addressing Dependency and Demand Local Government Study, this project will test the service-user interface at all authorities. The review will evaluate what it feels like (as a member of the public) to deal with council services, involving a selection of services and scenarios.

25 The performance audit projects included in last year’s Audit Plan, which are either still underway or which have been substituted for alternative projects in agreement with you, are set out in [Appendix 3](#).

Fee, audit team and timetable

Fee

- 26 The Wales Audit Office does not generate profits on fees. Legislation requires that the fees charged may not exceed the full cost of exercising the function to which the fee relates. The fee rates are set at a level to recover that full cost. My fee rates have been held static for 2017 and my audit teams will continue to look for efficiencies in their audits and welcome working with you constructively on this.
- 27 Your estimated fee for 2017 is set out in [Exhibit 7](#).

Exhibit 7: audit fee

Audit area	Proposed fee (£) ¹	Actual fee last year (£)
Audit of accounts²	180,450	180,450
Performance audit work³	99,537	99,198
Other audit work:		
GwE Joint Committee	11,000	7,590
Special Education Needs Joint Committee	1,000	920
Joint Planning Policy Committee	1,000	920
Harbour authorities	700	650
Total other audit work	13,700	10,080
Grant certification work⁴	125,000	110,000–125,000

Notes:

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

² Payable November 2016 to October 2017.

³ Payable April 2017 to March 2018.

⁴ Payable as work is undertaken.

- 28 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.
- 29 Further information on my [fee scales and fee setting](#) can be found on the Wales Audit Office website.

Audit team

30 The main members of my team, together with their contact details, are summarised in [Exhibit 8](#).

Exhibit 8: my team

Name	Role	Contact number	E-mail address
Ian Howse	Engagement Lead – Financial Audit	02920 264319	ihowse@deloitte.co.uk
Clare Edge	Financial Audit Manager	07708936807	cedge@deloitte.co.uk
Derwyn Owen	Engagement Director	02920 320651	derwyn.owen@audit.wales
Jeremy Evans	Performance Audit Manager	07825 052861	jeremy.evans@audit.wales
Paul Goodlad	Performance Audit Lead	07854 108620	paul.goodlad@audit.wales

31 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

32 I will provide reports, or other outputs as agreed, to the Council covering the areas of work identified in this document. My key milestones are set out in [Exhibit 9](#).

Exhibit 9: timetable

Planned output	Work undertaken	Report finalised
2017 Audit Plan	March to April 2017	June 2017
Financial accounts work: <ul style="list-style-type: none"> Audit of Financial Statements Report Opinion on Financial Statements Financial Accounts Memorandum 	July to September 2017	September 2017
Performance work: <ul style="list-style-type: none"> Improvement Plan Certificate Performance Report Certificate 	(Estimated) March 2017 October 2017	(Estimated)* Issued April 2017 October 2017
Local risk-based audit	July to November	March 2018
Follow-up of local and national proposals for improvement	June to November	December 2017
Annual Improvement Report	January to February 2018	March 2018
Service User Perspective review	July to December	March 2018

Planned output	Work undertaken	Report finalised
WFG Scrutiny review	July to December	N/A
WFG: baseline assessment	September 17 to February 2018	N/A

* Subject to timely clearance of draft findings with the Council.

Future developments to my audit work

Well-being of Future Generations (Wales) Act 2015

33 The Well-being of Future Generations (Wales) Act 2015 (the Act) became law in April 2015. The Act requires me to report before the next National Assembly election on how public bodies are acting in accordance with the sustainable development principle when setting their well-being objectives and taking steps to meet them. In 2017, I will conduct my first work under the Act – the Year One Commentary – to understand how bodies are beginning to respond to the requirements. I will also work collaboratively with a small number of public bodies, including the central government sector, to develop an audit approach that is meaningful and proportionate and can be adopted in subsequent years.

