



WALES AUDIT OFFICE
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Auditor General for Wales

2018 Audit Plan – **Cardiff Capital Region City Deal Joint Cabinet**

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This document was produced by Phil Pugh and Sara-Jane Byrne under the direction of Ann-Marie Harkin

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2018 Audit Plan

Summary

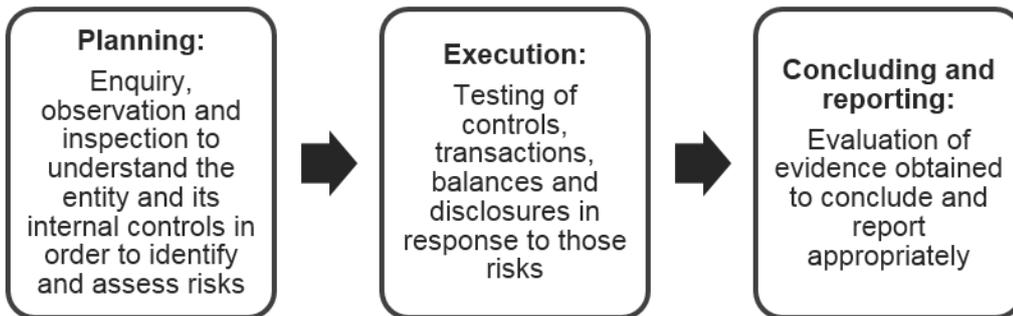
- 1 As your external auditor, my objective is to carry out an audit which discharges my statutory duties as Auditor General and fulfils my obligations under the Public Audit (Wales) Act 2004, the Local Government (Wales) Measure 2009 (the Measure), Wellbeing of Future Generations (Wales) Act 2015, the 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 the duties and met requirements of the Measure; and
 - undertake studies to enable me to make recommendations for improving economy, efficiency and effectiveness or for improving financial or other management arrangements.
- 2 The purpose of this plan is to set out my proposed work, when it will be undertaken, how much it will cost and who will undertake it.
- 3 There have been no limitations imposed on me in planning the scope of this audit.
- 4 My responsibilities, along with those of management and those charged with governance, are set out in [Appendix 1](#).

Audit of accounts

- 5 It is my responsibility to issue a certificate and report on the financial statements which includes an opinion on their 'truth and fairness'. This provides assurance that the accounts:
 - are free from material misstatement, whether caused by fraud or error;
 - comply with statutory and other applicable requirements; and
 - comply with all relevant requirements for accounting presentation and disclosure.
- 6 I also consider whether or not the Cardiff Capital Region City Deal Joint Cabinet (the Joint Cabinet) 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

My audit approach involves three key stages: planning, execution and finally concluding and reporting



- 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

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

Financial audit risk	Proposed audit response
<p>Risk of Management override of controls 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>Risk of fraud over income and expenditure There is a risk of material misstatement due to fraud in revenue recognition which is expanded to include expenditure and as such is treated as a significant risk [ISA 240.26-27].</p>	<p>My audit team will review the schemes of delegation in place including the processes for the authorisation, separation of duties and workflows associated with income and expenditure transactions.</p> <p>My team will also undertake detailed testing of income and expenditure transactions focussing on the areas of greatest risk.</p>

Financial audit risk	Proposed audit response
<p>The Joint Cabinet is to oversee the delivery of a range of programmes designed to increase connectivity and to improve physical and digital infrastructure over the course of 20 years. The City Deal includes funding of £734 million for the South Wales Metro, of which over £500 million is provided by the Welsh Government and £125 million from the UK Government. In addition, the UK Government has provided a £375 million contribution, and the ten local authorities have agreed a commitment to borrow a combined total of £120 million as part of the Wider Investment Fund. This significant programme will have financial, governance and delivery risks that need to be managed.</p> <p>This is the first year of the City Deal where the level of funding and expenditure requires the Joint Cabinet to produce financial statements that are prepared in line with the CIPFA Code of Practice on Local Authority Accounting (the Code). Consequently, there will be a number of technical accounting issues that will need to be addressed to ensure that the financial statements are prepared in line with the requirements of the Code.</p>	<p>My audit team will liaise with the Accountable Body finance project team and carry out work as necessary to assess the existing and proposed financial and governance arrangements.</p>
<p>The Joint Committee's draft financial statements are to include the consolidated operating results and balances of Cardiff Capital Region Cabinet Joint Committee and its special purpose vehicle (CSC Foundry Limited). Management has informed us that the operating results and balances of CSC Foundry Limited will be based on the unaudited figures of that company.</p> <p>Therefore, there is a risk that the figures included in the draft consolidated accounts could require amendment following the completion of the audit of the company.</p>	<p>My team will liaise with the auditors of CSC Foundry Limited in relation to their proposed completion date of their audit. We will also consider the impact of any required amendments as a result of the audit of the company's accounts.</p>

- 10 I do not seek to obtain absolute assurance on the truth and fairness of the financial statements and related notes, but adopt a concept of materiality. My aim is to identify material misstatements, that is, those that might result in a reader of the accounts being misled. The levels at which I judge such misstatements to be material will be reported to the Joint Cabinet prior to completion of the audit.

