

Archwilydd Cyffredinol Cymru
Auditor General for Wales



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

2015 Audit Plan

City of Cardiff Council

Issued: March 2015

Document reference: 179A2015

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2015 Audit Plan

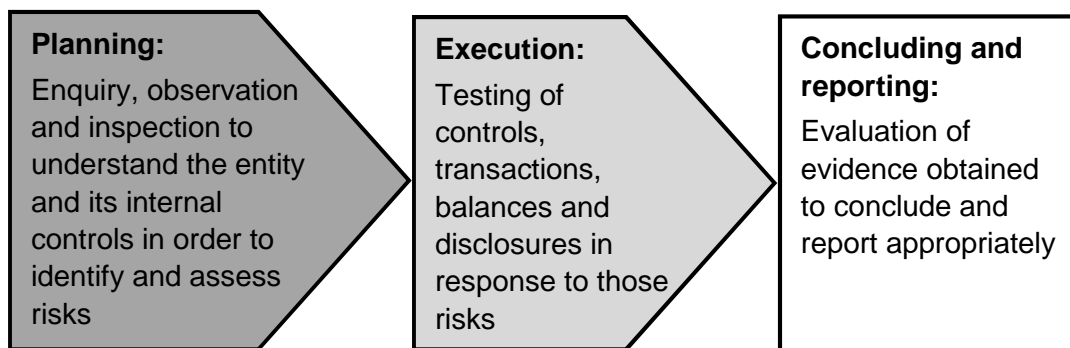
Summary

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. 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



8. The risks of misstatement which I have identified through my initial audit planning work 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>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>
<p>Voluntary severance scheme</p> <p>The need to make financial savings in recent years has resulted in significant reduction in staff numbers, with more scheduled to leave in 2014-15. 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>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.</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.

Financial audit risk	Proposed audit response
<p>There is also a potential risk of misstatement due to fraud in revenue recognition.</p>	<p>My audit team will evaluate if there is a risk and if so which types of revenue give rise to such risks, obtain an understanding of the Council's related controls relevant to such risks and carry out focused testing of balances where appropriate.</p>
<p>Financial statement risks</p>	
<p>Accounting for schools For 2014-15 CIPFA has provided updated guidance on the accounting arrangements for local authority maintained schools. There is a risk that the new guidance will not be fully adopted by the Council and that the accounts will therefore be misstated.</p>	<p>My audit team will review the work undertaken to ensure the guidance has been adopted and that the relevant accounting entries are correct.</p>
<p>Joint working The Council has entered into a number of joint working/collaboration arrangements eg, Education through regional working. There is a risk that these arrangements will not be correctly disclosed in the Council's statement of accounts.</p>	<p>My audit team will review the work undertaken to identify and classify all such arrangements and to ensure that, if required, they are correctly reflected in the statement of accounts.</p>
<p>Potential holiday pay accruals Recent European and UK case law has changed the way employers must calculate holiday pay to include overtime, shift allowances etc, where applicable. There is a risk that the potential impact of this change has not been evaluated by the Council to consider whether a provision should be made for potential backdated claims.</p>	<p>My audit team will review what has been done by the Council to evaluate its potential exposure to backdated claims.</p>
<p>Cardiff Harbour Authority As harbour authorities are statutory undertakings, they are required to produce separate annual statements of account. There is a risk that, in this first year of preparation, the accounts will not be produced in line with Companies Act requirements.</p>	<p>My team will work with your officers to discuss the accounting requirements of the Harbour Authority and audit the accounts produced.</p>

9. 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 level at which I judge such misstatements to be material will be reported to the Audit Committee prior to completion of the audit.

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10. 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.
11. My fees are based on the following assumptions:
- access will be provided to all information that management is aware of that is relevant to the preparation of the financial statements together with any additional information we may request to support the audit;
 - information provided to support the financial statements is timely, to the quality expected and has been subject to quality assurance review;
 - all appropriate officials will be available during the audit and we will have unrestricted access to officers from whom it is necessary to obtain audit evidence;
 - 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.
12. 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

13. I have been requested to undertake certification work on the Council's grant claims and returns as set out in [Appendix 2](#).
14. My estimated audit fee for this work is set out in [Exhibit 6](#).

