

Meeting of:	<b>Shared Regulatory Services Joint Committee</b>
Date of Meeting:	<b>Tuesday, 26 February 2019</b>
Relevant Scrutiny Committee:	All Scrutiny Committees
Report Title:	<b>2019 Audit Plan - Shared Regulatory Services</b>
Purpose of Report:	To present to Members the Council's External Auditor's Audit plan for the Shared Regulatory Service for 2019
Report Owner:	Report of the Head of Finance
Responsible Officer:	Carys Lord Section 151 Officer
Elected Member and Officer Consultation:	No specific ward member consultation has been undertaken
Policy Framework:	This report is in accordance with the policy framework and budget
Executive Summary:	<p>The Wales Audit Office (WAO), as the nominated auditor for the Vale of Glamorgan Council, is required to undertake the annual financial audit for the Shared Regulatory Service. This report outlines the work that they plan to complete to satisfy that requirement together with the reporting timeline for this work.</p> <p>Committee is requested to consider and agree the proposed audit plan for 2019.</p>

## **Recommendations**

1. THAT Members review and note the content of this report

## **Reasons for Recommendations**

1. To facilitate monitoring of the audit function

## **1. Background**

- 1.1 As the external auditor, the objective of the WAO is to carry out an audit which discharges the statutory duties of Auditor General.

## **2. Key Issues for Consideration**

- 2.1 In undertaking the audit work, the WAO will review the financial operations of the service to ensure that appropriate use has been made of the resources available to the Shared Regulatory Service.
- 2.2 In addition, the work will review the Annual Governance Statement for the service and report by exception if the Statement does not comply with requirements.

## **3. How do proposals evidence the Five Ways of Working and contribute to our Well-being Objectives?**

- 3.1 The collaborative working represented within the Shared Regulatory Service is identified as one of the key ways of working to support the Council's work in delivering the Well-being of Future Generations (Wales) Act 2015.

## **4. Resources and Legal Considerations**

### **Financial**

- 4.1 The estimated fee for the Audit work in 2019 is £11,844. Any proposed changes to this will be discussed with the Joint Committee prior to implementation

### **Employment**

- 4.2 There are no direct employment issues relating to this report

## **Legal (Including Equalities)**

**4.3** The statutory duties of the Auditor General are contained within the Public Audit (Wales) Act 2004, the Local Government (Wales) Measure 2009 (the Measure), Wellbeing of Future Generations (Wales) Act 2015, the Local Government Act 1999, and the Code of Audit Practice, and these are 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.
- Under Paragraph 20 of Schedule 8 to the Government of Wales Act 2006 the Auditor General shall, if required by a local government or other grant-receiving body, make arrangements for certifying claims and returns

## **5. Background Papers**



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# 2019 Audit Plan – Shared Regulatory Services Joint committee

Audit year: 2018-19

Date issued: February 2019

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This document has been prepared as part of work performed in accordance with statutory functions.  
Further information on this is provided in [Appendix 1](#).

No responsibility is taken by the Auditor General, the staff of the Wales Audit Office or, where applicable, the auditor acting on behalf of the Auditor General, in relation to any member, director, officer or other employee in their individual capacity, or to any third party.

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We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

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# 2019 Audit Plan

## Summary

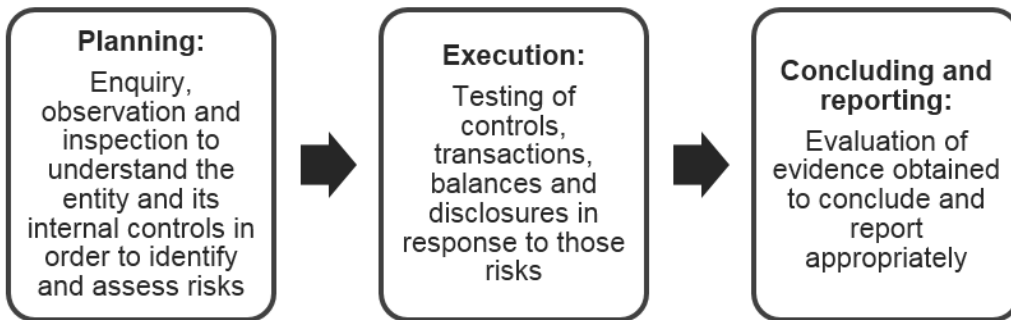
- 1 As your external auditor, my objective is to carry out an audit which discharges my statutory duties as Auditor General and fulfils my obligations under the Public Audit (Wales) Act 2004, the Local Government (Wales) Measure 2009 (the Measure), Wellbeing of Future Generations (Wales) Act 2015, the Local Government Act 1999, and 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.
- 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](#).