- 11 For reporting purposes, I will generally treat any misstatements below a 'trivial' level (the lower of 5% 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:
- the draft financial statements have been subject to a robust quality assurance review by officers;
 - working papers and other 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;
 - any planned Internal Audit work is complete and management has responded to issues that may have affected the financial statements; and
 - we are able to liaise with the external auditors of CSC Foundry Limited during the course of their audit of the company's 2017-18 financial statements.
- 13 My proposed audit fee for this work is set out in [Exhibit 3](#). As this is the first year that the Joint Cabinet accounts will be produced, my proposed fee represents my current estimate of the time and work required to discharge my statutory duties. However, I only charge the costs actually incurred in completing my audit work, therefore, if the actual costs incurred in completing the work is less than the proposed fee, the Joint Cabinet will only be charged the lower amount.

Statutory audit functions

- 14 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.
- 15 Audit fees will be chargeable for work undertaken in dealing with electors' questions and objections. Because audit work will depend upon the number and nature of any questions and objections, it is not possible to estimate an audit fee for this work.
- 16 If I do receive questions or objections, I will discuss potential audit fees at the time.

Performance audit

- 17 I need to balance my existing, new and proposed statutory duties with the need to continue to undertake meaningful, risk-based and proportionate audits and assessments. In discharging my responsibilities I will continue to seek to strike the most appropriate balance and add 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.
- 18 As it is likely that the anticipated Local Government Wales Bill will propose that the Local Government (Wales) Measure 2009 no longer applies to councils, I will minimise work that focuses on the process of improvement planning.
- 19 In recent years I have placed reliance on my work under the Measure to help discharge my duty under the Public Audit (Wales) Act 2004 to satisfy myself that councils have made proper arrangements to secure economy, efficiency and effectiveness (value for money) in the use of resources. Given that in the future I will be unable to rely on my work under the Measure, in 2018-19, and subsequent years, the focus of my local performance audit programmes will be more clearly aligned to discharging my Public Audit (Wales) Act 2004 duty.
- 20 Taking all these factors into consideration, my 2018-19 work will focus on assessing if the Joint Committee is putting in place proper arrangements to secure value for money in the use of resources. We will do this through the ongoing monitoring of the evolving value for money and governance arrangements.

Fee, audit team and timetable

Fee

- 21 Your estimated fee for 2018 is set out in [Exhibit 3](#).

Exhibit 3: audit fee

The 2017-18 audit fee totals £79,535 as follows:

Audit area	Proposed fee (£) ¹
Audit of accounts ²	9,569
Performance audit work ³	14,966
Other audit work ⁴	55,000
Total fee	79,535

Notes:

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

² Payable November 2017 to October 2018.

³ Payable April 2018 to March 2019.

⁴ Other audit work relates to our review of the governance arrangements in place to support the decision to fund the semi-conductor project

- 22 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 Joint Cabinet.
- 23 Further information on my [fee scales and fee setting](#) can be found on the Wales Audit Office website.

Audit team

- 24 The main members of my team, together with their contact details, are summarised in [Exhibit 4](#).

Exhibit 4: my team

This table provides contact details for the audit team

Name	Role	Contact number	E-mail address
Ann-Marie Harkin	Engagement Director and Engagement Lead Financial Audit	02920 320562	ann-marie.harkin@audit.wales
Phil Pugh	Financial Audit Manager	02920 320645	phil.pugh@audit.wales
Jon Martin	Financial Audit Team Leader	02920 872259	jon.martin@audit.wales
Sara-Jane Byrne	Performance Audit Manager	07786 111385	sara-jane.byrne@audit.wales

Name	Role	Contact number	E-mail address
Ian Phillips	Performance Auditor	02920 320678	ian.phillips@audit.wales

25 I can confirm that my team members are all independent of the Cardiff Capital Region City Deal Joint Cabinet and your officers. In addition, I am not aware of any potential conflicts of interest that I need to bring to your attention.

