



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

2017 Audit Plan – Carmarthenshire County Council

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This document is also available in Welsh.

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2017 Audit Plan

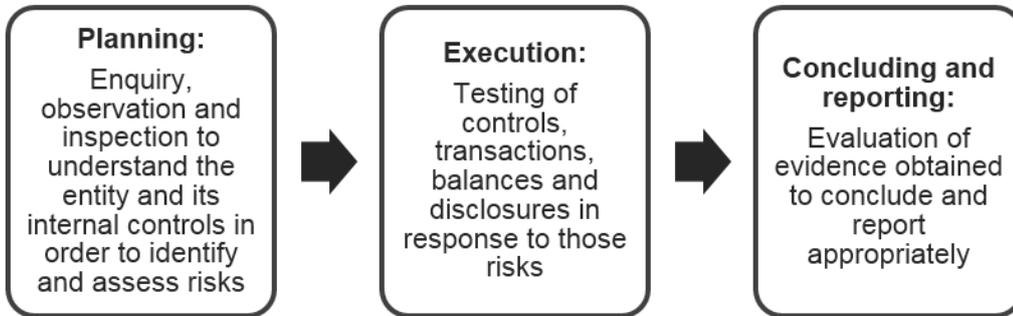
Summary

- 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), the Local Government Act 1999, and the Code of Audit Practice, namely to:
 - examine and certify whether your financial statements are ‘true and fair’;
 - assess whether you have made proper arrangements for securing economy, efficiency and effectiveness in the use of resources;
 - audit and assess whether you have discharged duties and met requirements of the Measure; and
 - undertake studies to enable me to make recommendations for improving economy, efficiency and effectiveness or for improving financial or other management arrangements.
- 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’.
- 6 I also consider whether or not Carmarthenshire County Council 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



9 The risks identified from my initial audit planning work that will impact on my financial statements audit, are set out in [Exhibit 2](#), along with the work I intend to undertake to address them.

Exhibit 2: financial audit risks

Financial audit risk	Proposed audit response
<p>Management override</p> <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.</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>Revenue recognition</p> <p>There is also a potential risk across all public sector entities of misstatement due to fraud or error in revenue recognition and, as such, is treated as a significant risk.</p>	<p>My audit team will evaluate which types of revenue give rise to such risks, obtain an understanding of the Council's related controls relevant to such risks and focus its testing on the timing and value of revenue where appropriate.</p>

Financial audit risk	Proposed audit response
<p>Financial Statements Production</p> <p>The timetable for producing the financial statements remains demanding. Management will need to ensure that appropriate arrangements are in place for the preparation and oversight of robust financial statements that comply with International Financial Reporting Standards (IFRS) and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code'). In addition, ensuring good quality working papers are provided on the commencement of the audit, with both these and the statements having been subject to appropriate senior management review. For Whole of Government Accounts purposes, Management must prepare a consolidation pack to support the consolidation of public sector resource accounts and there is a risk this may be inconsistent with the audited financial statements.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • provide support and advice wherever possible without compromising our independence; • provide an audit deliverables report to assist in the preparation of relevant working papers in support of the financial statements; • review closedown plans to assess that arrangements are in place to produce robust financial statements within the prescribed timetable; • agree a timetable for the audit and certification of the financial statements; • assess whether the financial statements comply with the Code; and • review the consolidation pack to ensure that it accurately reflects the audited financial statements.
<p>Valuation of property, plant and equipment</p> <p>Weaknesses in the processes in place to value property assets resulted in some material amendments in the 2014-15 and 2015-16 financial statements. There is a risk that these weaknesses are not fully addressed and assets are materially misstated in the 2016-17 accounts.</p>	<p>My audit team will meet with Council officers early to discuss the intended revised procedures to the valuation processes for 2016-17. We will also review the assumptions and bases used in the valuations, and test the accounting for movements in carrying values of assets to confirm compliance with the LG Code.</p>
<p>Minimum Revenue Provision</p> <p>Management has indicated an intention to amend its policy in how it calculates the provision for redemption of debt charged to revenue.</p>	<p>We will review the basis of the revised change and consider the Council's justification for doing so to ensure it meets its statutory duties and the requirements of the relevant legislation.</p>
<p>Capital Projects</p> <p>There are a number of material capital projects ongoing in 2016-17, with some slippage expected into 2017-18. There is an inherent risk that the financial statements will not reflect all work completed up to 31 March 2017.</p>	<p>My audit team will undertake tests to gain assurance that asset valuations, financing and capital commitments are correctly reflected in the financial statements.</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. The levels at which I judge such misstatements to be material will be reported to the Audit Committee prior to completion of the audit.
- 11 For reporting purposes, I will treat any misstatements below a 'trivial' level (5% of materiality) as not requiring consideration by those charged with governance and therefore I will not report them.
- 12 My fees are based on the following assumptions:
- information provided to support the financial statements is timely, to the quality expected and has been subject to quality assurance review;
 - 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 my responsibilities in respect of the audit of Carmarthenshire County Council's statutory financial statements set out above, I am also required to certify a return to the Welsh Government which provides information about the Council to support preparation of Whole of Government Accounts.

