



## 2016 Audit Plan

# Isle of Anglesey County Council

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# Status of document

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# 2016 Audit Plan

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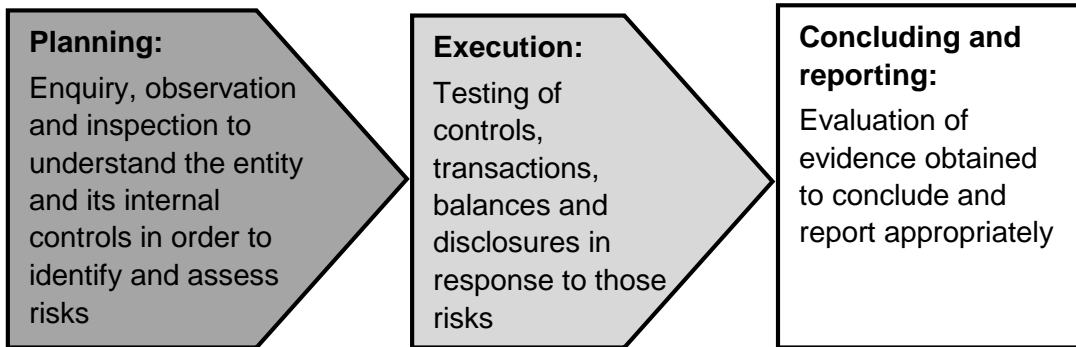
## Summary

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](#).

## 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 Isle of Anglesey County 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 in relation to the Council audit 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><b>Management override of controls</b></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"> <li>• 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;</li> <li>• perform the design and implementation testing of controls over journal entries to the financial ledger;</li> <li>• test the appropriateness of accounting estimates for biases; and</li> <li>• evaluate the rationale for any significant transactions outside the normal course of business including those with related parties.</li> </ul>

Financial audit risk	Proposed audit response
<p><b>Completeness and recognition of grant income</b></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.</p> <p>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"> <li>• carry out detailed testing 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;</li> <li>• review and validate correspondence attached to specific grants and compare to the Council's accounting treatment; and</li> <li>• test the design and implementation of controls around recognition of grant income.</li> </ul>
<p><b>Pension liability</b></p> <p>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.</p> <p>We identified errors in the census data underlying the net pension liability figure in the Council's accounts in 2012-13, 2013-14 and 2014-15 where the Council did not provide the Gwynedd Pension Fund with sufficient information regarding employee movements and role changes on a timely basis.</p> <p>There is a risk that membership data provided to the actuary for use in the preparation of the annual disclosures under International Accounting Standard 19 (Employee Benefits), is not sufficiently robust. However, we note that no issue was reported with regards to the overall liability disclosed in the statement of accounts.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> <li>• obtain the IAS19 valuation as at 31 March 2016, and will engage experts to assist with our review and testing of the appropriateness of the IAS19 valuation bases, assumptions and financial statement disclosures; and</li> <li>• understand and corroborate the exercise undertaken by Council staff to review the accuracy of the data provided to the actuary and consider whether we can obtain assurance over its accuracy and completeness.</li> </ul>
<p><b>Housing Revenue Account Subsidy (HRAS) buy out</b></p> <p>The HRAS system was originally established to enable the UK Government to determine the amounts needed by local housing authorities for their housing properties and to identify whether they required subsidy support from central government.</p> <p>The annual subsidy is driven by a formula and if spending was greater than assumed income, the UK Government paid subsidy to make up the deficit. If spending was less, the local housing authority paid the surplus to the UK</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> <li>• review the enabling legislation passed by the Welsh Government;</li> <li>• obtain proof of consideration and approval of the buyout by the Council and the Executive;</li> <li>• obtain the signed HRAS voluntary agreement between the Council and the Welsh Government;</li> <li>• obtain the signed PWLB loan agreement; and</li> </ul>

Financial audit risk	Proposed audit response
<p>Government, known as negative subsidy. Over time, the formula has resulted in all 11 local housing authorities in Wales paying negative subsidy.</p> <p>A financial agreement was reached, between the Welsh Ministers and Her Majesty's Treasury in June 2013, which enabled local housing authorities in Wales to exit the HRAS. As part of the agreement, the 11 local housing authorities were required to buy themselves out of the subsidy system.</p> <p>The Council borrowed circa £21.2 million from the Public Works Loan Board (PWLB) on 2 April 2015 with a loan maturity of 30 years, which was used to pay off the government and eliminate the negative subsidies. The Council had to produce a 30-year plan before the buy-out and this is required to be updated every year.</p>	<ul style="list-style-type: none"> <li>test the appropriateness of all related accounting entries to ensure they are in accordance with the CIPFA code of practice on local authority accounting and that the related disclosures in the statement of accounts are correct.</li> </ul>

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 £3.2 million, based on forecast net expenditure of £204.9 million (as per the third quarter Finance and Capital Monitoring Report). The materiality will be updated at the year-end in accordance with the year-end out-turn 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 five per cent of materiality or £100,000) as not requiring consideration by those charged with governance and therefore I will not report them. 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;
  - 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.

