



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

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Financial Audit Outline

Powys County Council

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Financial Audit Outline

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Status of this report

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

No responsibility is taken by the Wales Audit Office (the Auditor General and his staff) and, where applicable, the appointed auditor in relation to any member, director, officer or other employee in their individual capacity, or to any third party.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 Code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales (and, where applicable, the appointed auditor) is a relevant third party. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at infoofficer@wao.gov.uk.

Roles and Responsibilities

1. This Financial Audit Outline has been prepared to meet the requirements of auditing standards and proper audit practices. It provides Powys County Council (the Council) with an outline of the financial audit work required for the 2010-11 financial statements.
2. Since 1 April 2005, the Public Audit (Wales) Act 2004 the Auditor General's functions have included the appointment of external auditors (Appointed Auditors) for 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 Council, satisfying myself that the accounts:
 - give a true and fair view of the Council's financial position;
 - comply with all relevant legislative requirements; and
 - have been prepared in accordance with accounting proper practices.
4. I am also required to:
 - satisfy myself that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources; and
 - certify that the audit has been completed in accordance with the Public Audit (Wales) Act 2004.
5. The audit does not relieve the Council of its responsibility to:
 - put systems of internal control in place 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 Council's financial statements, to ask me, as the Appointed Auditor questions about the accounts and, where appropriate, to challenge items in the accounts.
7. The key requirements of the Auditor General and the Appointed Auditor 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 Measure 2009.
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

10. Information regarding the financial audit team is provided in Appendix 2.

Audit of financial statements

11. Internal controls are designed, implemented and maintained 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 specific significant risks.
13. 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 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 Council prior to completion of the audit.

Audit risks

15. Exhibit 1 provides information regarding the audit risks that have been identified during the initial audit planning process, based upon information currently available, and the actions proposed to address them. Changes to the audit may be required if any significant new risks emerge. No changes will be made without first discussing them with officers and, where relevant, those charged with governance.

Audit risks

| Control environment risks | Action proposed |
|--|--|
| Financial pressures and the current economic climate present risks to the Council in setting a realistic budget and maintaining spending within that budget. | Review of 2010-11 budget setting and monitoring. Detailed review of assets and liabilities disclosed in 2010-11 accounts. |
| There is a requirement to introduce a governance statement this year and a risk that the Council will not have in place arrangements to enable it to report in line with the new requirements. | Detailed review of the new governance statement and substantive testing of content and accuracy against audit expectations. |
| The Council's ICT infrastructure is in the process of being modernised. The core financial systems are a key part of ensuring the figures within the Financial Statements are robust and supported by a clear audit trail. | Assess the risks associated with the information control environment, and take any mitigating action necessary. |

| Preparation of the accounts risks | Action proposed |
|--|--|
| The CIPFA Code requires 2010-11 accounts to comply with International Financial Reporting Standards (IFRS). The Balance Sheet at 31 March 2009 has already been converted with the entire 2009-10 accounts requiring conversion and 2010-11 to follow the same approach. There is a risk that any errors made in conversion will not be detected and result in incorrect disclosure. | We will review the conversion of the 2009-10 accounts and ensure that the figures are materially accurate and that any lessons learnt are incorporated into the 2010-11 accounts. |
| The IFRS conversion is also required for the Whole of Government Accounts. There is a risk that this will be misstated. | We will audit this return in accordance with Treasury Guidance |
| Financial statements risks | Action proposed |
| The Council had £4 million invested in failed Icelandic banks, and provisions need to reflect the most up to date advice and risk of non-recovery. | We will ensure that the Council: <ul style="list-style-type: none"> recognises an appropriate level of impairment, based upon the best information available at the time that the accounting statements are authorised for issue; and has arrangements in place to ensure that sufficient resources will be available to fund any impairment loss not previously recognised when the protection provided by the Regulations expires. |

Use of resources

16. To discharge my responsibilities regarding the arrangements that the Council has in place 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 audited body's system of internal control, as reported in its 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 our 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 auditing and ethical standards. International Standards on Auditing (ISAs) require formal reporting at various stages during the audit to those charged with governance.
18. In particular, auditors must report:
- relationships that may bear on 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 Powys County Council, and confirms that there are no known threats to the independence of the Appointed Auditor or other audit staff.
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 Full Council in a timely manner, prior to the completion of audit.
22. I will provide reports, or other output as agreed. The key milestones are set out in Exhibit 2.

