



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

# Annual Financial Audit Outline

## **Isle of Anglesey County Council**

**Audit year:** 2013/14

**Issued:** April 2014

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# Status of document

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This document has been prepared for the internal use of Isle of Anglesey County Council as part of work performed/to be performed in accordance with statutory functions, the Code of Audit Practice and the Statement of Responsibilities issued by the Auditor General for Wales.

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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

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## Introduction

1. This Annual Financial Audit Outline has been prepared by PricewaterhouseCoopers LLP on behalf of Anthony Barrett, the Appointed Auditor.
2. As your external auditor my objective is to carry out an audit which discharges my statutory duties as Appointed Auditor and fulfils my obligations under the Code of Audit Practice, namely to:
  - examine and certify whether your financial statements are ‘true and fair’; and
  - assess whether you have made proper arrangements for securing economy, efficiency and effectiveness in the use of resources.
3. The purpose of this outline is to explain to you:
  - My audit team’s approach to:
    - the audit of your financial statements for the year ending 31 March 2014 including the significant risks of material misstatement in your financial statements and how we plan to address them; and
    - the assessment of your arrangements for securing economy, efficiency and effectiveness in the use of resources.
  - The planned timetable, fees and audit team.
  - The scope of the audit, our respective responsibilities and how we ensure independence and objectivity in our work.
4. There have been no limitations imposed on me in planning the scope of this audit.

## Financial statements audit

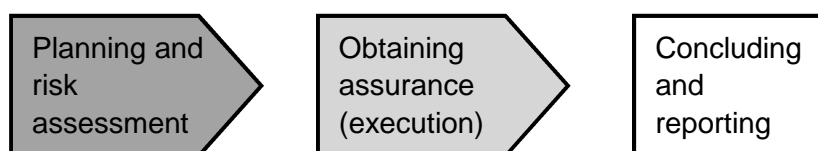
5. It is my responsibility to issue a report on the financial statements which includes an opinion on:
  - Whether or not the accounts give a ‘true and fair view’ of the Isle of Anglesey County Council’s (the Council) financial outturn and position. This provides assurance that the accounts:
    - are free from material misstatement, whether caused by fraud or error;
    - comply with statutory and other applicable requirements; and
    - comply with all relevant requirements for accounting presentation and disclosure.
  - The consistency of information in the Explanatory Foreword with the financial statements.
6. My report must also state by exception if the Annual Governance Statement for 2013-14 does not comply with requirements.

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## Audit approach

7. My team's audit work uses a range of techniques to assess risk and obtain audit evidence and assurance and is based on a thorough understanding of your business. This understanding allows my team to develop an audit approach which focuses on addressing specific risks whilst providing assurance for the financial statements as a whole. Our audit approach consists of three phases as set out in [Exhibit 1](#).

### Exhibit 1: Our audit approach



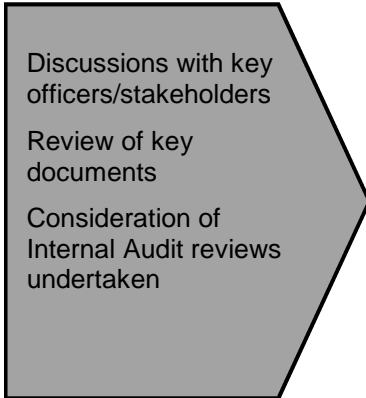
8. The work undertaken in each of these three areas is set out in more detail in [Exhibit 2](#).
9. I do not seek to obtain absolute assurance that the financial statements and related notes are true and fair, but adopt a concept of materiality. In planning and executing the audit, we aim to identify material misstatements in the financial statements and related notes, 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 £2.2m, based on the 2012/13 financial statements. I will update this when the 2013/14 draft financial statements are issued.
10. For reporting purposes, we will treat any misstatements below a 'trivial' level of £100,000 as not requiring consideration by those charged with governance and therefore will not report them.

