

2020 Audit Plan – Powys County Council

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2020 Audit Plan

Our duties

- 1 We complete work each year to meet the following duties.

Audit of financial statements

- 2 Each year we audit Powys County Council's (the Council) financial statements to make sure that public money is being properly accounted for.

Value for money

- 3 The Council has to put in place arrangements to get value for money for the resources it uses, and we have to be satisfied that it has done this.

Continuous improvement

- 4 The Council also has to put in place arrangements to make continuous improvements and we also check if it has done this.

Sustainable development principle

- 5 Public bodies need to make sure that when making decisions they consider the impact they could have on people living in Wales now and in the future. We have to assess the extent to which they are doing this.

Impact of COVID-19

- 6 The COVID-19 national emergency has had an unprecedented impact on the UK and will significantly impact on local authorities' preparation of the 2019-20 accounts and our audit work, both financial audit and performance audit.
- 7 Due to the UK Government's restrictions on movement and anticipated sickness absence levels, we understand that many local authorities will not be able to prepare accounts in line with the timetable set out in the Accounts and Audit (Wales) Regulations 2014. As well as the delivery of the Auditor General's statutory responsibilities, our priority is to ensure the health, safety and well-being of Audit Wales staff, their families and those of our partners elsewhere in the public service at this incredibly challenging time.
- 8 In response to the government advice and subsequent restrictions, we have ceased on all on site work at audited bodies and our own offices. Audit Wales staff are working from home and we will continue to make whatever progress we can whilst working and engaging with you remotely.
- 9 Consequently, this audit plan does not include any details in relation to completion of our audit work. We will discuss a timetable with the authority once the current

national emergency situation is over and the authority is in a position to prepare its accounts.

- 10 We commit to ensuring that our audit work will not have a detrimental impact on you at a time when public bodies are stretched and focused on more important matters.

Audit of financial statements

- 11 It is my responsibility to issue a certificate and report on the financial statements which includes an opinion on their 'truth and fairness':
- we plan to give an opinion on the Council's financial statements.
 - assess whether the Council's Annual Governance Statement and Narrative Report were prepared in line with the CIPFA Code and relevant guidance. We also review whether they were are consistent with the financial statements prepared by the Council and with our knowledge of the Council.
- 12 In addition to our responsibilities for auditing the Council's financial statements, we also have responsibility for:
- certifying a return to the Welsh Government which provides information about the Council to support preparation of Whole of Government Accounts;
 - responding to questions and objections about the accounts from local electors (additional fees will be charged for this work, if necessary);
 - auditing the Council's pension fund accounts (a separate audit plan has been prepared for the audit of the pension fund); and
 - the certification of a number of grant claims and returns as agreed with the funding bodies.
- 13 There have been no limitations imposed on me in planning the scope of this audit.
- 14 Further information about our work is provided in our Statement of Responsibilities, which is available on our website (www.audit.wales).

Financial Statement Audit Risks

- 15 The following table sets out the key financial statement audit risks identified at the planning stage of the audit.

Exhibit 1: financial statement audit risks

This table summarises the key financial statement audit risks identified at the planning stage of the audit.

Audit risk	Proposed audit response
Significant risks	
<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; • review accounting estimates for biases; and • evaluate the rationale for any significant transactions outside the normal course of business.
<p>New financial system</p> <p>The Council has implemented a new financial system from 1 April 2019 from which the financial statements will be produced. As part of this implementation the Council had introduced a new chart of accounts and coding structure. In addition, the Council has changed the way it reports its financial information internally and to Cabinet following changes to its senior management structure.</p> <p>As the Comprehensive Income and Expenditure Statement (CIES) and Expenditure and Funding (EFA) statement are required to be prepared in line with the internal reporting structure, the prior year's CIES and EFA will need to be restated.</p>	<p>My audit team will ensure that:</p> <ul style="list-style-type: none"> • all balances from the previous financial ledger have been transferred accurately to the new system; • the new chart of accounts and coding structure allows the financial statements to be prepared on a consistent basis to the prior year; • ensure that there are appropriate interface procedures and controls in place between the material feeder systems and the new ledger; and • the restated CIES and EFA balances are reported accurately in line with the revised reporting structure.

