



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

Annual Financial Audit Outline

Isle of Anglesey County Council

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This document was produced by PwC on behalf of Anthony Barrett, the Appointed Auditor.

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Annual Financial Audit Outline

Roles and responsibilities

1. This Annual Financial Audit Outline has been prepared to meet the requirements of auditing standards and proper audit practices. It provides the Isle of Anglesey County Council (the Authority) with an outline of the financial audit work required for the 2012-13 financial statements.
2. Under the provisions of the Public Audit (Wales) Act 2004, the Auditor General is responsible for appointing external auditors (appointed auditors) to local government bodies.
3. As Appointed Auditor, I am required by the Public Audit (Wales) Act 2004 to examine and certify the accounts of the Authority. In accordance with professional standards that apply by virtue of the Code of Audit Practice set under the act, this involves giving an opinion on whether the accounts give a true and fair view of the Authority's financial position and of its income and expenditure for the year. The act also requires me to satisfy myself of these things:
 - that the accounts are prepared in accordance with regulations under section 39 of the act (the Accounts and Audit (Wales) Regulations 2005);
 - that the accounts comply with the requirements of all other statutory provisions applicable to them;
 - that proper practices have been observed in the compilation of the accounts; and
 - that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
4. I am also required to certify that the audit has been completed in accordance with the Public Audit (Wales) Act 2004.
5. The audit does not relieve the Authority of its responsibility to:
 - establish systems of internal control to ensure the regularity and lawfulness of transactions and to ensure that its assets are secure;
 - maintain proper accounting records;
 - prepare a Statement of Accounts in accordance with relevant requirements; and
 - establish and keep under review appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources.
6. The Public Audit (Wales) Act 2004 sets out the rights of the public and electors to inspect the Authority'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.
7. The key elements of the audit are set out in [Appendix 1](#).
8. A separate document, *the Auditor General's Regulatory Programme for Performance Audit*, will be issued setting out the work to be delivered by the Auditor General under the Local Government (Wales) Measure 2009.

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9. The Auditor General is required to certify certain grant claims and returns. The Appointed Auditor, acting as an agent of the Auditor General, undertakes the audit work relating to those claims and returns.

The audit approach

The audit team

10. Information regarding the financial audit team is provided in [Appendix 2](#).

Audit of financial statements

11. I understand that internal controls are designed, implemented and maintained by the Authority to address identified business risks that threaten the achievement of an audited body's objectives regarding:
- the reliability of its financial reporting;
 - the effectiveness and efficiency of its operations; and
 - its compliance with applicable laws and regulations.
12. I will:
- assess the effectiveness of high-level internal controls and key system-level internal controls in preventing and detecting material errors in the accounting statements;
 - assess the effectiveness of Internal Audit;
 - review and seek to place reliance upon work undertaken by Internal Audit, as appropriate; and
 - develop substantive procedures to respond to risks of material misstatement in the accounting statements.
13. I do not seek to obtain absolute assurance that the financial statements and related notes are true and fair, but adopt the concept of materiality. Therefore in planning and conducting the audit, I seek to identify material misstatements in the accounting statements and related notes, that is, those that might result in a reader of the accounts being misled.
14. The levels at which I judge such misstatements to be material will be reported in my report to the Audit Committee prior to completion of the audit.

Risks of material misstatement in the accounting statements

15. **Exhibit 1** provides information regarding the main operational and financial risks faced by the Authority that could affect my audit. These are the main risks that I have identified during the initial audit planning process, based upon information currently available, and the actions proposed to address them. I may need to change the audit plan if any new risks emerge. I will not make any changes to the audit plan without first discussing them with officers and, where relevant, those charged with governance.

