

## 2021 Audit Plan – Cardiff Council

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# 2021 Audit Plan

## About this document

- 1 This document sets out the work I plan to undertake during 2021 to discharge my statutory responsibilities as your external auditor and to fulfil my obligations under the Code of Audit Practice.

## My duties

- 2 I complete work each year to meet the following duties.

## Audit of financial statements

- 3 Each year I audit Cardiff Council's financial statements to make sure that public money is being properly accounted for.

## Value for money

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

## Continuous improvement

- 5 Under the Local Government (Wales) Measure 2009 (the Measure) the Council has to put in place arrangements to make continuous improvements, including related plans and reports, and the Auditor General has to assess whether the Council is likely to (or has) meet these requirements. Some requirements of the Measure will cease during 2021-22 due to changes in legislation arising from the Local Government and Elections (Wales) Act 2021. However, I anticipate that during 2021-22 I will still be required to audit the Council's published assessment of its performance that covers the 2020-21 year.

## Sustainable development principle

- 6 Public bodies need to comply with the sustainable development principle when setting and taking steps to meet their well-being objectives. The Auditor General must assess the extent to which they are doing this.

## Impact of COVID-19

- 7 The COVID-19 pandemic continues to have a significant impact across the United Kingdom and on the work of public sector organisations. As in 2020, it is likely to significantly impact on the preparation of the 2020-21 accounts and my financial audit and performance audit work.
- 8 Recent developments in relation to a vaccine programme indicate that the Welsh Government's restrictions on movement and anticipated sickness absence levels are expected to ease through 2021. However, I recognise that there remains significant uncertainty and I understand that many local authorities may 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 my statutory responsibilities as the Auditor General, my 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.
- 9 Audit Wales staff will continue to work flexibly to deliver the audit work set out in this plan. In response to the government advice and subsequent restrictions, we will continue to work remotely, building on the arrangements made in 2020, until such time that it is safe to resume on-site activities. I remain committed to ensuring that the work of Audit Wales staff will not impede the vital activities that public bodies need to do to respond to ongoing challenges presented by the COVID-19 pandemic.
- 10 Consequently, while this audit plan sets out an initial timetable for the completion of my audit work, the ongoing uncertainties around the impact of COVID-19 on the sector mean that some timings may need to be revisited. My audit team will discuss any amendments required to the proposed timetable with the authority as the 2021 position becomes clearer.

## Audit of financial statements

- 11 It is my responsibility to issue a certificate and report on the financial statements. This includes:
  - an opinion on the 'truth and fairness' of the Council's and the Group's financial statements for the financial year ended 31 March 2021; and
  - an assessment as to whether the Council's Narrative Report and Annual Governance Statement is prepared in line with the CIPFA Code and relevant guidance and is consistent with the financial statements and with my knowledge of the Council.
- 12 In addition to my responsibilities for auditing the Council's financial statements, I 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 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 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 and Full Council prior to completion of the audit.

14 Any misstatements below a trivial level (set at 5% of materiality) I generally judge as not requiring consideration by those charged with governance and therefore will not report them.

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

16 I will also report by exception on a number of matters which are set out in more detail in our [Statement of Responsibilities](#), along with further information about my work.

## Audit of financial statements risks

17 The following table sets out the significant risks I have identified for the audit of Cardiff 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  |
|--|--|
| <b>Significant risks</b>   |  |
| <p><b>Risk of Management Override</b><br/>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"> <li>• test the appropriateness of journal entries and other adjustments made in preparing the financial statements;</li> <li>• review accounting estimates for biases; and</li> <li>• evaluate the rationale for any significant transactions outside the normal course of business.</li> </ul>  |
| <p><b>Contingent Liabilities</b><br/>As reported in previous years, 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. Our discussions with management during the year has confirmed that, currently, this matter remains ongoing and the financial impact of any potential liability is unconfirmed. 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"> <li>• continue to meet with management to obtain updates on the status of the investigation;</li> <li>• review correspondence with HMRC and any key documents arising from its investigation process; and</li> <li>• ensure that any known or potential liabilities as at 31 March 2021, are appropriately accounted for and disclosed within the Council's financial statements.</li> </ul> |
| <p><b>Cardiff City Transport Services Ltd</b><br/>Our discussions with management during 2020-21 have confirmed that the Council has provided additional funding to its 100% subsidiary, Cardiff City Transport Services Ltd and that the</p>  | <p>My audit team will:</p> <ul style="list-style-type: none"> <li>• review the accounting entries made in respect of the additional funding to ensure compliance with the Code; and</li> </ul>   |