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Exhibit 2: Our audit approach

**Planning and risk assessment**

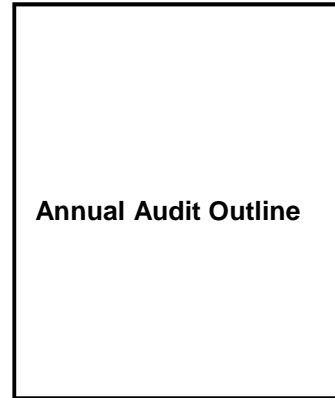
Key tasks



Objectives

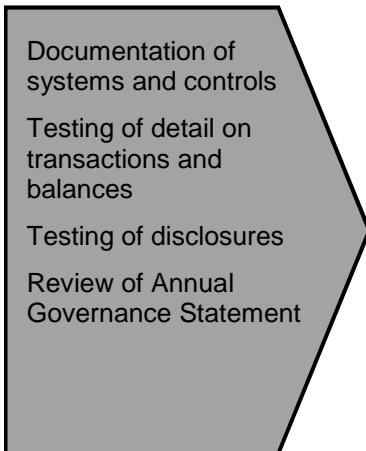


Output

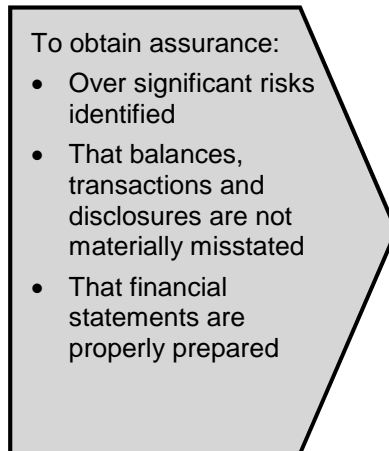


**Obtaining assurance (execution)**

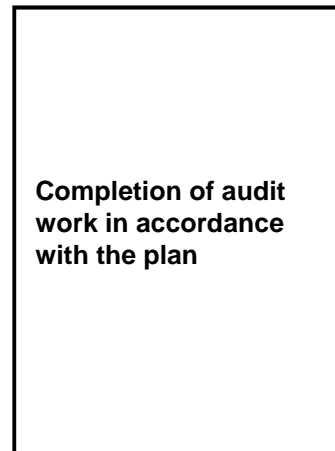
Key tasks



Objectives

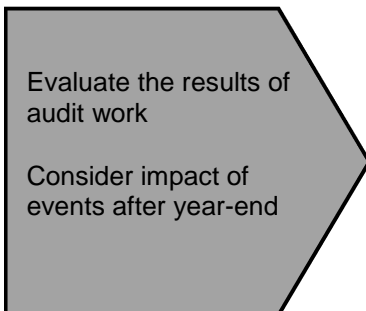


Output

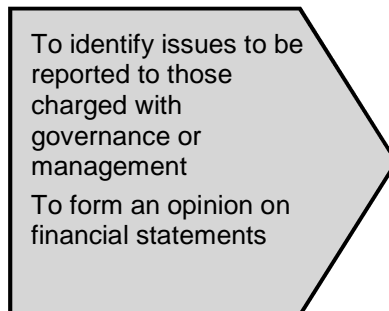


**Concluding and reporting**

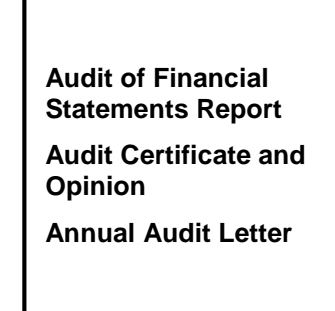
Key tasks



Objectives



Output



- 
11. In planning my work and obtaining an understanding of the Council I consider the control environment including the activities of Internal Audit to determine the potential impact of its work on my planned procedures and to evaluate the extent to which I can rely on that work.
12. As part of the planning process, my staff considered the information which would be required to support the accounts submitted for audit. The fees, once agreed, will assume that this information will be provided by the timescales agreed and to the quality standards that we expect. My other main assumptions in setting the estimated fees will be that:
- appropriate accommodation and facilities are provided to enable my audit team to deliver our audit in an efficient manner;
  - the financial statements and supporting working papers have been subject to review and validation by management, to provide the Responsible Financial Officer with assurance that they are 'true and fair';
  - 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 has completed its planned programme of work and that management has taken all necessary remedial action on issues that could have affected the financial statements.