Exhibit 1: Summary of main audit risks and proposed responses

Significant risks	Action proposed
Financial statements risks	
<p>Revenue and expenditure recognition</p> <ul style="list-style-type: none"> There is a risk that the Council could adopt accounting policies or treat income and expenditure transactions in such a way as to lead to material misstatement in the Comprehensive Income & Expenditure Statement. 	<ul style="list-style-type: none"> We will understand and evaluate the controls in place to mitigate this risk and: <ul style="list-style-type: none"> test key controls to confirm they are operating effectively. test key reconciliations. test non-standard income and expenditure to ensure that it is appropriately included in the accounts. test that transactions that occur around year-end are appropriately classified within the financial year to which they relate. We will consider the accounting policies adopted by the Council and subject income and expenditure to the appropriate level of testing to identify any material misstatement.
<p>Management override of controls</p> <ul style="list-style-type: none"> In any organisation, management may be in a position to override the financial controls that you have in place. A breach of controls of this nature may result in a material misstatement. 	<ul style="list-style-type: none"> We will understand and evaluate internal control processes and procedures as part of our planning work and will seek to place reliance on internal audit work on key controls and/or perform testing of relevant controls as part of the audit visit. We will review the appropriateness of journals processed during the year. We will also look carefully at any management estimations and consider if they are subject to bias. We will design and perform procedures in relation to the business rationale for

	<p>significant transactions.</p> <ul style="list-style-type: none"> Our audit procedures are also planned to include an unpredictable element that varies year on year.
<p>Management's estimates</p> <ul style="list-style-type: none"> There are a number of management estimates in the financial statements that, given their judgmental nature, may be materially misstated. These may include the Equal Pay / Single Status provision, general provisions such as for bad debts, holiday pay accruals, or the Penhesgyn provision. <p>We have previously proposed adjustments in respect of the Penhesgyn and Equal Pay / Single Status provisions approaching our materiality threshold, and there is therefore a risk that any such adjustments proposed in future could be material.</p>	<ul style="list-style-type: none"> We will work with management to prioritise the audit work on the key judgement areas to ensure that any issues arising are considered as early as possible.

Elevated risks	Action proposed
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Control environment risks	
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<p>Accounts preparation</p> <ul style="list-style-type: none"> Difficulties in filling positions permanently in the Finance Team had an adverse effect on the Council's accounts production process in 2009/10 and 2010/11. Experienced interim staff were successful in meeting all deadlines in 2011/12. Some key accounting roles continue to be undertaken by interim staff but the position of s151 officer has now been substantively filled. It is essential that the performance of 2011/12 is continued and that sufficient and appropriate resources are dedicated to the production of the statutory accounts in accordance with required timetables. 	<ul style="list-style-type: none"> We will work closely with management in order to monitor the progress made in the preparation and production of the 2012/13 accounts. We will report to the Audit Committee on our views regarding the Council's arrangements for producing the 2012/13 accounts. We will liaise with management throughout the accounts and audit process and report any issues arising regarding the quality and timeliness of the accounts and underlying evidence to the Corporate Director (Finance) and Audit Committee.
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Financial systems risks	
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Property, plant and equipment	We will consider the Council's proposed approach to assessing and justifying
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<ul style="list-style-type: none"> The Council is required to ensure that its PPE held on the Balance Sheet is valued sufficiently regularly to ensure that the carrying amount is not materially different to the fair value of these assets at the year end. <p>We have previously identified audit adjustments around assets not formally valued in year which have not been adjusted on the basis of immateriality. There is a risk that any such adjustments proposed in future could be material.</p>	<p>valuation of its PPE at 31 March 2013 and consider whether it is sufficient and appropriate.</p>
<p>New housing rent and general ledger system</p> <ul style="list-style-type: none"> The Council implemented a new housing rent system in November 2012, and will be implementing a new general ledger system in April 2013. There is a risk that the transition process may give rise to potential issues, such as data transfer being inaccurate or incomplete. 	<p>The Council's internal auditors have reviewed the transfer process from the old housing rent system to the new and have tested the accuracy of records transferred, noting no issues. They intend to undertake a similar process on the transfer to the new general ledger system in April.</p> <p>We will review and seek to place reliance on the work undertaken by the Council's internal auditors in respect of the transfers to new systems.</p>

Use of resources

16. To discharge my responsibilities regarding the arrangements that the Authority has established to secure economy, efficiency and effectiveness in its use of resources, I shall place reliance upon:
- the results of the audit work undertaken on the financial statements;
 - the Authority's system of internal control, as reported in the Annual Governance Statement and my report thereon;
 - the results of work carried out by the Auditor General, including work carried out under the Local Government (Wales) Measure 2009, 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.