Certification of grant claims and returns

- 14 I have been requested to undertake certification work on Carmarthenshire County Council's grant claims and returns.
- 15 My audit fee for this work is set out in [Exhibit 6](#).

Other work undertaken

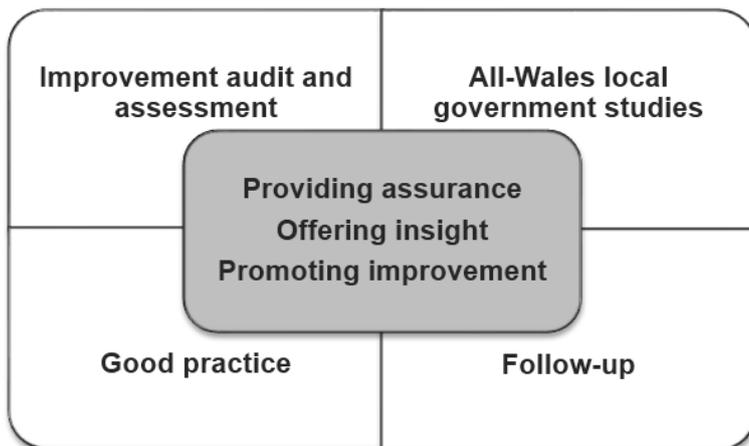
- 16 I am also responsible for the independent examination of Burry Port Harbour Authority's 2015-16 financial statements.
- 17 My audit fee for this work is set out in [Exhibit 6](#).
- 18 You will be aware that the CIPFA/LASAAC Local Authority Accounting Code Board (Code Board) has deferred the planned move to measuring the local authority highways network asset at depreciated replacement cost. The Code Board will consider whether the central GRC rates and central assurance processes will be delivered in a timely manner to enable successful implementation in 2017-18 at its meeting in March 2017. The requirements will be introduced in the 2017-18 Code.

- 19 Any required additional audit work in relation to the highways network asset cannot be contained within existing fees. The additional audit cost will be agreed based on the quality of the council's systems and records and the availability of central assurances. I anticipate that the additional fees related to the highways network asset will be reflected in the audit fee for 2017-18.
- 20 It will, however be important for authorities to maintain their momentum in preparing for this significant change and may wish to engage with their external auditor as they make progress. I will discuss with you the scope of any additional preparatory work required in 2017 and any additional audit fee for such work.

Performance audit

- 21 The components of my performance audit work are shown in [Exhibit 3](#).

Exhibit 3: components of my performance audit work



- 22 Local government in Wales is going through an unprecedented period of change. Austerity continues to bite, audited bodies will be required to adopt the principle of sustainable development from April 2016, and local government reform remains under consideration.
- 23 For 2017-18 the Measure will still be in place, and I will still need to examine whether authorities will meet their duty to make arrangements for continuous improvement. The challenge for me in these uncertain times is to balance my existing, new and proposed statutory duties with the need to continue to undertake meaningful, risk-based and proportionate audits and assessments.

- 24 During 2016 I consulted with public service bodies on how I can best discharge my various duties whilst striking the most appropriate balance and adding value by:
- providing assurance on the governance and stewardship of public money and assets;
 - offering insight on the extent to which resources are used wisely in meeting people’s needs; and
 - identifying and promoting ways by which the provision of public services may be improved.
- 25 In addition to the annual programme of audit and assessment work, the Wales Audit Office also undertakes a programme of local government studies. This work is included within the Wales Audit Office estimates for funding from the Welsh Consolidated Fund and not local fees. **Exhibit 4** summarises the present position on the current programme of studies. These studies primarily lead to a national report augmented by good practice and shared learning outputs rather than by local reports. Local findings, where relevant, will be captured in improvement assessment work and reported in annual improvement reports depending on the timing and the focus of conclusions.