## Audit of accounts

- 5 It is my responsibility to issue a certificate and report on the financial statements which includes an opinion on their 'truth and fairness'. 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.
- 6 I also consider whether or not the Shared Regulatory Services Joint Committee 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**

My audit approach involves three key stages, being planning, testing and reporting.



9 The risks of material misstatement which I consider to be significant and which therefore require special audit consideration, are set out in **Exhibit 2** along with the work I intend to undertake to address them. Also, included are other key areas of audit attention my team will be focusing on.

**Exhibit 2: financial audit risks**

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

Financial audit risk	Proposed audit response
<b>Significant risks</b>	
<b>Management Override</b> 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].	My audit team will: <ul style="list-style-type: none"> <li>• test the appropriateness of journal entries and other adjustments made in preparing the financial statements;</li> <li>• review accounting estimates for biases; and</li> <li>• evaluate the rationale for any significant transactions outside the normal course of business.</li> </ul>
<b>Other areas of audit attention</b>	
<b>New accounting standards</b> IFRS 9 financial instruments applies from 1 April 2018 and brings in a new principles-based approach for the classification and measurement of financial assets. It also introduces a new impairment methodology for financial assets based on expected losses rather than incurred losses. This will result in earlier recognition of expected	My audit team will assess the likely impacts of the new IFRSs and undertake work to respond to any identified risks of material misstatement.



Financial audit risk	Proposed audit response
<p>credit losses and will impact on how the bad debt provision is calculated.</p> <p>IFRS 15 revenue from contracts with customers introduces a principles-based five-step model for recognising revenue arising from contracts with customers. It is based on a core principle requiring revenue recognition to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration a body expects to be entitled to, in exchange for those goods or services. It will also require more extensive disclosures than are currently required.</p>	

- 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. When setting materiality for account balances and transactions, we take into consideration both quantitative and qualitative aspects such as legal and regulatory requirements and political sensitivity. For the purposes of our audit planning, we have identified related party transactions and officer remuneration as sensitive areas of disclosure. The levels at which I judge such misstatements to be material will be reported to the Joint Committee prior to completion of the audit.
- 11 For reporting purposes, I will treat any misstatements below a 'trivial' level the lower of 5% of materiality as not requiring consideration by those charged with governance and therefore I will not report them.
- 12 My fees and planned timescales for completion of the audit are based on the following assumptions:
- the financial statements are provided in accordance with the agreed timescales, to the quality expected and have been subject to a robust quality assurance review;
  - information provided to support the financial statements is timely and of appropriate quality;
  - 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.

- 13 In addition to the audit of the accounts, I have statutory responsibilities to receive questions and objections to the accounts from local electors. These responsibilities are set out in the Public Audit (Wales) Act 2004:
- Section 30 Inspection of documents and questions at audit; and
  - Section 31 Right to make objections at audit.
- 14 Audit fees will be chargeable for work undertaken in dealing with electors' questions and objections. Because audit work will depend upon the number and nature of any questions and objections, it is not possible to estimate an audit fee for this work.
- 15 If I do receive questions or objections, I will discuss potential audit fees at the time.

## Fee, audit team and timetable

### Fee

- 16 Your estimated fee for 2019 is £11,844 and so remains consistent with your actual 2018 fee.
- 17 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 Joint Committee.
- 18 Further information on my [fee scales and fee setting](#) can be found on our website.