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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.

## Certification of grant claims and returns

13. I have been requested to undertake certification work on the Council's grant claims and returns. My audit fee for this work is set out in [Exhibit 5](#).

## Performance audit

14. The components of my performance audit work are shown in [Exhibit 3](#) and have been designed in order to help deliver the high-level objectives set out in our [2013-2016 corporate strategy](#).

Exhibit 3: Components of my performance audit work





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- 15.** 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 the draft Local Government (Wales) Bill proposes fewer councils and a renewed performance framework. The Minister for Public Services has publicly stated that he would like to see a refreshed audit regime in advance of the legislative timetable with a view to supporting change. In January this year the minister advised me of a substantial reduction in the grant that subsidises my local government performance audit work under the Measure.
  - 16.** I have taken into consideration that the Local Government (Wales) Measure 2009 will be extant, and that councils will be under an obligation to adopt the sustainable development principle from April 2016, as set out in the Well-being of Future Generations (Wales) Act 2015 (WFG Act).
  - 17.** Whilst the Local Government (Wales) Measure 2009 continues to apply to councils in 2016-17, I will still need to satisfy audit requirements under section 17. I will do this through a basic audit check of local authority publications and will provide a certificate of compliance.
  - 18.** However, as the draft Local Government (Wales) Bill proposes that the 2009 Measure will no longer apply to councils, 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. Therefore, I intend to minimise work that focusses on the process of improvement planning in favour of work that focusses on councils' capacity and capability to effect change whilst maintaining good governance.
  - 19.** In terms of my section 18 assessment requirements, I will discharge this by undertaking three thematic reviews at all councils with the aim of providing assurance and insight as to where arrangements can support improvement and change, taking into account the requirements of the WFG Act. In addition to reporting to each council on their own arrangements, I will also publish national summary reports, funded by the WPI grant that will provide all-Wales overviews and signpost good practice and shared learning. As well as responding to the fast-changing environment for local government, my choice of thematic reviews has been influenced by responses to my local government studies consultation. In brief, the three thematic reviews that I have decided upon are as follows, and I will provide councils with a detailed project brief in due course.

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#### Exhibit 4: Performance audit themed reviews

Theme	
<b>Financial resilience review</b>	Councils are continuing to deal with austerity and an uncertain future. This review will seek to provide assurance that arrangements are focused on maintaining resilience over the medium to long term.
<b>Governance review</b>	With the introduction of CIPFA's revised framework for <b>Delivering good governance in local government</b> , and the requirement for councils to adopt the sustainable development principle from April 2016, this review will provide councils with a baseline from which to plan improvements to governance.
<b>Transformation review</b>	This baseline review will examine how councils are approaching 'transformational change'; in particular, how key corporate enabler functions work in an integrated way to support change programmes.

20. I intend to leave some headroom within the fee structure for agreeing local risk-based work following discussion with each council. As each of the thematic reviews will result in a local report, annual reporting will be by means of an annual letter providing summary highlights and linking to local reports.
21. In March 2016 I will be engaging in a consultation 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.
22. 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 2](#).

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## Fee, audit team and timetable

### Fee

23. 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 2016 and my audit teams will continue to look for efficiencies in their audits whilst maintaining audit quality and welcome working with you constructively on this.
24. Your estimated fee for 2016 is set out in [Exhibit 5](#). This figure represents no change compared to the fee set out in the 2015 annual audit plan.

#### Exhibit 5: Audit fee

Audit area	Proposed fee (£) <sup>1</sup>	Actual fee last year (£)
<b>Financial audit work<sup>1</sup></b>	<b>£193,000</b>	<b>£193,000</b>
<b>Performance audit work:<sup>2</sup></b>		
• Improvement audit and assessment work and follow-up	£101,472	£113,715
<b>Total fee</b>	<b>£294,472</b>	<b>£306,715</b>
<b>Grant certification work<sup>3</sup></b>	<b>£135,000</b>	<b>£135,000</b>

Notes:

<sup>1</sup> Payable November 2015 to October 2016.

<sup>2</sup> Payable April 2016 to March 2017.

<sup>3</sup> Payable as work is undertaken and subject to the level of testing required.

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.