## Audit risks and issues

### Risks of material misstatement in the accounting statements

13. **Exhibit 3** provides information regarding the main operational and financial risks faced by the Council 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. The issues identified are designated as significant (highest level of risk) or elevated (elevated level of risk).

### Exhibit 3: Summary of main audit risks and proposed responses

#### Significant risks

| Risks   | Action proposed  |
|---|--|
| <b>Control environment risks</b>  |  |
| <p><b>Management override of controls</b></p> <p>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.</p>   | <ul style="list-style-type: none"> <li>• We will understand and evaluate internal control processes and procedures as part of our planning work.</li> <li>• We will review the appropriateness of journals processed during the year.</li> <li>• We will also look carefully at any management estimations and consider if they are subject to bias.</li> <li>• We will design and perform procedures in relation to the business rationale for significant transactions.</li> <li>• Our audit procedures are also planned to include an unpredictable element that varies year on year.</li> </ul>  |
| <p><b>Revenue and expenditure recognition</b></p> <p>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 &amp; Expenditure Statement.</p> <p>We have specifically identified two risks. The first is in respect of non-recurring revenue grants funding, in that revenue may not be recognised in line with the terms and conditions of its funding where these grants are for specific programmes or one-off purposes.</p> <p>The second is in respect of expenditure relating to non-payroll costs which may be recognised incompletely, inaccurately, or in the wrong accounting period.</p> | <ul style="list-style-type: none"> <li>• We will understand and evaluate the controls in place to mitigate this risk and:             <ul style="list-style-type: none"> <li>• test key reconciliations.</li> <li>• test non-recurring revenue grant income and non-payroll expenditure to ensure that it is appropriately included in the accounts.</li> <li>• test that transactions that occur around year-end are appropriately classified within the financial year to which they relate.</li> </ul> </li> </ul> <p>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> |



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*Elevated risks*

| <b>Risks</b>  | <b>Action proposed</b>  |
|---|---|
| <b>Financial statements risks</b>   |   |
| <p><b>Property, plant and equipment (PPE)</b><br/>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> <p>We have previously identified audit adjustments around assets not formally valued in year which have not been adjusted on basis of immateriality. There is a risk that any such adjustments proposed in future could be material.</p>  | <p>We will consider the Council's approach to assessing and justifying valuation of its PPE at 31 March 2014 and consider whether it is sufficient and appropriate. We will engage our internal valuation experts to consider the robustness of key management assumptions and estimates.</p>   |
| <p><b>Pensions liability</b><br/>The Council currently holds a material net liability in respect of its pension obligations on the balance sheet.</p> <p>We identified errors in the census data underlying the net pension liability figure in the Council's accounts in 2012/13 as a result of the Council's failure to provide Gwynedd Council pension scheme with sufficient information regarding employee movements and role changes on a timely basis.</p>   | <p>We will assess the Council's approach to assessing its net pension liability at 31 March 2014 and test the accuracy and completeness of the underlying census data provided to the pension scheme.</p>   |
| <p><b>Equal pay provision and Job Evaluation</b><br/>The Council currently holds a material provision on its balance sheet in respect of a number of Equal Pay claims which it has calculated it may be required to settle. We are not aware that any offers have yet been issued to claimants.</p> <p>The Council is additionally currently undertaking a pay and grading scale review as part of its Job Evaluation exercise. Based on the extent to which a liability may arise to backdate any pay differences and compensate staff, the Council may require further provision to be put in place for this.</p> | <p>We will assess the impact that any offers to claimants for Equal Pay that the Council may have made on its provision as well as identifying further claims in the intervening period and consider their impact on the liability.</p> <p>We will assess the Council's progress in undertaking the pay and grading scale review and whether a liability may be required as a result of this.</p> |

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## Other risks

14. I have additionally identified two further risks which the significant and elevated audit risks set out above should be considered in light of.
15. **Accounts preparation:** 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 deadlines in 2011/12 and 2012/13. However, two experienced interim staff members occupying key accounting roles have left the Council. It is essential that the council ensures that sufficient and appropriate resources are dedicated to the production of the statutory accounts in accordance with required timetables.
16. **Implementation of new general ledger system (Civica):** A new general ledger system was implemented as at 1 April 2013. The accuracy and integrity of the 2013/14 financial statements will be contingent on the new system being implemented effectively, and closing balances from the prior year being rolled forward accurately and completely.