### Audit team

- 19 The main members of my team, together with their contact details, are summarised in [Exhibit 3](#).

#### Exhibit 3: my audit team

The main members of my audit team and their contact details are shown below.

Name	Role	Contact number	E-mail address
Anthony Veale	Engagement Director	07896 271873	anthony.veale@audit.wales
Steve Wyndham	Audit Manager	07891 179033	steve.wyndham@audit.wales
Gareth Rees	Team Leader	07794 002654	gareth.rees@audit.wales

20 I can confirm that that my team members are all independent of the Joint Committee and your officers. In addition, I am not aware of any potential conflicts of interest that I need to bring to your attention.

## Timetable

21 I will provide reports, or other outputs as agreed, to the Joint Committee covering the areas of work identified in this document. My key milestones are set out in [Exhibit 4](#).

### Exhibit 4: timetable

This table sets out the proposed timetable for completion and reporting of my audit work at the Joint Committee

Planned output	Work undertaken	Report finalised
<b>2019 Audit Plan</b>	December 2018 to January 2019	February 2019
<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>	March to September 2019	September 2019 September 2019
2020 Audit Plan	October to December 2019	January 2020

\* Subject to timely clearance of draft findings with officers.

## Future developments to my audit work

22 Details of other future developments including forthcoming changes to key International Financial Reporting Standards, the Wales Audit Office's Good Practice Exchange (GPX) seminars and my planned work on the readiness of the Welsh public sector for Brexit, are set out in [Appendix 2](#).

# Appendix 1

## Respective responsibilities

### Audit of accounts

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 Shared Regulatory Services Joint Committee 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 Shared Regulatory Services Joint Committee'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 Shared Regulatory Services Joint Committee'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.

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 Shared Regulatory Services Joint Committee 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.

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

## Other future developments

### A. Forthcoming key IFRS changes

#### Exhibit 11: changes to IFRS standards

This table details the key future changes to International Financial Reporting Standards

Standard	Effective date	Further details
IFRS 16 leases	Expected in 2020-21	IFRS 16 will replace the current leases standard IAS 17. The key change is that it largely removes the distinction between operating and finance leases for lessees by introducing a single lessee accounting model that requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. It will lead to all leases being recognised on balance sheet as an asset based on a right of use principle with a corresponding liability for future rentals. This is a significant change in lessee accounting.

### B. Good Practice Exchange

The Wales Audit Office's GPX helps public services improve by sharing knowledge and practices that work. Events are held where knowledge can be exchanged face to face and resources shared on line. The main areas of work are regarding financial management, public-sector staff and governance.

[Further information, including details of forthcoming GPX events and outputs from past seminars.](#)

### C. Brexit: preparations for the United Kingdom's departure from membership of the European Union

In accordance with Article 50 of the Treaty of Rome, on 29 March 2019 the United Kingdom will cease to be a member of the European Union. Negotiations are continuing, and it currently remains unclear whether agreement will be reached on a transition period to 31 December 2020, or whether a 'no deal' immediate exit will take place next March.

The Auditor General has commenced a programme of work looking at the arrangements that the devolved public sector in Wales, including all NHS bodies, is putting in place to prepare for, and respond to, Britain's exit from the European Union. This will take the form of a high-level overview to establish what is being put in place across the Welsh public sector, and what the key issues are from the perspectives of different parts of the Welsh public service.

The Auditor General intends to carry out this initial work in two tranches. In autumn 2018, he issued a call for evidence to compile a baseline summary of arrangements being put in place. This will be followed up by further audit fieldwork in spring 2019.

The aim is to produce a report in summer 2019. The report's key messages and recommendations will be framed in the context of the UK moving to a new relationship with the European Union by the end of the planned transition period.

However, if it becomes clear that the UK is likely to leave the European Union without a Withdrawal Agreement (the 'no deal' scenario), we will publish a report as early as possible in 2019, ahead of the UK leaving the European Union on 29 March.

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