Exhibit 4: local government studies

Study	Status
2015-16 studies	
Community safety	Published October 2016
Income generation and charging	Published November 2016
Council funding of third sector services	Published January 2017
2016-17 studies	
How local government manages demand	Fieldwork
Strategic commissioning	Fieldwork
Improving well-being through housing adaptations	Fieldwork

- 26 Taking all these factors into consideration, my 2017-18 programme of work will comprise:

Exhibit 5: performance audit programme

Performance audit programme	Brief description
<p>Improvement audit and assessment work including:</p> <ul style="list-style-type: none"> • improvement planning and reporting audit; • follow-up of local and national proposals for improvement/recommendations; • local risk-based projects – TBC; and • Annual Improvement Report. 	<ul style="list-style-type: none"> • basic certification of improvement plan and annual report; • follow-up review of a sample of local and national proposals for improvement/recommendations; • project briefs will be shared prior to commencement of project work; and • summary of performance audit work undertaken in the year.
<p>WFG baseline assessment</p>	<p>The Year One Commentary: We will gather evidence on how the 44 bodies are beginning to respond to the requirements of the WFG Act and identify examples of notable emerging practice. The work will be designed to support improvement and inform future audit work under the Act.</p>
<p>WFG Scrutiny review</p>	<p>This review will examine the impact of the WFG Act on the work of scrutiny committees, including PSB scrutiny, facilitating improvement and the sharing of good practice.</p>
<p>Service User Perspective review</p>	<p>This project will test the service-user interface at all authorities. The review will evaluate what it feels like (as a member of the public) to deal with council services, involving a selection of services and scenarios.</p>

27 The performance audit projects included in last year’s Audit Plan, which are either still underway or which have been substituted for alternative projects in agreement with you, are set out in [Appendix 2](#).

Fee, audit team and timetable

Fee

- 28 The Wales Audit Office does not generate profits on fees. Legislation requires that the fees charged may not exceed the full cost of exercising the function to which the fee relates. The fee rates are set at a level to recover that full cost. My fee rates have been held static for 2017 and my audit teams will continue to look for efficiencies in their audits and welcome working with you constructively on this.
- 29 Your estimated fee for 2017 is set out in [Exhibit 6](#). This figure represents a 4.5% decrease compared to the fee set out in the 2016 audit plan.

Exhibit 6: audit fee

Audit area	Proposed fee (£)	Actual fee last year (£)
Audit of accounts	183,946	184,167
Performance audit work	100,261	116,382
Grant certification work	72,000	72,709
Burry Port Harbour independent examination	750	758
Total fee	356,957	374,016

- 30 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.
- 31 Further information on my [fee scales and fee setting](#) can be found on the Wales Audit Office website.

Audit team

- 32 The main members of my team, together with their contact details, are summarised in [Exhibit 7](#).

Exhibit 7: my team

Name	Role	Contact number	E-mail address
Richard Harries	Engagement Director and Engagement Lead – Financial Audit	02920 320500	Richard.harries@audit.wales
Huw Rees	Engagement Lead – Performance Audit	02920 320599	Huw.Rees@audit.wales

Name	Role	Contact number	E-mail address
Jason Garcia	Financial Audit Manager	07854 022649	Jason.garcia@audit.wales
Julie Owens	Financial Audit Team Leader	01267 224489	Julie.owens@audit.wales
Jeremy Evans	Performance Audit Manager	07825 052861	jeremy.evans@audit.wales
Alison Lewis	Performance Audit Lead	07773 193217	alison.lewis@audit.wales

- 33 I can confirm that my team members are all independent of Carmarthenshire County Council and your officers. In addition, I am not aware of any potential conflicts of interest that I need to bring to your attention.

Timetable

- 34 I will provide reports, or other outputs as agreed, to Carmarthenshire County Council 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
2017 Audit Plan	January to March 2017	March 2017
Financial accounts work: <ul style="list-style-type: none"> Audit of Financial Statements Report Opinion on Financial Statements Financial Accounts Memorandum 	January to September 2017	September 2017 September 2017 October 2017
Performance work: <ul style="list-style-type: none"> See Exhibit 5 	To be arranged	To be arranged
Annual Improvement Report	Throughout the year	June 2018
2018 Audit Plan	January to March 2018	March 2018
WFG: year one commentary	To be arranged	N/A

Future developments to my audit work

Well-being of Future Generations (Wales) Act 2015

35 The Well-being of Future Generations (Wales) Act 2015 (the Act) became law in April 2015. The Act requires me to report before the next National Assembly election on how public bodies are acting in accordance with the sustainable development principle when setting their well-being objectives and taking steps to meet them. In 2017 I will conduct my first work under the Act – the Year One Commentary – to understand how bodies are beginning to respond to the requirements. I will also work collaboratively with a small number of public bodies, including the central government sector, to develop an audit approach that is meaningful and proportionate and can be adopted in subsequent years.

Other

- 36 Details of other future developments including changes to key IFRS and of the Wales Audit Office's Good Practice Exchange (GPX) seminars are set out in [Appendix 4](#).
- 37 The Wales Audit Office's GPX programme seeks to support the improvement of public services across Wales by identifying and sharing good practice. The GPX seminars bring a range of public sector bodies together to share their practical experiences and learning in areas we consider would benefit from sharing good practice. The seminars are provided free of charge to delegates. Forthcoming events include:
- the challenges posed by indirectly provided, publicly funded services in Wales;
 - how you manage risk around organisation change, service transformation and innovation; and
 - measuring outcomes: who's doing it and how (linked to Well-Being of Future Generations Act).