Audit risk	Proposed audit response
<p>Impact of COVID-19 – general risks</p> <p>The COVID-19 national emergency is likely to have a significant impact on the Authority and its accounts production process. Potential risks include:</p> <ul style="list-style-type: none"> • subsequent events. It is possible that the Council may not be able to prepare its accounts in accordance with the timetable laid down by the Accounts and Audit (Wales) Regulations 2014. The shifting reporting deadlines increases the period (and therefore the related risks) for events occurring between the date of the financial statements and the date of the auditor’s report. The consequences of the virus post 31 March 2020 will generally be non-adjusting post balance sheet events, but some form of disclosure may be needed. • use of estimates. The uncertainties and delays caused by the UK-wide lockdown may result in actual data being unavailable and greater use of estimates in preparing the accounts. 	<p>My audit team will undertake the following steps to ensure the risks arising from COVID-19 are adequately addressed:</p> <ul style="list-style-type: none"> • we will extend the period of review of subsequent events in order to identify any material subsequent events related to COVID-19, and whether these have been appropriately addressed or disclosed in the financial statements in accordance with the financial reporting framework; • we will consider if there are areas that may require management to provide further evidence due to the fast-changing nature of this issue; • we will discuss with you the key assumptions and evidence bases underlying estimates and will do this at an early stage; and • we will adopt a greater focus on the following areas: <ul style="list-style-type: none"> – the financial statement closing process (in particular journal entries and other adjustments made); and – the auditor’s evaluation of the overall presentation of the financial statements, including consideration of whether adequate disclosures have been made.

Audit risk	Proposed audit response
<p>IAS19 pension liabilities</p> <p>In many cases, actuaries use 31 December / 29 February investment values for the purpose of calculating 31 March net pension liabilities. The crisis in the financial markets may have had a significant impact upon Fund assets at the balance sheet date. Therefore, there is a risk that pension liabilities may be materially understated.</p>	<p>My audit work will consider:</p> <ul style="list-style-type: none"> • the basis for the valuation of pension fund assets and liabilities; and • actuarial assumptions that underpin the IAS19 valuations. <p>Our audit process includes the use of a consulting actuary to provide audit assurance over the methodology and assumptions used by actuaries in providing data for IAS 19 disclosures. We will review your actuary's IAS 19 reports and our consulting actuary's assessment and discuss any concerns with you at an early stage.</p>
<p>Other areas of audit attention</p>	
<p>Revaluation of Council Properties</p> <p>A fifth of the Council owned land and buildings will be subject to revaluation as at 31 March 2020 in order to comply with the requirement of the CIPFA Code of Practice. As these assets were last revalued five years ago, it is possible that the 2020 revaluation exercise could result in material movements on the Council's Balance Sheet.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • review management's processes and assumptions for the calculation of the estimate, including review of the work performed by management experts; • review the competence, expertise and objectivity of any management experts used; • undertake testing to ensure information on revaluations is correctly input to the Council's Fixed Asset Register; and • evaluate management's processes to ensure the carrying value of assets not revalued during the year is not materially different from the current value at the balance sheet date.