## Accounting and reporting issues

17. In addition to the significant audit risks set out above, I also need to consider any new financial accounting and reporting requirements which impact on my responsibilities. I summarise the more significant accounting and reporting changes that apply to 2013-14 in [Exhibit 4](#).

Exhibit 4: Significant accounting and reporting changes for 2013-14

### Accounting and reporting change

#### **IAS 1 *Presentation of Financial Statements***

The Comprehensive Income and Expenditure Statement has been amended as a result of the June 2011 amendments to IAS 1 *Presentation of Financial Statements* (where relevant to an authority) and the June 2011 amendments to IAS 19. The requirement for Financing and Investment Income and Expenditure to include 'pensions interest cost and expected return on pensions assets' has been replaced by 'net interest on the net defined benefit liability (asset)'. Financing and Investment Income and Expenditure also now includes 're-measurements of the net defined benefit liability (asset) for long-term employee benefits recognised in accordance with section 6.2'.

#### **IAS 19 *Employee Benefits***

Chapter 6 of the code includes revisions as a result of the June 2011 amendments to IAS 19 *Employee Benefits*:

- amendments to the definitions in section 6.1;
- updated terminology, amendments to the recognition requirements and clarifications of the disclosure requirements in section 6.2;
- amendments to the recognition requirements of section 6.3 Termination Benefits and clarification of the disclosure requirements; and

- 
- amendments to the classification, recognition, measurement and disclosure requirements in section 6.4 Post-employment Benefits.

## Use of resources audit

- 18.** To discharge my responsibilities regarding the arrangements that the Council 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 Council'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 (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.

## Certification of grant claims and returns

- 19.** PwC, acting as an agent of the Auditor General, undertakes certification work on the Council's grant claims and returns in accordance with instructions issued by the Auditor General.

## Overall issues identified

- 20.** **Exhibit 5** summarises the more significant and/or recurring issues identified when undertaking grant certification work in 2012-13.

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## Exhibit 5: Overall issues relating to grant claim and return certification

### Qualified grant claims and returns qualified in 2012-13

Based on the work we have undertaken to date, 21 of the 23 claims we have examined have been qualified (7), adjusted (3) or both qualified and adjusted (11). The reasons for this are principally due to the Council not being able to appropriately evidence expenditure through supporting documentation, or that expenditure defrayed is ineligible under the terms of grant funding.

## Issues related to specific grant claims and returns

21. In addition to the overall issues identified above, I summarise the more significant issues I have identified relating to individual grant claims and returns in [Exhibit 6](#).

### Exhibit 6: Significant issues relating to specific grant claims and returns

#### Housing Benefit

A number of issues were identified during the course of our certification of this claim. We have identified these issues in detail in the letter accompanying the certified claim, a copy of which was sent to the Council. We draw this to your attention here given the size and complexity of the Housing Benefit grant claim, and potential for future errors.

## Auditor General's Regulatory Programme

22. 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 Measure.

## Fee, audit team and timetable

### Fee

23. We are currently unable to provide you with an estimate of our fee for our 2013-14 audit work.
24. Owing to the requirements of the Public Audit (Wales) Act 2013, we have needed to revise our approach to fee setting. This Act introduces a slightly revised fee-setting requirement on the new Wales Audit Office for all our audit work once its provisions come into effect from 1 April 2014. In anticipation of this new requirement, we have needed to take legal advice to clarify a number of its provisions. In the light of that advice, we have reviewed our cost allocation and apportionment processes to ensure that going forward our fee setting will fully comply with these new statutory

requirements. This unfortunately has been a time-consuming process. The exercise has now been completed and the Auditor General has consulted on his fee scales, which take account of revisions made in anticipation of the new legislation. That consultation provides further information about the new legislative requirements.