Exhibit 2: Key milestones

| Planned output | Planned start date | Report finalised |
|--|--------------------|------------------|
| Financial Audit Outline | March 2011 | April 2011 |
| Financial statements report to those charged with governance | July 2011 | September 2011 |
| Annual Audit Letter | September 2011 | November 2011 |

Audit fee

23. The proposed fee for 2010/11 financial audit work is £163,818 (plus VAT) and will be charged in equal instalments between November 2010 and October 2011. This fee is in line with the Auditor General's fees letter and is based on the new zero-based fee model for financial audit.
24. Overall, the 2010/11 financial audit fee represents a zero per cent increase on the equivalent element of Appointed Auditor's responsibilities included as part of my 2009/10 fee, £163,850.
25. I am required to undertake additional audit work arising from the change to IFRS. I have decided to bear the cost of this work without passing it on to the Council.
26. In previous years, there have been no formal objections to the Council's financial statements. However, I do receive a number of queries and items of correspondence from members of the public and other interested parties, and as you will be aware, the Auditor General received a whistle-blowing disclosure in 2009/10 relating to the Council. I do include a small amount of contingency for such items within my audit fee each year. This contingency has been used in full for 2009/10 and 2010/11, and accordingly any additional audit time used on subsequent queries or disclosures would be charged as an additional fee in 2010/11. Any such additional fee will be charged at daily rates based on the specific grade or skill mix required for the work, and will be discussed with Director of Finance and Infrastructure.
27. 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.
28. Although grant 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 between £120,000 and £130,000.

Appendix 1

Key elements of the audit engagement

| Key elements | Requirements | Position at Powys County Council |
|-------------------------------|--|--|
| 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 outlined above and in Appendix 1. The full statement of responsibilities can be found at: http://www.wao.gov.uk/assets/englishdocuments/statement_of_responsibilities_of_auditors_eng.pdf |
| Appointment of auditors | It is the Auditor General's responsibility to appoint local government external auditors and to assign responsibility for each engagement to an Appointed Auditor. | Details of the Appointed Auditor and the Engagement Partner are provided in Appendix 2 of this document. |
| 'Non-statutory' work | The Auditor General has set out clear criteria for approval of any 'non-statutory' work requested by audited bodies. | No 'non-statutory' work has been requested or is proposed. |
| Limitations on audit work | I am required to advise you of any limitations on the work that I propose to undertake, including limitations imposed by management. | No limitations have been placed on the work that I propose to undertake. |
| 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, based on the Wales Audit Office rotation of audits policy; and • contentious or difficult issues. | I can confirm that there are no known threats to the independence of the Appointed Auditor or other audit staff and I have complied with the Wales Audit Office rotation policy. |
| Engagement performance | Appointed Auditors need to consider what level of quality assurance and review levels are appropriate. | Wales Audit Office quality control review mechanisms are in place for all audits, and the Appointed Auditor has established appropriate review levels based on the experience of the staff undertaking the audit work. |

Appendix 2

Financial audit team

| Name | Role | Contact Number | E-mail address |
|---------------|-----------------------------|-----------------------|--------------------------|
| John Herniman | Appointed Auditor | 07776 163851 | john.herniman@wao.gov.uk |
| Mike Jones | Audit Manager | 07879 848673 | mike.jones@wao.gov.uk |
| Helen Pugh | Financial Audit Team Leader | 02920 320500 | helen.pugh@wao.gov.uk |



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