| Audit risk   | Proposed audit response  |
|--|--|
| <p>Council has now assumed the responsibility as the Principal Employer of the Cardiff City Transport Services Ltd pension scheme liabilities.</p> <p>These are complex matters and there is a risk that the Council will not account for these correctly or make adequate disclosures in the accounts.</p>  | <ul style="list-style-type: none"> <li>ensure appropriate disclosures are made in the accounts for the Council's contingent liability in respect of the pension fund liabilities.</li> </ul>   |
| <p><b>Impact of COVID-19</b></p> <p>The COVID-19 national emergency continues and the pressures on staff resource and of remote working may impact on the preparation, audit and publication of accounts. There is a risk that the quality of the accounts and supporting working papers, eg around estimates and valuations, may be compromised leading to an increased incidence of errors. Quality monitoring arrangements may be compromised due to timing issues and/or resource availability.</p>  | <p>We will discuss your closedown process and quality monitoring arrangements with the accounts preparation team, and make arrangements to monitor the accounts preparation process. We will help to identify areas where there may be gaps in arrangements.</p> |
| <p>The COVID-19 pandemic will have a significant impact on the risks of material misstatement and the shape and approach to my audit. The Welsh Government has made available various funding streams to the Council. In some cases, these monies provide financial support to the Council itself. In other cases, the funds have been administered by the Council, making payments to third parties on behalf of the Welsh Government. The amounts involved are material to the accounts.</p> <p>Examples of audit risks include:</p> <ul style="list-style-type: none"> <li>Incorrect accounting treatment for COVID-19 funding, ie principal or agency arrangements;</li> <li>fraud/error risks;</li> </ul> | <p>We will review the funding streams received from the Welsh Government and confirm the appropriate accounting treatment with the Council.</p>  |



| Audit risk  | Proposed audit response   |
|---|---|
| <ul style="list-style-type: none"> <li>potential year-end valuation uncertainty (Property, Plant &amp; Equipment, Inventories – including Cardiff Harbour Authority and Pooled Property Investments etc; and</li> <li>estimation of accrued annual leave provisions.</li> </ul>   |   |
| Other audit risks   |   |
| <p><b>McCloud judgement</b></p> <p>In 2015, the Government introduced reforms to public sector pensions, meaning most public sector workers were moved into new pension schemes in 2015.</p> <p>In December 2018, the Court of Appeal ruled that the ‘transitional protection’ arrangements amounted to unlawful discrimination.</p> <p>Consultations on proposed remedies for the Local Government, Police and Fire pensions schemes closed in October 2020.</p> <p>The Government recently announced that for unfunded schemes, the underpin will be the deferred choice model for the remedy. No announcement has yet been made on the Local Government Pension Scheme. Final details are expected to be published during 2021.</p> <p>The impact of the judgement is likely to have a significant impact on the IAS 19 disclosed liabilities.</p> | <p>My audit team will review the provision previously 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 pension scheme.</p> |

## Other matters

18 There are two further matters on which my audit team will undertake early work in preparation for the 2021-22 audit.

### Exhibit 2: Other matters

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

| <b>Other matters</b>  |   |
|---|---|
| <p><b>Leases</b><br/>CIPFA/LASAAC has once again deferred the introduction of IFRS 16 until 1 April 2022. The authority will, however, need to undertake considerable work to identify leases, and the COVID-19 pandemic may pose implementation risks.</p> | <p>My team will undertake some early work to review preparedness for the introduction of IFRS 16 Leases.</p>  |
| <p><b>Corporate Joint Committee</b><br/>The Local Government and Elections Bill includes provisions for the establishment of a Corporate Joint Committee (CJC) to deliver some services currently provided by the authority.</p>                            | <p>My team will undertake an early review of the preparations the authority is making for accounting arrangements related to the transfer of any services to the CJC.</p> |

