

Archwilydd Cyffredinol Cymru
Auditor General for Wales



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

2016 Audit Plan

The City of Cardiff Council

Audit year: 2015-16

Issued: February 2016

Document reference: 173A2016

Status of document

This document has been prepared for the internal use of The City of Cardiff Council as part of work performed/to be performed in accordance with statutory functions.

No responsibility is taken by the Auditor General or the staff of the Wales Audit Office 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 the Wales Audit Office are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at info.officer@audit.wales.

Contents

2016 Audit Plan

Summary	4
Financial audit	4
Certification of grant claims and returns	7
Other work undertaken	8
Performance audit	8
Fee, audit team and timetable	10
Future developments to my audit work	13

Appendices

Respective responsibilities	14
Summary of grant claim certification work	16
National value-for-money studies	18

2016 Audit Plan

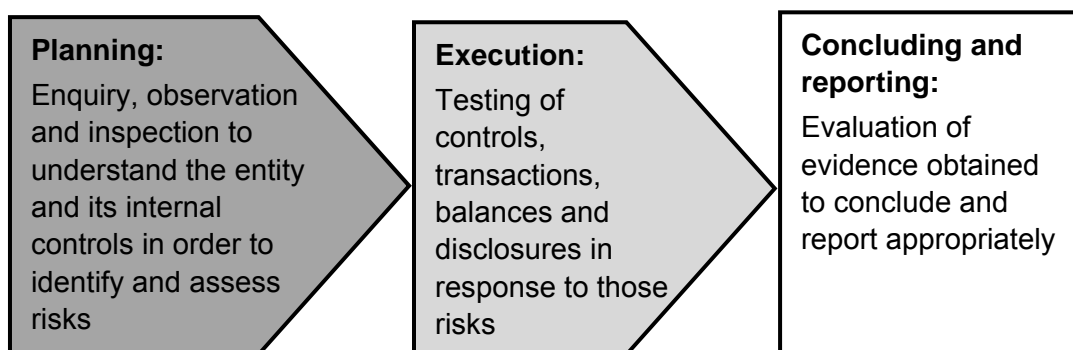
Summary

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 the 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](#).

Financial audit

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 the City of Cardiff Council (the 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 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.

Exhibit 2: Financial audit risks

Financial audit risk	Proposed audit response
<p>Cardiff Capital Region (the region) City Deal:</p> <p>City deals are arrangements negotiated with government that give greater accountability for actions in return for new powers to help encourage growth and jobs. The region's deal involves 10 South Wales local authorities. To take forward negotiations a City Deal Partnership Board has been formed which is supported by a number of groups. In November 2015 the region made a headline submission for a £1.28 billion City Deal to the UK Treasury with the Welsh Government committing to providing up to £580 million of capital funding. Such a significant programme will have financial, governance and delivery risks that need to be managed.</p>	<p>Liaising closely with the external auditors of the other nine Local Authorities, my audit team will monitor progress with the region's City Deal bid and carry out early work as necessary to assess the existing and proposed financial and governance arrangements. We will also take into account the work undertaken by HM Treasury to scrutinise the effectiveness of the region's governance arrangements.</p>
<p>Financial Challenges:</p> <p>The Council continues to face significant financial challenges in common with the rest of the public sector. These financial pressures increase the risk of manipulation of balances in the financial statements to achieve the projected year-end position.</p>	<p>My audit team will reflect the Council's financial position in planning the audit and will direct audit testing to the areas of greatest risk.</p>