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

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## Audit team

27. The main members of my team, together with their contact details, are summarised in Exhibit 6.

### Exhibit 6: My team

Name	Role	Contact number	E-mail address
Ian Howse	Engagement Lead – Financial Audit	029 2026 4319	ihowse@deloitte.co.uk
Clare Edge	Financial Audit Manager	029 2026 4341	cedge@deloitte.co.uk
Derwyn Owen	Engagement Director	029 2032 0651	derwyn.owen@audit.wales
Jane Holownia	Engagement Lead – Performance Audit	029 2032 0565	jane.holownia@audit.wales
Andy Bruce	Performance Audit Manager	079 1916 4779	andy.bruce@audit.wales
Gwilym Bury	Performance Audit Lead	078 1356 4432	gwilym.bury@audit.wales

28. 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

29. 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 7.

## Exhibit 7: Timetable

Planned output	Work undertaken	Report finalised
<b>2016 Audit Plan</b>	March – April 2016	May 2016
<b>Financial accounts work:</b> <ul style="list-style-type: none"> <li>Audit of Financial Statements Report</li> <li>Opinion on Financial Statements</li> </ul>	June – Sept 2016	Sept 2016
<b>Performance work:</b> <ul style="list-style-type: none"> <li>Improvement Plan audit</li> <li>Annual Performance Report audit</li> <li>Local performance work</li> <li>Themed studies: <ul style="list-style-type: none"> <li>Financial Resilience Review</li> <li>Governance Review</li> <li>Transformation Review</li> </ul> </li> <li>Annual Improvement Letter</li> </ul>	On publication of the plan  Nov 2016  May 2016 to March 2017  June to Dec 2016 Sept to Dec 2016 Dec 2016 to Feb 2017  Summary of work undertaken	Six weeks after publication  Six weeks after publication  On completion of the projects in consultation with the Council  March 2017 March 2017 March 2017  March 2017
2017 Audit Plan	Oct – Dec 2017	March 2017

## Future developments to my audit work

30. The Well-being of Future Generations (Wales) Act 2015 (the Act) requires me to have undertaken an examination in each of the public bodies specified within the Act and to have provided a report to the National Assembly, by 2020.
31. As referred to in [paragraph 21](#), I will be consulting on my proposed response to the Act in spring 2016. This consultation will feature a commitment to engage and work collaboratively with public bodies in developing an audit approach which is rigorous, meaningful and proportionate. I propose using 2016-17 as a transition year during which my teams work with a limited number of public bodies to develop and test my approach.
32. As we confirm our audit approaches and respond to continuing consultation from the Welsh Government, we will be talking to audited bodies about the implications for their fees from 2017-18 onwards and will be exploring alternative funding models with the next National Assembly's Finance Committee.

# Appendix 1

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## 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.

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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. 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

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

Performance audit project	Status	Comment
The strategic approach of councils to income generation and charging for services	Fieldwork completed	National report to be published summer 2016
The effectiveness of local community partnerships	Fieldwork completed and national report being drafted	National report to be published summer 2016
Council funding of third sector services	Fieldwork started but not completed on all sites	National report to be published summer 2016
Local review on absence management	Draft report issued to Council during spring 2016	Local report to be published spring 2016



# Appendix 3

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## National value-for-money studies

The 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. 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.

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
Welsh Government acquisition and ownership of Cardiff Airport	Late January 2016
The development of Natural Resources Wales	Early February 2016
Operating theatres	February 2016
Impact of private practice on NHS provision	February 2016
Wales Life Sciences Investment Fund	March 2016
Welsh Government responses to audit recommendations (memorandum for the Public Accounts Committee)	Spring 2016
Coastal flood and erosion risk management	Spring 2016
Rail services	Spring 2016
Governance of the National Library of Wales	Spring 2016
Welsh Government oversight of further education institutions' finances and delivery	Autumn 2016
Public procurement (including development of the National Procurement Service)	Winter 2016

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Topic	Anticipated publication timeframe
Early intervention and behaviour change	Spring/summer 2017 <sup>2</sup>
Welsh Government interventions in local government	TBC <sup>3</sup>

I have been considering over recent months the inclusion in my programme of a number of new studies on:

- The NHS Wales Informatics Service
- Capital investment in schools (21st Century schools programme) and school places
- Further education finances
- Waste management
- The Supporting People programme
- Access to public services for people whose first language may not be English or Welsh and those who may be disadvantaged without access to specialist interpretation services

With the exception of the further education study, referred to in the table above, firm plans for these new studies are yet to be confirmed, although initial scoping work is underway.

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<sup>2</sup> My programme of good practice work includes a project that will aim to explore the range of behaviour change work across Welsh public services and opportunities to improve practice, deliver better outcomes for citizens, and achieve better value for money. The project will include a range of engagement events and the development of a community of practice to share learning and experience. I 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 it would not be prepared until the first half of 2017.

<sup>3</sup> Plans for this work have been under review in light of the Welsh Government commissioned review of the Anglesey intervention by the Public Policy Institute for Wales, and also to consider the implications for the work of plans for local government reform.



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