## Performance audit

- 19 In addition to my Audit of Financial Statements I also carry out a programme of performance audit work to discharge my duties as Auditor General as set out on **page 4** in relation to value for money and sustainable development.
- 20 In response to the pandemic, I have adopted a flexible approach to my performance audit work both in terms of topic coverage and methodology. My work on recovery planning, COVID-19 learning; and my assurance and risk assessment work are examples of this. This has enabled me to respond to the fast-moving external environment and provide more real-time feedback in a range of formats.
- 21 For 2021-22, I intend to build on this approach to help enable my work to be responsive and timely and, where possible, to share learning more quickly. As part of this approach, I anticipate that a significant proportion of my local performance audit programme will be delivered through the Assurance and Risk Assessment Project, that will be ongoing throughout the year.
- 22 Given the high degree of commonality in the risks facing councils at this time, I also intend to deliver a number of thematic projects examining risks common to all councils.
- 23 I have consulted public bodies and other stakeholders on how I will approach my duties in respect of the Wellbeing of Future Generations (Wales) Act 2015. This consultation was extended due to the pandemic.
- 24 In my consultation I have set out and sought views on proposals to:
- continue to undertake specific examinations to assess the setting of well-being objectives and how steps are being taken to meet them, respectively;
  - integrate the examination of steps alongside value for money studies and local audit work, wherever possible; and
  - strengthen and expand the co-ordination of work with the Future Generations Commissioner.
- 25 I will be writing to the 44 public bodies designated under the Act setting out the results of the consultation and how I intend to approach this work over the reporting period 2020-2025.
- 26 In view of the above factors I intend to retain a high degree of flexibility in my local performance audit programme at Cardiff Council and will continue to update the Council as the audit programme changes.
- 27 For 2020-21 this work is set out below.

### Exhibit 3: Performance Audit Programme 2021-22

This table summarises the performance audit programme for 2021-22

| Performance audit programme  | Brief description   |
|--|---|
| Well-being of Future Generations Act (Wales) 2015 (WFG Act) examinations                   | Work to be discussed with Council.  |
| Improvement reporting audit  | Audit of discharge of duty to publish an assessment of performance.   |
| Assurance and Risk Assessment  | <p>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.</p> <p>At Cardiff Council the project is likely to focus on:</p> <ul style="list-style-type: none"> <li>• financial position</li> <li>• self-assessment arrangements</li> <li>• recovery planning</li> <li>• implications of the Local Government and Elections (Wales) Act</li> <li>• carbon reduction plans</li> <li>• statutory building compliance</li> </ul> |
| Thematic work - Springing Forward – Examining the building blocks for a sustainable future | As the world moves forward, learning from the global pandemic, this review looks at how effectively councils are strengthening their ability to transform, adapt and maintain the delivery of services, including those delivered in partnership with key stakeholders and communities.   |
| Follow-up leisure review   | Assess the Council's progress in addressing the proposals for improvement set out in our leisure services report issued in November 2020.   |

| Performance audit programme       | Brief description  |
|-----------------------------------|--|
| Follow-up waste management review | Follow-up review to assess the Council's progress to develop its waste strategy to help reduce waste and achieve the national recycling targets. |

## Certification of grant claims and returns

- 28 I have been requested to undertake certification work on the Council's grant claims and returns.
- 29 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 2020-2021 is expected to be in line with those audited in 2019-20.
- 30 My audit fee for this work is set out in **Exhibit 4**.

## Statutory audit functions

- 31 In addition to the audit of the accounts, I have statutory responsibilities to receive questions and objections to the accounts from local electors. These responsibilities are set out in the Public Audit (Wales) Act 2004:
- Section 30 Inspection of documents and questions at audit; and
  - Section 31 Right to make objections at audit.
- 32 As this work is reactive, I have made no allowance in the fee table below. If I do receive questions or objections, I will discuss potential audit fees at the time.

## Fee, audit team and timetable

- 33 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 taking into account the impact of COVID-19, 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.

34 If I do receive questions or objections, I will discuss potential audit fees at the time.

## Fee

35 Your estimated fee for 2021 is set out in **Exhibit 4** which remains the same as your proposed fee for 2020.

### Exhibit 4: audit fee

This table sets out the proposed audit fee for 2021, by area of audit work, alongside the actual audit fee for last year.

| Audit area                                     | Proposed fee (£) <sup>1</sup> | Proposed fee last year (£) |
|--|-------------------------------|----------------------------|
| Audit of accounts <sup>2</sup>                 | 273,664                       | 273,664                    |
| Performance audit work <sup>3</sup>            | 108,470                       | 108,470                    |
| Grant certification work <sup>4</sup>          | 50,000                        | 50,000                     |
| <b>Sub-total</b>                               | <b>432,134</b>                | <b>432,134</b>             |
| <b>Other financial audit work<sup>5</sup>:</b> |                               |                            |
| 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                      |
| <b>Total fee</b>                               | <b>452,084</b>                | <b>452,084</b>             |

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

<sup>2</sup> Payable November 2020 to October 2021.