Audit risk	Proposed audit response
<p>McCloud judgement</p> <p>In 2015 the Government introduced reforms to public sector pensions, meaning most public sector workers were moved into new pension schemes in 2015.</p> <p>In December 2018, the Court of Appeal ruled that the ‘transitional protection’ offered to some members of the judges’ and firefighters’ schemes, as part of the reforms, amounted to unlawful discrimination. On 15 July 2019 the Government announced that they accept that the judgment applies to all of the main public service pension schemes.</p> <p>The impact of the judgement is likely to have a significant impact on the IAS 19 disclosed liabilities.</p>	<p>My audit team will review the provision made in relation to the McCloud judgement and monitor progress on the development of proposals for a remedy to be applied in the LG/Police /Firefighters’ pensions scheme.</p>

- 16 You will be aware that the CIPFA/LASAAC Code Board recently considered a proposed Code Update 2019-20 that would have disappplied large parts of the 2019-20 Code. After discussion, the CIPFA/LASAAC Code Board decided not to adopt the proposed Code Update. Therefore, the 2019-20 Code (the Code) will apply in full for this year. We understand that the Council is working towards preparing accounts in accordance with the full Code.
- 17 For information, the introduction of IFRS 16 Leases has been deferred until 2021-22 due to COVID-19. There is considerable work required to identify leases and the COVID-19 national emergency may pose implementation risks. We will continue to work with the Authority in respect of its preparedness.

Performance audit

- 18 In addition to our Audit of Financial Statements we also carry out a programme of performance audit work to discharge the Auditor General’s duties set out on **page 4** in relation to value for money, continuous improvement and sustainable development. For 2020-21 this work is set out below.

Exhibit 2: Performance Audit Programme 2020-21

This table summarises the performance audit programme for 2020-21

Performance audit programme	Brief description
Improvement audit and assessment work including improvement planning and reporting audit	Audit of discharge of duty to publish an improvement plan, and to publish an assessment of performance.
Well-being of Future Generations Act (Wales) 2015 (WFG Act) examination	A project common to all local councils that will focus on the theme of 'prevention'.
Assurance and Risk Assessment	Project to identify the level of audit assurance and/or where further audit work may be required in future years in relation to risks to the Council putting in place proper arrangements to secure value for money in the use of resources.
Financial Sustainability	A project common to all local councils that will assess financial sustainability in light of current and anticipated future challenges building on work undertaken during 2019-20.
Vision 2025 Follow Up	Transformation remains a crucial focus for the Council as a means of delivering its corporate improvement objectives and Medium-Term Financial Strategy. This project aims to gain further insight and assurance relating to the Council's delivery of its transformation programme.
Scrutiny Follow Up	This project aims to follow up on our 2018 Scrutiny report and review the new scrutiny arrangements implemented by the Council in 2019. This review is to be conducted jointly with SWAP and the Council.

Performance audit programme	Brief description
Corporate Safeguarding Arrangements	A project aimed at reviewing the effectiveness of corporate safeguarding arrangements building on the study previously undertaken by the Auditor General in this area.

- 19 On 18 March 2020, the Auditor General wrote to the Chief Executive explaining that, following Government guidance, he had decided to suspend all on-site performance audit work with immediate effect. We will make as much progress as possible with these activities by working remotely, if appropriate. However, the COVID-19 outbreak will have an inevitable impact on the delivery of our programme of performance audit work. We are keeping this under ongoing review and will communicate further information regarding the above programme of work (including the timings and the likely outputs) when more is known about the duration of the COVID-19 restrictions and the wider impact of the outbreak on the sector.

Certification of grant claims and returns

- 20 I have been requested to undertake certification work on the Council's grant claims and returns.
- 21 The number of grant claims that are required to be audited by the Welsh Government for 2019-20 are less than in previous years.
- 22 My estimated audit fee for this work is set out in **Exhibit 3**.

Fee, audit team and timetable

- 23 My fees and planned timescales for completion of the audit are based on the following assumptions:
- the financial statements are provided in accordance with a timescale to be agreed following the end of the COVID-19 national emergency, to the quality expected and have been subject to a robust quality assurance review;
 - information provided to support the financial statements is in accordance with the agreed audit deliverables document;
 - 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.

