

2020 Audit Plan – Cardiff Council

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2020 Audit Plan

Our duties

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

Audit of financial statements

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

Value for money

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

Continuous improvement

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

Sustainable development principle

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

Impact of COVID-19

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

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

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

Audit of financial statements

- 11 It is my responsibility to issue a certificate and report on the financial statements which includes an opinion on their 'truth and fairness':

- we plan to give an opinion on the Council's and the Group's financial statements.
- assess whether the Council's Annual Governance Statement and Narrative Report were prepared in line with the CIPFA Code and relevant guidance.

We also review whether they were are consistent with the financial statements prepared by the Council and with our knowledge of the Council.

- 12 In addition to our responsibilities for auditing the Council's financial statements, we also have responsibility for:

- certifying a return to the Welsh Government which provides information about the Council to support preparation of Whole of Government Accounts;
- responding to questions and objections about the accounts from local electors (additional fees will be charged for this work, if necessary);
- auditing Cardiff and the Vale of Glamorgan's pension fund accounts (a separate audit plan has been prepared for the audit of the pension fund);
- the audit of the following:
 - Cardiff Harbour Authority;
 - Cardiff Port Health Authority;
 - Glamorgan Archives Joint Committee;
 - Prosiect Gwyrdd Joint Committee; and
- the certification of a number of grant claims and returns as agreed with the funding bodies.

- 13 There have been no limitations imposed on me in planning the scope of this audit.

- 14 Further information about our work is provided in our Statement of Responsibilities, which is available on our website (www.audit.wales).

Financial Statement Audit Risks

15 The following table sets out the significant risks I have identified for the audit of the Council.

Exhibit 1: financial statement audit risks

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

Audit risk	Proposed audit response
Significant risks	
<p>Risk of 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 [ISA 240.31-33].</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • test the appropriateness of journal entries and other adjustments made in preparing the financial statements; • review accounting estimates for biases; and • evaluate the rationale for any significant transactions outside the normal course of business.
<p>Contingent Liabilities</p> <p>As reported in the 2017-18 & 2018-19 financial statements, the Council is in ongoing discussions with HMRC, with a view to resolving a purportedly under-declared landfill tax assessment from 1 April 2015. This is a specialised and technical matter.</p> <p>Our discussions with management during 2019-20 have confirmed that the investigation remains ongoing and the financial impact of any potential liability is unconfirmed.</p> <p>Due to the ongoing nature of this matter, there is a risk that the Council will need to account for additional liabilities which will need to be correctly disclosed in the financial statements.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • continue to meet with management to obtain updates on the status of the investigation; • review correspondence with HMRC and any key documents arising from its investigation process; and • ensure that any known or potential liabilities as at 31 March 2020, are appropriately accounted for and disclosed within the Council's financial statements.

Audit risk	Proposed audit response
Significant risks	
<p>Impact of COVID-19</p> <p>The COVID-19 national emergency is likely to have a significant impact on the Council and its accounts production process. Potential risks include:</p> <ul style="list-style-type: none"> • subsequent events. It's possible that the Council may not be able to prepare its accounts in accordance with the timetable laid down by the Accounts and Audit (Wales) Regulations 2014. The shifting reporting deadlines increases the period (and therefore the related risks) for events occurring between the date of the financial statements and the date of the auditor's report. The consequences of the virus post 31 March 2020 will generally be non-adjusting post balance sheet events, but some form of disclosure may be needed. • use of estimates. The uncertainties and delays caused by the UK-wide lockdown may result in actual data being unavailable and greater use of estimates in preparing the accounts. 	<p>My audit team will undertake the following steps to ensure the risks arising from COVID-19 are adequately addressed:</p> <ul style="list-style-type: none"> • we will extend the period of review of subsequent events in order to identify any material subsequent events related to COVID-19, and whether these have been appropriately addressed or disclosed in the financial statements in accordance with the financial reporting framework; • we will consider if there are areas that may require management to provide further evidence due to the fast-changing nature of this issue; • we will discuss with you the key assumptions and evidence bases underlying estimates and will do this at an early stage; and • we will adopt a greater focus on the following areas: <ul style="list-style-type: none"> – the financial statement closing process (in particular journal entries and other adjustments made); and – the auditor's evaluation of the overall presentation of the financial statements, including consideration of whether adequate disclosures have been made.
<p>IAS19 pension liabilities</p> <p>The Council's actuary is likely to use 31 December / 29 February investment values for the purpose of calculating 31 March net pension liabilities.</p> <p>The crisis in the financial markets may have had a significant impact upon Fund assets at the balance sheet date.</p>	<p>My audit work will consider:</p> <ul style="list-style-type: none"> • the basis for the valuation of pension fund assets and liabilities; and • actuarial assumptions that underpin the IAS19 valuations. <p>Our audit process includes the use of a consulting actuary to provide audit assurance over the methodology and</p>