25. Following the end of the consultation process, , your proposed fee is currently being moderated. We anticipate being able to provide you with an estimate of your fee for 2013-14 soon.
26. 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 section 151 officer. Further information on the new Wales Audit Office fee scales and fee setting will be provided once finalised.
27. In previous years, there have been some formal objections to the Council's financial statements for which I have billed separately for the work of my team.
28. 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 will be included within the fee to deal with minor queries, as part of the overall management of the audit.
29. 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 Council, prior to undertaking the work.
30. 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.
31. Further information on the Auditor General's fee scales and fee setting can be found on our website at: [www.wao.gov.uk/aboutus/4240.asp](http://www.wao.gov.uk/aboutus/4240.asp).

## Audit team

### Exhibit 7: My team

| Name            | Role                                 | Contact number                   | E-mail address             |
|-----------------|--------------------------------------|----------------------------------|----------------------------|
| Anthony Barrett | Appointed Auditor                    | 029 2032 0500 /<br>012 4452 5970 | anthony.barrett@wao.gov.uk |
| Lynn Pamment    | Engagement Lead –<br>Financial Audit | 029 2080 2390                    | lynn.pamment@uk.pwc.com    |
| Ian Davies      | Financial Audit Senior<br>Manager    | 029 2080 2358                    | ian.j.davies@uk.pwc.com    |
| Joe Hargreaves  | Financial Audit<br>Manager           | 029 2080 2198                    | joe.hargreaves@uk.pwc.com  |

| Name           | Role                        | Contact number | E-mail address             |
|----------------|-----------------------------|----------------|----------------------------|
| Martin George  | Financial Audit Team Leader | 029 2080 2014  | martin.r.george@uk.pwc.com |
| Gar-Yee Wright | IT Manager                  | 029 2080 2369  | gar-yee.wright@uk.pwc.com  |

32. I can confirm that my team members are all independent of the Council, its officers and any joint committees. In addition, I am not aware of any potential conflicts of interest that I need to bring to your attention.

### Timetable

33. I will provide reports, or other outputs as agreed, to Audit Committee covering the areas of work identified in this document. My key milestones are set out in **Exhibit 8**.

#### Exhibit 8: Timetable

| Planned output   | Work undertaken            | Report finalised |
|--|----------------------------|------------------|
| <b>Annual Financial Audit Outline for 2014</b>   | March 2014                 | April 2014       |
| <b>Financial accounts work:</b> <ul style="list-style-type: none"> <li>• Audit of Financial Statements Report</li> <li>• Opinion on Financial Statements</li> <li>• Financial Accounts Memorandum</li> <li>• Whole of Government Accounts</li> </ul> | July 2014 – September 2014 | September 2014   |
| <b>Use of Resources Work</b>   | July 2014 – September 2014 | November 2014    |
| <b>Annual Audit Letter 2014</b>  | November 2014              | November 2014    |
| <b>Outline of Audit Work for 2015</b>  | March 2015                 | April 2015       |

# Appendix 1

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## Roles and responsibilities

This Annual Financial Audit Outline has been prepared to meet the requirements of auditing standards and proper audit practices. It provides the Council with an outline of the financial audit work required for the 2013-14 financial statements.

The Public Audit (Wales) Act 2013 (the 2013 Act) sets out that the Auditor General is to be the auditor of local government bodies in Wales. The 2013 Act does, however, provide transitional arrangements where the appointment of a person as an auditor under section 13 of the Public Audit (Wales) Act 2004 continues to have effect until the end of the period for which the appointment was made (subject to any earlier termination). The Auditor General has appointed me as the auditor of the Council's accounts for the year ending 31 March 2014.

As Appointed Auditor, I am required by the Public Audit (Wales) Act 2004 to examine and certify the accounts of the Council. 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 Council'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 Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

I am also required to certify that the audit has been completed in accordance with the Public Audit (Wales) Act 2004.

The audit does not relieve the Council 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.

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.

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



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