Overall issues identified

15. [Exhibit 3](#) summarises the more significant and/or recurring issues I identified when undertaking grant certification work in 2013-14.

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

Qualified grant claims and returns qualified in 2013-14

Of the 2013-14 grant claims and returns that we certified we qualified nine, compared to 13 in 2012-13. This represents 39 per cent of the total, which was an improvement on the 42 per cent qualified in 2012-13. The main issues on which we qualified concerned the lack or quality of supporting evidence and ineligible expenditure, particularly relating to third parties participating in the grant schemes.

Effectiveness of grant co-ordination arrangements

Sixty-nine per cent of claims and returns for 2013-14 that required certification were submitted on time, a decline in performance from the 100 per cent received in 2012-13. The majority of claims were delivered with working papers of an acceptable standard.

Performance audit

16. I am required by the Measure to carry out an improvement assessment for each improvement authority every year, to determine whether the authority is likely to comply with requirements to make arrangements to secure continuous improvement. I must also carry out audits of whether the authority has discharged its duties under the Measure. My improvement assessment work, combined with my work on financial matters, also discharges my responsibility to satisfy myself that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
17. I am also required under the Measure to undertake periodic corporate assessments at each improvement authority. Since 2013-14, I have undertaken this programme of corporate assessments on a cyclical basis. Currently I have agreed with the Welsh Government that I may use the grant that I receive from the Welsh Government to fund the corporate assessment. This means that, in addition to fee-funded improvement assessment and audit work, each authority will receive an in-depth corporate assessment once during a four-year period. In the intervening years, I will maintain a 'light-touch' overview of developments and of the progress made by the authority. In the event of emerging issues of concern or matters of priority, I do reserve the flexibility to undertake a more frequent corporate assessment.
18. I set out in this section the 12-month programme of performance audit work to be undertaken at the Council. The content of the programme has been determined by a consideration of the risks and challenges facing the Council, the extent of accumulated audit and inspection knowledge, including that of other external review bodies, as well as other available sources of information including the City of Cardiff Council's own mechanisms for review and evaluation.
19. 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 (www.wao.gov.uk/publication/wales-audit-office-corporate-strategy-2013-2016).

Exhibit 4: Components of my performance audit work



20. The performance work I propose to undertake is summarised in [Exhibit 5](#).

Exhibit 5: Contents of my 2015-16 performance audit work programme

	Specific projects
Improvement audit and assessment	<p>‘Improvement plan’ audit Audit of discharge of duty to publish an improvement plan.</p> <p>‘Assessment of performance’ audit Audit of discharge of duty to publish an assessment of performance.</p> <p>Financial management review Further work on financial management arrangements following up our 2014-15 review, and looking forward to 2016-17 budget setting and savings proposals. There will also be a focus on the reserves position, policy and use of reserves. Further work to be determined in relation to the Corporate Assessment Follow-up.</p> <p>Governance review To be determined in relation to the Corporate Assessment Follow-up.</p> <p>Performance management review To be determined in relation to the Corporate Assessment Follow-up.</p> <p>Locally determined review(s) To be determined in relation to the Corporate Assessment Follow-up.</p>

	Specific projects
Follow-up work	I will maintain a focus on assessing the progress that has been made in implementing recommendations from my previous work. As part of this work, I will seek assurance that the Council has appropriate corporate processes for responding to my reports, tracking implementation of my recommendations and reporting this to the appropriate committee. Specific follow-up work to be determined in relation to the Corporate Assessment Follow up.
Local government studies	At the time of writing, the results of consultation are being considered before the studies programme is finalised.
Good practice	In line with my commitment to identify and share good practice, I will continue to host shared learning seminars, identify relevant case studies and focus my work on identifying and promoting effective practice.

21. 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 3](#).