Audit risk	Proposed audit response
Significant risks	
<p>Therefore, there is a risk that pension liabilities may be materially understated.</p>	<p>assumptions used by actuaries in providing the date for IAS19 disclosures. We will review your actuary's IAS19 reports and our consulting actuary's assessment and discuss any concerns with you at an early stage.</p>
<p>McCloud judgement In 2015 the Government introduced reforms to public sector pensions, meaning most public sector workers were moved into new pension schemes in 2015. In December 2018, the Court of Appeal ruled that the 'transitional protection' offered to some members of the judges' and firefighters' schemes, as part of the reforms, amounted to unlawful discrimination. On 15 July 2019, the Government announced that they accept that the judgment applies to all of the main public service pension schemes. The impact of the judgement is likely to have a significant impact on the IAS19 disclosed liabilities.</p>	<p>My audit team will review the provision made in relation to the McCloud judgement and monitor progress on the development of proposals for a remedy to be applied in the Local Government pensions scheme.</p>
Other Areas of audit attention	
<p>During the year the Council has revised the methodology it uses for calculating the Minimum Revenue Provision (MRP) which is likely to improve the outturn in the Comprehensive Income and Expenditure Account. There is a risk that the revised methodology may not be appropriate or is not in line with Welsh Government guidance.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • review the revised methodology to ensure it is appropriate and compliant with the Welsh Government guidance; and • ensure the revised methodology is accurately applied.

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

Performance audit

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

Exhibit 2: Performance Audit Programme 2020-21

This table summarises the performance audit programme for 2020-21

Performance audit programme	Brief description
Improvement audit and assessment work including improvement planning and reporting audit	Audit of discharge of duty to publish an improvement plan, and to publish an assessment of performance.
Well-being of Future Generations Act (Wales) 2015 (WFG Act) examination	A project common to all local councils that will focus on the theme of 'prevention'.
Assurance and Risk Assessment	Project to identify the level of audit assurance and/or where further audit work may be required in future years in relation to risks to the Council putting in place proper arrangements to secure value for money in the use of resources.
Financial Sustainability	Building on work undertaken during 2019-20, a project common to all local

Performance audit programme	Brief description
	councils that will assess financial sustainability in light of current and anticipated future challenges.
Workforce modernisation and digital agenda	We will discuss the scope of this project with the Council's officers.

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

Certification of grant claims and returns

- 20 I have been requested to undertake certification work on the Council's grant claims and returns.
- 21 As was the case last year, the Welsh Government will not require me to provide any report of factual findings related to any activity levels or outcomes. The number of grant claims that are required to be audited by the Welsh Government for 2019-2020, are less than in previous years.
- 22 My audit fee for this work is set out in **Exhibit 3**.

Accounts and Audit (Wales) Regulations 2014

- 23 In respect of our accounts work, we are aware that there may be difficulties in meeting the accounts preparation and publication dates set by the Accounts and Audit (Wales) Regulations 2014. Welsh Government have indicated that the Regulations will not be amended as they already provide sufficient flexibility to deal with any delays resulting from COVID-19.
- 24 The Regulations require the publication of a notice where the authority does not expect to achieve the dates specified by the Regulations. I have included further detail in **Appendix A** and example notices in **Appendix B** that the Authority may wish to consider using should the need arise.

- 25 The requirements for the exercise of electors' rights under the Public Audit (Wales) Act 2004 continue to apply. This presents some practical difficulties while lockdown restrictions still apply, eg public access to the authority's accounting records.
- 26 My audit team will discuss with you an appropriate timetable for public inspection when we have a clear idea of the date on which the accounts will be available and when lockdown restrictions have been sufficiently relaxed.
- 27 The audit notice required for the exercise of electors' rights under the Public Audit (Wales) Act 2004 should not be published until the current restrictions of movement are lifted
- 28 The audit team will issue an audit notice in due course setting out the appointed date.
- 29 This may mean that there is a delay before we can issue our audit opinion.