Financial audit risk	Proposed audit response
<p>Asset management</p> <p>The Council has a number of schemes planned or ongoing which involve alternative delivery models, redevelopment and regeneration, disposal of assets, potential asset transfers etc. There are risks that the financial implications of these schemes will not be correctly reflected in the accounts.</p>	<p>My audit team will review how these schemes have been accounted for to ensure accounting entries are correct.</p>
<p>Capitalisation of expenditure</p> <p>In 2014-15 we identified that some revenue expenditure had been incorrectly capitalised in the accounts. This was not material in 2014-15 but processes for identifying and capitalising relevant expenditure needed to improve.</p>	<p>My audit team will review the revised processes in place to ensure that the CIPFA Code requirements for the capitalisation of expenditure are applied.</p>
<p>Voluntary severance scheme/Exit packages</p> <p>The need to make financial savings in recent years has resulted in a significant reduction in staff numbers, with more scheduled to leave in 2015-16. There are risks that, with a significant number of staff leaving, there will be insufficient focus on the operation of key financial and management controls and that the cost of the voluntary redundancy scheme will not be correctly reflected in the accounts.</p>	<p>My audit team will review key controls for material financial systems to ensure controls are still effective and ensure that all costs associated with the departures are captured accurately within the service expenditure areas and provisions.</p>
<p>Financial Statements Production</p> <p>The timetable for producing the financial statements remains demanding.</p> <p>Management will need to ensure that appropriate arrangements for the preparation and oversight of robust financial statements, in addition to good quality working papers, are provided on the commencement of the audit, with both having been subject to appropriate senior management review.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • provide support and advice to the Council wherever possible without compromising our independence; • review closedown plans to assess that arrangements are in place to produce robust financial statements within the prescribed timetable; and • agree a timetable for the audit and certification of the financial statements.

Financial audit risk	Proposed audit response
<p>Fraud Risks</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 at all audits.</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.

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 (the lower of five per cent of materiality or £100,000) 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 the 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 the Council's grant claims and returns as set out in [Appendix 2](#).
15. My audit fee for this work is set out in [Exhibit 5](#).

Overall issues identified

16. [Exhibit 3](#) summarises the more significant and/or recurring issues I identified when undertaking grant certification work in 2014-15.

Exhibit 3: Overall issues relating to grant claim and return certification

Qualified grant claims and returns qualified in 2014-15

Of the eighteen 2014-15 grant claims and returns that we certified, we qualified two compared to nine in 2013-14. This represents 11 per cent of the total, which was an improvement on the 35 per cent qualified in 2013-14. The issues on which we qualified concerned the lack prior approval for virements and late payment of accruals.

Effectiveness of grant coordination arrangements

All of the eighteen claims and returns for 2014-15 that required certification were submitted on time, an improvement over the four out of 25 received late in 2013-14. The majority of claims were delivered with working papers of an acceptable standard.

Issues related to specific grant claims and returns

17. 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 [Appendix 2](#).

Other work undertaken

18. I am also responsible for the audit of:
- Cardiff Harbour;
 - Cardiff Port Health Authority;
 - Glamorgan Archives Joint Committee;
 - Project Gwyrdd; and
 - Welsh Purchasing Consortium.
19. My audit fee for this work is set out in [Exhibit 5](#).

Performance audit

20. The components of my performance audit work are shown in [Exhibit 4](#) and have been designed in order to help deliver the high-level objectives [set out in our 2013-2016 corporate strategy](#).

Exhibit 4: Components of my performance audit work



21. 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 the draft Local Government (Wales) Bill proposes fewer councils and a renewed performance framework. The Minister for Public Services has publicly stated that he would like to see a refreshed audit regime in advance of the legislative timetable with a view to supporting change. In January this year the minister advised me of a substantial reduction in the grant that subsidises my local government performance audit work under the Measure.
22. However, for 2016-17 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.
23. In spring 2016 I will be engaging in a consultation 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.

-
24. Taking all these factors into consideration, I am presently unable to be specific about my programme of performance audit work in local government. I am working through the practicalities of designing an appropriate programme of work, and examining the implications of the reduction in grant funding with a view to ensuring, as far as I am able, that there is little adverse impact on local authorities through fees.
 25. As soon as practical, I will write to confirm my 2016-17 programme of work.

Fee, audit team and timetable

Fee

26. 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 2016 and my audit teams will continue to look for efficiencies in their audits and welcome working with you constructively on this.
27. Your estimated fee for 2016 is set out in [Exhibit 5](#) (on page 11). This figure represents a five per cent decrease compared to the fee set out in the 2015 audit plan.