Fee, audit team and timetable

Fee

22. Your estimated fee for 2015 is set out in [Exhibit 6](#). This figure represents a 2.5 per cent decrease compared to last year's fee.

Exhibit 6: Audit fee

Audit area	Proposed fee (£) ¹	Actual fee last year (£)
Financial audit work ¹	312,284	323,288
Performance audit work ²	108,774	108,774
Total fee	421,058	432,062
Estimated Grant certification work ³	111,000	110,322

Notes:

¹ Payable November 2014 to October 2015 (excludes Cardiff Harbour audit).

² Payable April 2015 to March 2016.

³ Payable as work is undertaken.

23. 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.
24. Further information on my fee scales and fee setting can be found on the Wales Audit Office website at: www.wao.gov.uk/about-us/fee-scales-and-fee-setting.

Audit team

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

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

Exhibit 7: My team

Name	Role	Contact number	E-mail address
Ann-Marie Harkin	Engagement Director/ Engagement Lead – Financial Audit	02920 320500	Ann-Marie.Harkin@wao.gov.uk
Alan Morris	Engagement Lead – Performance Audit	02920 320500	Alan.Morris@wao.gov.uk
Janet McNicholas	Financial Audit Manager	02920 872259 02920 872258	Janet.Mcnicholas@wao.gov.uk
Emma Woodcock Roy Blake	Financial Audit Team Leaders	02920 872259 02920 872258	Emma.Woodcock@wao.gov.uk Roy.Blake@wao.gov.uk
Non Jenkins	Performance Audit Manager	02920 320500	Non.Jenkins@wao.gov.uk
Chris Pugh	Performance Audit Lead	02920 320523	Chris.Pugh@wao.gov.uk

26. I can confirm that my team members are all independent of the City of Cardiff 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

27. 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 8](#).

Exhibit 8: Timetable

Planned output	Work undertaken	Report finalised
2015 Audit Plan	January 2015 to March 2015	March 2015
Financial accounts work: <ul style="list-style-type: none"> Audit of Financial Statements Report Opinion on Financial Statements Annual Audit Letter Financial Accounts Memorandum 	February to September 2015	September 2015 September 2015 November 2015 November 2015

Planned output	Work undertaken	Report finalised
Performance work: <ul style="list-style-type: none"> • Improvement plan audit • Assessment of performance audit • Financial management review • Governance review • Performance management review • Locally determined review(s) 	(Estimated) March to April 2015 October to November 2015 June to October 2015 To be determined in relation to the Corporate Assessment Follow-up	(Estimated)* April 2015 November 2015 December 2015 To be determined in relation to the Corporate Assessment Follow-up
Annual Improvement Report	2015-16	March 2016
2016 Audit Plan	January to March 2016	March 2016

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

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 City of Cardiff 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 City of Cardiff 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 City of Cardiff 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

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- 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 City of Cardiff 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. I must also carry out an audit of whether the authority has discharged its improvement planning and reporting duties.

To discharge the requirements of the Measure I undertake periodic corporate assessments at each improvement authority. Since 2013-14, I have undertaken this programme of corporate assessments on a cyclical basis. Currently I have agreed with the Welsh Government that I may use the grant that I receive from the Welsh Government to fund the corporate assessment. This means that, in addition to fee-funded improvement assessment and audit work, each authority will receive an in-depth corporate assessment once during a four-year period. In the intervening years, I will maintain a 'light-touch' overview of developments and of the progress made by the authority. In the event of emerging issues of concern or matters of priority, I do reserve the flexibility to undertake a more frequent corporate assessment.

I may also in some circumstances carry out special inspections (under section 21), in respect of which I will provide a report to the relevant authorities and Ministers, and which I may publish (under section 22). I will summarise audit and assessment reports in my published Annual Improvement Report (under section 24). This will also summarise any reports of special inspections.

In addition to my programme of audit and assessment work under the Measure, I undertake a programme of Local Government Studies as required under sections 41 and 42 of the Public Audit (Wales) Act 2004. This work is not included within the local performance audit fee, but is included within the Wales Audit Office estimates for funding from the Welsh Consolidated Fund.