24 If I do receive questions or objections, I will discuss potential audit fees at the time.

Fee

25 Your estimated fee for 2020 is set out in **Exhibit 3** below. There have been some small changes to my fees rates for 2020, however, my audit teams will continue to drive efficiency in their audits to ensure any resulting increases will not be passed to you. This represents a 5.3% decrease compared to your actual 2019 fee, primarily due to a reduction in the number of grant claims that are required to be audited.

Exhibit 3: audit fee

This table sets out the proposed audit fee for 2020, by area of audit work, alongside the actual audit fee for last year.

Audit area	Proposed fee (£) ¹	Actual fee last year (£)
Audit of accounts ²	207,830	207,830
Performance audit work ³	110,090	110,180
Grant certification work ⁴	50,000	70,688
Total fee	367,920	388,698

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 Council.

27 Further information on my [fee scales and fee setting](#) can be found on our website.

¹ Notes: The fees shown in this document are exclusive of VAT, which is not charged to you

² Payable November 2019 to October 2020.

³ Payable April 2020 to March 2021

⁴ Payable as work is undertaken

Audit team

28 The main members of my team, together with their contact details, are summarised in **Exhibit 4**.

Exhibit 4: my audit team

This table lists the members of the local audit team and their contact details.

Name	Role	Contact number	E-mail address
Anthony Veale	Engagement Director and Engagement Lead – Financial Audit	02920 320585	anthony.veale@audit.wales
Huw Rees	Engagement Lead – Performance Audit	02920 320599	huw.rees@audit.wales
Phil Pugh	Audit Manager (Financial Audit)	02922 677839	phil.pugh@audit.wales
David Burridge	Audit Lead (Financial Audit)	02922 677839	david.burridge@audit.wales
Lisa Williams	Audit Manager (Performance Audit)	07970 246975	lisa.williams@audit.wales

Timetable

- 29 We will continue to undertake such remote work as is possible during the COVID-19 national emergency. However, as set out above, we will not be in a position to agree a timetable with you until the COVID-19 national emergency has passed.
- 30 We will need to discuss any amendments to the timetables for the production and audit of accounts with you but will continue to work as flexibly as we can and are supportive of ‘extending’ the accounts window where required. It will be vital that this close engagement continues over the next few months, against what will doubtless be a fast-changing backdrop.
- 31 Therefore, we will report on a timetable for our audit work in due course.

- 32 There are two potential conflicts of interest that I wish to bring to your attention. The first matter relates to a member of my financial audit team who holds a voluntary role as Treasurer of a charity which has a contract to provide a service within Adult Social Care. We have introduced appropriate arrangements to ensure that this officer does not undertake any audit work in respect of this area of the Council's operations.
- 33 The second matter relates to another member of my financial team whose husband is employed by Powys Teaching Health Board and who is also a governor of a secondary school in within Powys. Again, I have introduced appropriate arrangements to ensure that this officer does not undertake work in relation to the health board (eg Pooled Budget Accounts) or the school.
- 34 I can confirm that, with the exception of the above, all other members of my team are independent of the Council and your officers.

Accounts and Audit (Wales) Regulations 2014

- 35 In respect of our accounts work, we are aware that there may be difficulties in meeting the accounts preparation and publication dates set by the Accounts and Audit (Wales) Regulations 2014. Welsh Government have indicated that the Regulations will not be amended as they already provide sufficient flexibility to deal with any delays resulting from COVID-19.
- 36 The Regulations require the publication of a notice where the authority does not expect to achieve the dates specified by the Regulations. I have included further detail in **Appendix A** and example notices in **Appendix B** that the Authority may wish to consider using.
- 37 The requirements for the exercise of electors' rights under the Public Audit (Wales) Act 2004 continue to apply. This presents some practical difficulties while lockdown restrictions still apply, eg public access to the authority's accounting records.
- 38 Therefore, my audit team will discuss with you an appropriate timetable for public inspection when we have a clear idea of the date on which the accounts will be available and when lockdown restrictions have been sufficiently relaxed. My audit team will issue an audit notice in due course setting out the appointed date for public inspection.
- 39 This may mean that there is a delay before we can issue our audit opinion.