Fee, audit team and timetable

- 30 My fees and planned timescales for completion of the audit are based on the following assumptions:
- the financial statements are provided in accordance with a timescale to be agreed following the end of the COVID-19 national emergency, to the quality expected and have been subject to a robust quality assurance review;
 - information provided to support the financial statements is in accordance with the agreed audit deliverables document;
 - appropriate accommodation and facilities are provided to enable my audit team to deliver the audit in an efficient manner;
 - all appropriate officials will be available during the audit;
 - you have all the necessary controls and checks in place to enable the Responsible Financial Officer to provide all the assurances that I require in the Letter of Representation addressed to me; and
 - Internal Audit's planned programme of work is complete and management has responded to issues that may have affected the financial statements.
- 31 If I do receive questions or objections, I will discuss potential audit fees at the time.

Fee

- 32 Your estimated fee for 2020 is set out in **Exhibit 3**. There have been some small changes to my fees rates for 2019, however my audit teams will continue to drive efficiency in their audits to ensure any resulting increases will not be passed to you. This year's fee represents a 3.1% decrease from your 2019 fee, primarily as a result of fewer grant claims requiring an audit.

Exhibit 3: audit fee

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

Audit area	Proposed fee (£) ¹	Actual fee last year (£)
Audit of accounts ²	273,664	273,664
Performance audit work ³	108,470	108,647*
Grant certification work ⁴	50,000	64,091
Other financial audit work⁵		
Cardiff Harbour Authority	13,650	13,650
Cardiff Port Health Authority	2,100	2,100
Glamorgan Archives Joint Committee	2,100	2,100
Prosiect Gwyrdd Joint Committee	2,100	2,100
Total fee	452,084	466,352

*This is the estimated figure set out in our 2019 Audit Plan. Due to the COVID-19 outbreak, we have not yet completed our 2019-20 performance audit work, so are unable to provide an actual fee at this stage.

- 33 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.
- 34 Further information on my [fee scales and fee setting](#) can be found on our website.

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

² Payable November 2019 to October 2020.

³ Payable April 2020 to March 2021

⁴ Payable as work is undertaken

⁵ Payable November 2019 to October 2020]

Audit team

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

Exhibit 4: my audit team

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

Name	Role	Contact number	E-mail address
Ann-Marie Harkin	Engagement Director / Engagement Lead – Financial Audit	02920 320562	ann-marie.harkin@audit.wales
Huw Rees	Engagement Lead – Performance Audit	02920 320599	huw.rees@audit.wales
Phil Pugh	Audit Manager (Financial Audit)	07964 118615	phil.pugh@audit.wales
Steven Stark	Audit Lead (Financial Audit)	07590 586895	steve.stark@audit.wales
Sara-Jane Byrne	Audit Manager (Performance Audit)	07786 111385	sara-jane.byrne@audit.wales
Samantha Clements	Audit Lead (Performance Audit)	07837 825175	samantha.clements@audit.wales

Timetable

36 We will continue to undertake such remote work as is possible during the COVID-19 national emergency. However, as set out above, we will not be in a position to agree a timetable with you until the COVID-19 national emergency has passed. We will continue to work as flexibly as we can and are supportive of 'extending' the accounts window where required. Based on our recent discussions with the Director of Corporate Resources we understand that the Council

anticipates producing the draft financial statements in line with the statutory deadline of 15 June 2020.

- 37 We will report on a timetable for our audit work in due course.
- 38 There is one potential conflict of interest that I wish to bring to your attention. The Financial Audit Manager is a former colleague and friend of the Council's Operational Manager for Information Governance, Transactional Finance and Programme Management within the Resources Directorate. I can confirm that, with the exception of the above, all other members of my team are independent of the Council and your officers. I can also confirm that I have introduced appropriate arrangements to ensure that my officer referred to above does not undertake any audit work in respect of the area of the Council's operations where potential conflicts of interest could be perceived to exist.

Staff secondment

- 39 A trainee accountant employed by Audit Wales was on secondment to the Council for the period 3 January to 30 June 2019. This secondment was part of an initiative funded by the Welsh Consolidated Fund designed to allow trainee accountants to broaden their skills and to gain experience of working across different parts of the Welsh public sector.
- 40 In order to safeguard against any potential threats to auditor independence and objectivity, the following restrictions applied in line with the FRC's Revised Ethical Standard 2019:
- the secondee did not undertake any line management or management responsibilities; and
 - the secondment did not exceed six months.

Appendix A: Requirements of the Accounts and Audit (Wales) Regulations 2014

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

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

Statutory requirements

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

Welsh Government interpretation

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

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

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

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

Audit Wales view and impact on the audit process

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

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

Appendix B: Accounts and Audit (Wales) Regulations 2014 – suggested notice

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

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

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

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

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

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

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

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

OR

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

OR

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



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