Appendix 2

Summary of grant claim certification work

Name of scheme	Period of scheme	Value of claim 2013-14 £
Housing benefits subsidy	2014-15	151,627,077
Schools effectiveness and pupil deprivation grant	2014-15	7,219,581
Transitional SBIG (21st century schools)	2014-15	27,451,000
Learning Pathways	2014-15	1,182,343
Welsh in education	2014-15	178,158
Flying Start	2014-15	6,773,175
Flying Start capital	2014-15	1,546,133
Families First	2014-15	5,304,597
Substance Misuse Action Fund	2014-15	3,646,618
HRA Subsidy	2014-15	14,898,985
National Domestic Rates return	2014-15	176,853,700
Sustainable waste management	2014-15	7,585,511
Land Drainage	2014-15	343,298

Name of scheme	Period of scheme	Value of claim 2013-14 £
Teachers pension return	2014-15	26,109,667
Communities First – new programme	2014-15	2,488,431
Cardiff Bay and Harbour Authority	2014-15	7,585,511
Social care workforce development programme	2014-15	830,761
Free concessionary travel	2014-15	11,426,392
European convergence grant – Butetown	2007-2013	323,000
European convergence grant – Novus	2007-2013	917,321

Appendix 3

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

Performance audit project	Status	Comment
Annual Improvement Report (AIR)	Not started	The report summarising all of the Improvement Assessment performance audit work is likely to be completed in April/May 2015.
Corporate Assessment follow-up	Not started	The timing for the Corporate Assessment follow-up is currently being considered. The work will take place during the 2015-16 financial year.
Local Government study: Independence of Older people	Ongoing	Field work is scheduled to finish during March 2015, with reporting anticipated in July or August.
Local Government Study: Delivering with Less – Leisure Services	Ongoing	Field work is scheduled to finish during March 2015, with reporting anticipated in July or August.
Financial Resilience Assessment	Ongoing	Work is scheduled to be reported in April 2015.

Appendix 4

National value-for-money studies

The City of Cardiff 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 and are presented to the National Assembly's Public Accounts Committee to support its scrutiny of public expenditure.

The table below covers all of the value-for-money studies work currently programmed, although some of this work is still at an early stage of development. 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. I will shortly be considering and consulting on potential topic areas for future value-for-money studies to start, and potentially in some cases to be reported, in 2015-16.

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
GP prescribing	April to June 2015
Welsh Government investment in next generation broadband infrastructure	April to June 2015
Regional education consortia	April to June 2015
Welsh Government acquisition of Cardiff Airport	April to June 2015
Rail services	April to June 2015
Orthopaedic services	April to June 2015
NHS clinical coding	Summer 2015
NHS waiting lists and private practice	Summer 2015
Picture of public services	Autumn 2015
Development of Natural Resources Wales	Autumn 2015
Regeneration Investment Fund for Wales ²	To be confirmed
Wales Life Sciences Investment Fund ³	To be confirmed
Flood and erosion risk management (likely to focus on coastal flooding)	To be confirmed

² While in clearance, the timescale for publication is uncertain for reasons specific to the project.

³ While in clearance, the timescale for publication is uncertain for reasons specific to the project.

Topic	Anticipated publication timeframe
Early intervention and public behaviour change ⁴	To be confirmed
Welsh Government interventions in local government ⁵	To be confirmed
Welsh Government responses to audit recommendations	To be confirmed
Public procurement and the National Procurement Service	To be confirmed

⁴ In the short term, development of a new picture of public services report will take priority over this work. However, the picture of public services report is likely to reflect on these themes in some way. Wales Audit Office staff will also be exploring opportunities to take forward work in this area as part of our good practice exchange programme.

⁵ Plans for this work are being revisited in light of the Welsh Government commissioned review of the Anglesey intervention by the Public Policy Institute for Wales and to take into account any wider implications arising from the local government reform programme.

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