Other

- 34 Details of other future developments including changes to key IFRS and of the Wales Audit Office's Good Practice Exchange (GPX) seminars are set out in [Appendix 4](#).
- 35 The Wales Audit Office's GPX programme seeks to support the improvement of public services across Wales by identifying and sharing good practice. The GPX seminars bring a range of public sector bodies together to share their practical experiences and learning in areas we consider would benefit from sharing good practice. The seminars are provided free of charge to delegates. Forthcoming events include:
- The Challenges Posed by Indirectly Provided, Publicly Funded Services in Wales
 - How you Manage Risk Around Organisation Change, Service Transformation and Innovation
 - Measuring Outcomes: Who's Doing it and How (linked to the Well-Being of Future Generations Act)

Appendix 1

Respective responsibilities

Audit of accounts

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 Gwynedd Council (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's 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. The Auditor General must also carry out an audit of whether the authority has discharged its improvement planning and reporting duties.

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

Appendix 2

Performance work in last year's audit outline still in progress

Performance audit project	Status	Comment
Aligning the Levers of Change (formerly referred to as Transformation)	Focus of work agreed and workshop planning underway	Workshop delivery will be completed June – July 2017

Appendix 3

National value-for-money studies

Gwynedd 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 supported by funds approved by the National Assembly. Reports are presented to the National Assembly's Public Accounts Committee to support its scrutiny of public expenditure and potentially support scrutiny by other National Assembly committees.

The table below covers all of the value-for-money studies work currently programmed. 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. In addition to the work outlined below, I may decide during the year to prepare other national reports summarising local audit work or based on the findings of reactive examinations.

I am also currently consulting with the Public Accounts Committee and other stakeholders about the inclusion in my programme of a number of new value-for-money studies to be rolled out during 2017-18. For example, I have already indicated to the committee that, following my July 2016 report on the Welsh Government's funding of Kancoat Ltd, I am considering a broader examination of the Welsh Government's support for business.

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 (as at 6 April 2017)
Emergency ambulance services commissioning	Publication pending
Public procurement landscape review	July 2017
Waste management (waste prevention)	July 2017
Waste management (municipal recycling) ²	July 2017
Implementation of the NHS Finances (Wales) Act 2014 (integrated medium-term planning)	July 2017
Supporting People programme	July 2017
NHS Wales informatics services	July 2017
Access to public services with the support of specialist interpretation and translation	August to October 2017
Preparations for the implementation of fiscal devolution in Wales follow-on report	October 2017

² In addition to the work on waste prevention and municipal recycling, I will be taking forward a review of waste treatment infrastructure in early 2017.

Topic	Anticipated publication (as at 6 April 2017)
Early intervention and behaviour change	TBC ³

³ My programme of good practice work has included a project exploring behaviour change work across Welsh public services and opportunities to improve practice, deliver better outcomes for citizens, and achieve better value for money. I still anticipate that the information and evidence gathered through this work will support the production of a report on this topic, although this is unlikely to be a traditional audit report and plans for its production are still to be confirmed.

Appendix 4

Other future developments

Forthcoming key IFRS changes

Standard	Effective date	Further details
IFRS 9 Financial instruments	2018-19	IFRS 9 financial instruments will replace IAS 39 and includes a new principles-based approach for the classification and measurement of financial assets. It also introduces a new impairment methodology for financial assets based on an expected losses rather than incurred losses. This will result in earlier and more timely recognition of expected credit losses. The accounting requirements for financial liabilities are almost all carried forward unchanged from IAS 39.
IFRS 15 Revenue from contracts with customers	2018-19	IFRS 15 Revenue from contracts with customers introduces a principles-based five-step model for recognising revenue arising from contracts with customers. It is based on a core principle requiring revenue recognition to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration the body expects to be entitled to, in exchange for those goods or services. It will also require more extensive disclosures than are currently required.
IFRS 16 Leases	2019-20	IFRS 16 will replace the current leases standard IAS 17. The key change is that it largely removes the distinction between operating and finance leases for lessees by introducing a single lessee accounting model that requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. It will lead to all leases being recognised on balance sheet as an asset based on a 'right of use' principle with a corresponding liability for future rentals. This is a significant change in lessee accounting.

Good Practice Exchange

The Wales Audit Office's GPX helps public services improve by sharing knowledge and practices that work. Events are held where knowledge can be exchanged face-to-face and resources shared online.

The focus of GPX events include financial management, public sector staff and governance.

Further information, including details of forthcoming GPX events and outputs from past seminars, can be found on the [GPX section of the Wales Audit Office website](#).

Registration for all events will open two months prior to the event.

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