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 Carmarthenshire County Council 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;
- Carmarthenshire County Council'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 Carmarthenshire County 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. 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 Carmarthenshire County Council 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.

Performance audit

The Measure places a general duty on improvement authorities to 'make arrangements to secure continuous improvement in the exercise of [their] functions'. It also places specific requirements on authorities to set improvement objectives, and to publish annual improvement plans and assessments of performance. Improvement authorities are defined as county and county borough councils, national park authorities, and fire and rescue authorities.

The Measure also requires me to carry out an improvement assessment for each improvement authority every year, to determine whether the authority is likely to comply with its general duty and requirements of the Measure. The Auditor General must also carry out an audit of whether the authority has discharged its improvement planning and reporting duties.

The Auditor General may also in some circumstances carry out special inspections (under section 21), in respect of which he will provide a report to the relevant authorities 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

Performance work in last year's audit outline still in progress

Exhibit 9: performance work in last year's audit outline still in progress

Performance audit project	Status	Comment
Transformation theme	Not started	Expected to commence in March 2017 and conclude by June 2017
Local projects	Fieldwork underway	To be reported in the Annual Improvement Report – May 2017
Good governance when determining significant service changes	Report drafting	Draft report expected to be issued in March/April 2017

Appendix 3

National value-for-money studies

Carmarthenshire County Council may also be interested in the national value-for-money examinations which I undertake, some of which will be of particular relevance to, and may involve evidence gathering across, local government. These studies are supported by funds approved by the National Assembly. Reports are presented to the National Assembly's Public Accounts Committee to support its scrutiny of public expenditure and potentially support scrutiny by other National Assembly committees.

Exhibit 10 covers all of the value-for-money studies work currently programmed.

The programme includes all-Wales summaries of audit work undertaken locally in the NHS and reactive examinations into specific issues of public concern that have been raised with me. In addition to the work outlined below, I may decide during the year to prepare other national reports summarising local audit work or based on the findings of reactive examinations.

I am also currently consulting with the Public Accounts Committee and other stakeholders about the inclusion in my programme of a number of new value-for-money studies to be rolled out during 2017-18. For example, I have already indicated to the committee that, following my July 2016 report on the Welsh Government's funding of Kancoat Ltd, I am considering a broader examination of the Welsh Government's support for business.

Further updates on my programme of value-for-money studies will be provided to you within the regular progress reports prepared by my team.

Exhibit 10: national value-for-money studies

Topic	Anticipated publication (as at 3 January 2017)
Outpatient follow-up appointments	February 2017
Governance and oversight of arms-length bodies (discussion paper)	February 2017
Welsh Government oversight of further education institutions' finances and delivery	March 2017
Circuit of Wales	February 2017
Emergency ambulance services commissioning	February 2017
21st century schools and education programme	March 2017
Public procurement landscape review	April to July 2017
Waste management (waste prevention)	April to July 2017
Waste management (municipal recycling) ¹	April to July 2017

¹ In addition to the work on waste prevention and municipal recycling, I will be taking forward a review of waste treatment infrastructure in early 2017.

Topic	Anticipated publication (as at 3 January 2017)
Implementation of the NHS Finances (Wales) Act 2014 (integrated medium-term planning)	April to July 2017
Supporting People programme	April to July 2017
NHS Wales informatics services	April to July 2017
Access to public services with the support of specialist interpretation and translation	August to October 2017
Preparations for the implementation of fiscal devolution in Wales (follow-on report)	August to October 2017
Early intervention and behaviour change	TBC ²

² My programme of good practice work has included a project exploring behaviour change work across Welsh public services and opportunities to improve practice, deliver better outcomes for citizens, and achieve better value for money. I still anticipate that the information and evidence gathered through this work will support the production of a report on this topic, although this is unlikely to be a traditional audit report and plans for its production are still to be confirmed.

Appendix 4

Other future developments

Forthcoming key IFRS changes

Exhibit 11: forthcoming key IFRS changes

Standard	Effective date	Further details
IFRS 9 Financial instruments	2018-19	IFRS 9 financial instruments will replace IAS 39 and includes 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 an expected losses rather than incurred losses. This will result in earlier and more timely recognition of expected credit losses. The accounting requirements for financial liabilities are almost all carried forward unchanged from IAS 39.
IFRS 15 Revenue from contracts with customers	2018-19	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 the body expects to be entitled to, in exchange for those goods or services. It will also require more extensive disclosures than are currently required.
IFRS 16 Leases	2019-20	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.

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 online.

The focus of GPX events include financial management, public sector staff and governance.

Further information, including details of forthcoming GPX events and outputs from past seminars, can be found on the [GPX section of the Wales Audit Office website](#).

Registration for all events will open two months prior to the event.

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