Reporting

17. The Code of Audit Practice issued by the Auditor General requires appointed auditors to comply with relevant auditing and ethical standards. These standards require formal reporting at various stages during the audit to those charged with governance.
18. In particular, auditors must report:
 - relationships that may affect the auditor's independence;
 - audit planning information; and
 - certain matters to those charged with governance (as distinct from management) before they give an opinion on the financial statements.
19. **Appendix 1** highlights the key elements of the audit engagement at the Authority, and I confirm that there are no known threats to my independence as Appointed Auditor or on the independence of staff or contractors working for me.
20. This document provides information regarding the planning of the audit.
21. I will submit reports to the Audit Committee, and where necessary, to the Cabinet/Council in a timely manner.
22. I will provide other reports or output as agreed. The key milestones are set out in **Exhibit 2**.

Exhibit 2: Key milestones

Planned output	Planned start date	Report finalised
Annual Financial Audit Outline	January 2013	February 2013
Audit of Financial Statements (ISA260) Report	September 2013	September 2013
Audit Opinion on the 2012-13 Financial Statements	September 2013	September 2013
Annual Audit Letter	November 2013	November 2013

Audit fee

23. The proposed fee for 2012-13 financial audit work is set at £155,000. The fee (plus VAT) will be charged in equal instalments between November 2012 and October 2013.
24. In previous years, there have been few formal objections to the Authority's financial statements. However, I do receive a number of queries and items of correspondence from members of the public and other interested parties. A small amount of time has been included within the fee to deal with minor queries, as part of the overall management of the audit.

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- 25.** Any detailed investigations or other work required to respond to queries and objections will result in an additional fee. Any such additional fee will be charged at daily rates based on the specific grade or skill mix required for the work, but will be discussed with the Authority, prior to undertaking the work.
 - 26.** The Auditor General is required to recover, in respect of each grant or return, an amount that covers the full cost of the relevant work undertaken. Grant and return certification work is charged on a daily basis in line with the skill-related fee scales set out in the Auditor General's local government fees letter. The fees will reflect the size, complexity and particular issues relating to the specific grants.
 - 27.** Although grant certification work fluctuates from year to year, based on past experience and initial indications of changes in grant schemes and conditions, I estimate that the total fee for grant work will be in the range of £120,000 to £140,000.

Appendix 1

Key elements of the audit engagement

Key elements	Requirements	Position at the Authority
Engagement activities		
Terms of the audit engagement	The Public Audit (Wales) Act 2004 sets out responsibility for appointment of local government external auditors in Wales.	Roles and responsibilities of appointed auditors are outlined above and in this appendix. The full Statement of Responsibilities can be found at: http://www.wao.gov.uk/assets/english_documents/statement_of_responsibilities_of_auditors_eng.pdf
Appointment of auditors and engagement leads	It is the Auditor General's responsibility to appoint local government external auditors and to assign responsibility for each engagement to an engagement lead.	Details of the Appointed Auditor and the Engagement Lead are provided in Appendix 2 of this document.
Discretionary work by agreement	The Auditor General has set out clear criteria for approval of any discretionary work requested by audited bodies.	No discretionary agreement work has been requested or is proposed.
Ethical considerations		
Independence	Appointed auditors are required to consider the following: <ul style="list-style-type: none"> • threats to auditor independence (including litigation); • family and other personal relationships; • long association with the audited body (see Wales Audit Office rotation of audits policy); and • contentious or difficult issues. 	I can confirm that there are no known threats to my independence as the Appointed Auditor or to the independence of staff or contractors working for me, and I have complied with the Wales Audit Office rotation policy.
Engagement performance	Engagement leads need to consider what level of quality assurance and review levels are appropriate.	Wales Audit Office quality control review mechanisms are in place for the audit, and the Engagement Lead has established appropriate review levels based on the experience of the staff undertaking the audit work.

Appendix 2

Financial audit team

Name	Role	Contact tel #	E-mail address
Anthony Barrett	Appointed Auditor	029 2032 0500 / 012 4452 5970	anthony.barrett@wao.gov.uk
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