<sup>3</sup> Payable April 2021 to March 2022.

<sup>4</sup> Payable as work is undertaken.

<sup>5</sup> Payable November 2019 to October 2020.

## Exhibit 5: analysis of main fee by grade

### Analysis of main fee by grade

| Grade            | Cost (£)       | Days       | % of total Days |
|------------------|----------------|------------|-----------------|
| Engagement lead  | 22,680         | 20         | 2.50            |
| Audit manager    | 80,801         | 97         | 12.13           |
| Audit lead       | 130,368        | 194        | 24.25           |
| Senior auditor   | 74,382         | 138        | 17.25           |
| Auditor          | 51,656         | 122        | 15.25           |
| Graduate trainee | 56,448         | 168        | 21.00           |
| Apprentice       | 15,799         | 61         | 7.62            |
| <b>Total</b>     | <b>432,134</b> | <b>800</b> | <b>100.00</b>   |

- 36 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.
- 37 Further information on my [fee scales and fee setting](#) can be found on our website.

## Audit team

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

### Exhibit 6: 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   | <a href="mailto:ann-marie.harkin@audit.wales">ann-marie.harkin@audit.wales</a> |
| Huw Rees         | Engagement Lead – Performance Audit                   | 02920 320599   | <a href="mailto:huw.rees@audit.wales">huw.rees@audit.wales</a>                 |

| Name              | Role                      | Contact number | E-mail address   |
|-------------------|---------------------------|----------------|--|
| Phil Pugh         | Financial Audit Manager   | 07964 118615   | <a href="mailto:phil.pugh@audit.wales">phil.pugh@audit.wales</a>                 |
| Steven Stark      | Financial Audit Lead      | 07590 586895   | <a href="mailto:steve.stark@audit.wales">steve.stark@audit.wales</a>             |
| Jon Martin        | Senior Financial Auditor  | 02920 320692   | <a href="mailto:jon.martin@audit.wales">jon.martin@audit.wales</a>               |
| Sara-Jane Byrne   | Performance Audit Manager | 07786 111385   | <a href="mailto:sara-jane.byrne@audit.wales">sara-jane.byrne@audit.wales</a>     |
| Samantha Clements | Performance Audit Lead    | 07837 825175   | <a href="mailto:samantha.clements@audit.wales">samantha.clements@audit.wales</a> |

## Timetable

- 39 The key milestones for the work set out in this plan are shown in **Exhibit 7**. As highlighted earlier, there may be a need to revise the timetable in light of developments with COVID-19.
- 40 The Public Audit (Wales) Act 2004 provides electors with the right to ask questions and to make objections to the Council's accounts to the Auditor General. The rights to ask questions and make objections at audit are linked to electors' rights to inspect the accounts that are also set out in the 2004 Act. The current COVID restrictions may impose restrictions on the Council's ability to facilitate the inspection of accounts. Therefore, we have not yet set a date for the exercise of electors' rights and will continue to monitor the situation before confirming a date with you. We anticipate that we will be in a position to agree a date with you in late May 2021.



**Exhibit 7: Audit timetable**

| Planned output   | Work undertaken   | Report finalised  |
|--|---|---|
| 2021 Audit Plan  | January to March 2021   | Mar 2021  |
| <b>Audit of Financial statements work:</b> <ul style="list-style-type: none"> <li>• Audit of Financial Statements Report</li> <li>• Opinion on Financial Statements</li> <li>• Financial Accounts Memorandum</li> </ul>  | June to September 2021<br>September 2021<br>October 2021  | 30 September 2021<br>30 September 2021<br>31 October 2021 |
| <b>Performance audit work:</b> <ul style="list-style-type: none"> <li>• Annual Audit Summary</li> <li>• Well-being of Future Generations</li> <li>• Assurance and risk assessment</li> <li>• [local projects]</li> </ul> | Timescales for individual projects will be discussed with you and detailed within the specific project briefings produced for each study. |   |
| <b>Annual Audit Summary</b>  | January to October 2021   | November 2021   |
| 2022 Audit Plan  | January to March 2022   | March 2022  |

41 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 its senior 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.



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