Timetable

26 I will provide reports, or other outputs as agreed, to Cardiff Capital Region City Deal Joint Cabinet covering the areas of work identified in this document. My key milestones are set out in [Exhibit 5](#).

Exhibit 5: timetable

This table sets out my proposed timetable for completion and reporting of my audit work at the Authority

Planned output	Work undertaken	Report finalised
2018 Audit Plan	January 2018 April 2018	May 2018
Financial accounts work: <ul style="list-style-type: none"> Audit of Financial Statements Report Opinion on Financial Statements Financial Accounts Memorandum 	February to June 2018	July 2018* July 2018* September 2018
Performance work: <ul style="list-style-type: none"> VFM arrangements 	Ongoing throughout the year	September 2018
2019 Audit Plan	November 2018 to January 2019	January 2019

* Subject to timely clearance of draft findings with Cardiff Capital Region City Deal Joint Committee.

Future developments to my audit work

27 Details of future developments including changes to key International Financial Reporting Standards (IFRS) are set out in [Appendix 2](#).

Appendix 1

Respective responsibilities

Audit of accounts

As amended by the Public Audit (Wales) Act 2013, the Public Audit (Wales) Act 2004 sets out my powers and duties to undertake your financial audit. It is my responsibility to issue a certificate and report on the financial statements which includes an opinion on:

- their 'truth and fairness', providing assurance that they:
 - are free from material misstatement, whether caused by fraud or error;
 - comply with the statutory and other applicable requirements; and
 - comply with all relevant requirements for accounting presentation and disclosure.
- the consistency of information in the Annual Report with the financial statements.

I must also state by exception if the Annual Governance Statement does not comply with requirements, if proper accounting records have not been kept, if disclosures required for remuneration and other transactions have not been made or if I have not received all the information and explanations I require.

The Public Audit (Wales) Act 2004 requires me to assess whether the Cardiff Capital Region Joint Cabinet 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 Cardiff Capital Region Joint Cabinet'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 Cardiff Capital Region Joint Cabinet'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 Cardiff Capital Region Joint Cabinet 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 Public Audit (Wales) Act 2004 requires me, by examination of the accounts or otherwise, to satisfy myself that the body has made proper arrangements for:

- securing economy, efficiency and effectiveness in its use of resources; and
- that the body, if required to publish information in pursuance of a direction under section 47 (performance information) has made such arrangements for collecting and recording the information and for publishing it as are required for the performance of its duties under that section.

Appendix 2

Other future developments

Forthcoming key IFRS changes relevant to all LG bodies

Exhibit 6: forthcoming key IFRS changes

There are three key changes to accounting rules that will impact on the authority over the next three years.

Standard	Effective date	Further details
IFRS 9 Financial instruments	2018-19	IFRS 9 financial instruments will replace IAS 39 and includes a new principles-based approach for the classification and measurement of financial assets. It also introduces a new impairment methodology for financial assets based on expected losses rather than incurred losses. This will result in earlier and more timely recognition of expected credit losses. The accounting requirements for financial liabilities are almost all carried forward unchanged from IAS 39.
IFRS 15 Revenue from contracts with customers	2018-19	IFRS 15 revenue from contracts with customers introduces a principles-based five-step model for recognising revenue arising from contracts with customers. It is based on a core principle requiring revenue recognition to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration the body expects to be entitled to, in exchange for those goods or services. It will also require more extensive disclosures than are currently required.
IFRS 16 Leases	2019-20	IFRS 16 will replace the current leases standard IAS 17. The key change is that it largely removes the distinction between operating and finance leases for lessees by introducing a single lessee accounting model that requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. It will lead to all leases being recognised on the balance sheet as an asset based on a 'right of use' principle with a corresponding liability for future rentals. This is a significant change in lessee accounting.

General Data Protection Regulation (GDPR)

The GDPR is a new data protection law for the whole of the EU applicable from 25 May 2018, which has the intention of harmonising and updating data protection laws. The UK Government has introduced the Data Protection Bill which will incorporate the GDPR into UK law and replace the 1998 Data Protection Act, and which it intends will also come into force on 25 May 2018.

The GDPR introduces new requirements for personal data processing, including an accountability principle which will require more detailed records of the processing of personal data, evidence of compliance with the data protection principles and the technical and organisational security measures taken to protect the data. We are updating our own policies, processes and documentation with a view to meeting these requirements and expect that the bodies we audit will be taking similar steps. Key areas of additional work include the use of more detailed fair processing notices, more privacy impact assessments and more extensive record keeping in relation to processing activities.

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