Exhibit 5: Audit fee

Audit area	Proposed fee (£) ¹	Actual fee last year (£)
Financial audit work¹	291,200	312,284
Performance audit work²	108,774	108,774
Total fee	399,974	421,058
Grant certification work³	80,500	87,125
Other audit work		
Cardiff Harbour ⁴	17,333	17,333
Cardiff Port Health Authority ⁴	2,373	2,373
Glamorgan Archives Joint Committee ⁴	2,373	2,373
Project Gwyrdd ⁴	2,373	2,373
Welsh Purchasing consortium ⁴	2,373	2,373
Total fee for other audit work	26,825	26,825

Notes:

¹ Payable November 2015 to October 2016.

² Payable April 2016 to March 2017.

³ Payable as work is undertaken.

⁴ Payable on conclusion of audit work

28. 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.
29. Further information on my [fee scales and fee setting can be found on the Wales Audit Office website](#).

¹ The fees shown in this document are exclusive of VAT, which is no longer charged to you.

Audit team

30. The main members of my team, together with their contact details, are summarised in Exhibit 6.

Exhibit 6: My team

Name	Role	Contact number	E-mail address
Ann-Marie Harkin	Engagement Director/ Engagement Lead – Financial Audit	02920 320500	ann-marie.harkin@audit.wales
Alan Morris	Engagement Lead – Performance Audit	02920 320500	alan.morris@audit.wales
Janet McNicholas	Financial Audit Manager	02920 872259 02920 872258	janet.mcnicholas@audit.wales
Jon Martin Roy Blake	Financial Audit Team Leaders	02920 872259 02920 872258	jon.martin@audit.wales roy.blake@audit.wales
Non Jenkins	Performance Audit Manager	02920 320500	non.jenkins@audit.wales
Chris Pugh	Performance Audit Lead	02920 320523	chris.pugh@audit.wales

31. I can confirm that my team members are all independent of the 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

32. I will provide reports, or other outputs as agreed, to the Council covering the areas of work identified in this document. My key milestones are set out in [Exhibit 7](#).

Exhibit 7: Timetable

Planned output	Work undertaken	Report finalised
2016 Audit Plan	January/February 2016	March 2016
Financial accounts work: <ul style="list-style-type: none">• Audit of Financial Statements Report• Opinion on Financial Statements• Financial Accounts Memorandum	February – September 2016	September 2016 September 2016 October 2016
Performance work: <ul style="list-style-type: none">• I am presently unable to be specific about my programme of performance audit work in local government	April 2016 to March 2017	As soon as is practical I will write to confirm my 2016-17 programme of work.
2017 Audit Plan	January 2017	February 2017

* Subject to timely clearance of draft findings with the Council.

Future developments to my audit work

33. The Well-being of Future Generations (Wales) Act 2015 (the Act) requires me to have undertaken an examination in each of the public bodies specified within the Act and to have provided a report to the National Assembly, by 2020.
34. As referred to in [paragraph 25](#), I will be consulting on my proposed response to the Act in spring 2016. This consultation will feature a commitment to engage and work collaboratively with public bodies in developing an audit approach which is rigorous, meaningful and proportionate. I propose using 2016-17 as a transition year during which my teams work with a limited number of public bodies to develop and test my approach.
35. As we confirm our audit approaches and respond to continuing consultation from the Welsh Government, we will be talking to audited bodies about the implications for their fees from 2017-18 onwards and will be exploring alternative funding models with the next National Assembly's Finance Committee.

Appendix 1

Respective responsibilities

Financial audit

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 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;
- the 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 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. 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 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

Summary of grant claim certification work

Name of scheme	Period of scheme	Total/annual expenditure	Issues identified in 2014-15
Housing Benefit Subsidy	2014-15	£151,943,937	No significant issues, but an amendment was made to the claim for a technical matter that had no impact on the total value of the claim.
21st Century Schools	2014-15	£2,743,278	The claim had not been properly completed. The resulting amendments had no value impact.
Butetown Regeneration Project	2007-13	£397,755	None.
Flying Start – Revenue	2014-15	£8,448,092	The claim was amended to remove expenditure incurred outside 2014-15 and qualified because Welsh Government approval had not been sought for virements.
Flying Start - Capital	2014-15	£2,515,908	The claim had not been properly completed. The resulting amendments had no value impact.
Families First	2014-15	£5,401,077	None.
Substance Misuse Action Fund	2014-15	£3,646,679	None.
Housing Revenue Account Subsidy	2014-15	£14,676,193	Adjustment was made for a calculation error also made in the previous year.
Non domestic Rates Final Contribution	2014-15	£173,425,351	None.