Appendix A

Requirements of the Accounts and Audit (Wales) Regulations 2014

You may be aware that in England, the Local Government Secretary Robert Jenrick MP announced that the deadline for preparation of local government accounts will be extended to 31 August 2020 and publication of audited accounts to 30 November.

Audit Wales discussed this development with Welsh Government officials to establish if a similar announcement will be made for Wales. The Welsh Government position (as communicated to local government bodies) is currently as set out below.

Statutory requirements

The statutory position for local government bodies in Wales is set out in the Accounts and Audit (Wales) Regulations 2014 (as amended).

Welsh Government interpretation

Regulation 10 sets out the expected timetable for the preparation, approval and audit of the annual accounts. Due to the impact of COVID-19, Welsh Government recognises that it may not be possible for all local government bodies to meet this timetable. Regulation 10(4) provides local government bodies with sufficient flexibility to deal with delays caused by COVID-19. Its guidance on the Regulations, notes that:

“Where, extraordinarily, certification cannot happen before [31 May/15 June], action needs to be taken to publish a statement that clearly sets out the reasons why this has not happened before that date and agree a course of action to ensure this is done as soon as is practicable after [31 May/15 June].”

The guidance also notes that the accounts should be published by 31 July/15 September even if the accounts have not been approved.

On the basis that sufficient flexibility is built into the current Regulations, Welsh Government does not consider it necessary to amend the Regulations.

Audit Wales view and impact on the audit process

Audit Wales concurs with the Welsh Government assessment that sufficient flexibility already exists in the Regulations.

In the event that the accounts are not prepared by the statutory timetable, audited bodies should notify their audit team and publish a notice setting out there is a delay and the reason for the delay. Example wording is provided in **Appendix B**.

Appendix B

Accounts and Audit (Wales) Regulations 2014 – suggested notice

Audit notice where RFO unable to certify the accounts either due to illness or because the accounts have not been prepared

Regulation 10(1) of the Accounts and Audit (Wales) Regulations 2014 (as amended) requires that the Responsible Financial Officer of Powys County Council sign and date the statement of accounts, and certify that it presents a true and fair view of the financial position of the body at the end of the year to which it relates and of that body's income and expenditure for that year. The Regulations required that this be completed by 15 June 2020.

The Responsible Financial Officer has not signed and certified the accounts for the year ended 31 March 2020. Due to the COVID-19 outbreak, the authority has diverted resources to support key frontline services and the statement of accounts has not yet been prepared. The statement of accounts will be prepared and the Responsible Financial Officer will sign and certify the statement of accounts when the immediate pressures of the COVID-19 outbreak have subsided.

Audit notice where RFO has certified the accounts but the audited body is not meeting and therefore unable to approve the accounts

Regulation 10(1) of the Accounts and Audit (Wales) Regulations 2014 (as amended) requires that Responsible Financial Officer of Powys County Council sign and date the statement of accounts, and certify that it presents a true and fair view of the financial position of the body at the end of the year to which it relates and of that body's income and expenditure for that year. The Regulations required that this be completed by 15 June 2020.

[The Responsible Financial Officer signed and certified the accounts on [date].

Regulation 10(2) of the Accounts and Audit (Wales) Regulations 2014 (as amended) requires that following the certification by the Responsible Financial Officer referred to above, [name of body] approve and publish the audited statement of accounts. The Regulations required that this be completed by 15 September 2020.

[Due to the COVID-19 outbreak, the statement of accounts has not yet been prepared.]

OR

[Due to the COVID-19 outbreak, [name of body] has not met to approve the statement of accounts.]

OR

[Due to the COVID-19 outbreak, the audit of the 2019-20 statement of accounts has not yet been completed and no audit opinion has been provided. The statement of accounts that is published is the unaudited statement of accounts.]



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