Name of scheme	Period of scheme	Total/annual expenditure	Issues identified in 2014-15
Sustainable Waste Management	2014-15	£7,390,126	None.
Teachers' Pensions Return	2014-15	£26,871,929	None.
Communities First – Cardiff East Cluster	2014-15	£639,485	This claim was amended to remove expenditure relating to the previous year.
Communities First – Cardiff West Cluster	2014-15	£793,412	The quality of working papers and supporting information provided by the third party cluster management team needs improvement.
Communities First – BRG Cluster	2014-15	£694,538	Amendments were made to the claim. The quality of working papers and supporting information provided by the third party cluster management team needs improvement.
Communities First – STAR Cluster	2014-15	£744,385	Amendments were made to the claim. The quality of working papers and supporting information provided by the third party cluster management team needs improvement.
Social Care Workforce Development	2014-15	£830,138	None.
Local Transport Fund	2014-15	£1,687,000	Approval was not sought from Welsh Government for virements made within the claim.
Free Concessionary Travel by Elderly and Disabled People on Local Bus Services in Wales	2014-15	£10,584,922	None regarding the claim. However, the process for collating Smartcard (electronic bus pass) usage data needs improvement.

Appendix 3

National value-for-money studies

The 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 funded 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.

The table below 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.

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

Topic	Anticipated publication timeframe
Welsh Government acquisition and ownership of Cardiff Airport	Late January 2016
The development of Natural Resources Wales	Early February 2016
Operating theatres	February 2016
Impact of private practice on NHS provision	February 2016
Wales Life Sciences Investment Fund	March 2016
Welsh Government responses to audit recommendations (memorandum for the Public Accounts Committee)	Spring 2016
Coastal flood and erosion risk management	Spring 2016
Rail services	Spring 2016
Governance of the National Library of Wales	Spring 2016
Welsh Government oversight of further education institutions' finances and delivery	Autumn 2016
Public procurement (including development of the National Procurement Service)	Winter 2016

Topic	Anticipated publication timeframe
Early intervention and behaviour change	Spring/summer 2017 ²
Welsh Government interventions in local government	TBC ³

I have been considering over recent months the inclusion in my programme of a number of new studies on:

- the NHS Wales Informatics Service;
- capital investment in schools (21st Century schools programme) and school places;
- further education finances;
- waste management;
- the Supporting People programme; and
- access to public services for people whose first language may not be English or Welsh and those who may be disadvantaged without access to specialist interpretation services.

With the exception of the further education study, referred to in the table above, firm plans for these new studies are yet to be confirmed, although initial scoping work is underway.

² My programme of good practice work includes a project that will aim to explore the range of behaviour change work across Welsh public services and opportunities to improve practice, deliver better outcomes for citizens, and achieve better value for money. The project will include a range of engagement events and the development of a community of practice to share learning and experience. I 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 it would not be prepared until the first half of 2017.

³ Plans for this work have been under review in light of the Welsh Government commissioned review of the Anglesey intervention by the Public Policy Institute for Wales, and also to consider the implications for the work of plans for local government reform.

Wales Audit Office
24 Cathedral Road
Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

E-mail: info@audit.wales

Website: www.audit.wales

Swyddfa Archwilio Cymru
24 Heol y Gadeirlan
Caerdydd CF11 9LJ

Ffôn: 029 2032 0500

Ffacs: 029 2032 0600

Ffôn Testun: 029 2032 0660

E-bost: post@archwilio.cymru

Gwefan: www.archwilio.cymru