



WALES AUDIT OFFICE
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Auditor General for Wales

2019 Audit Plan – Cardiff Capital Region City Deal Joint Cabinet

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2019 Audit Plan

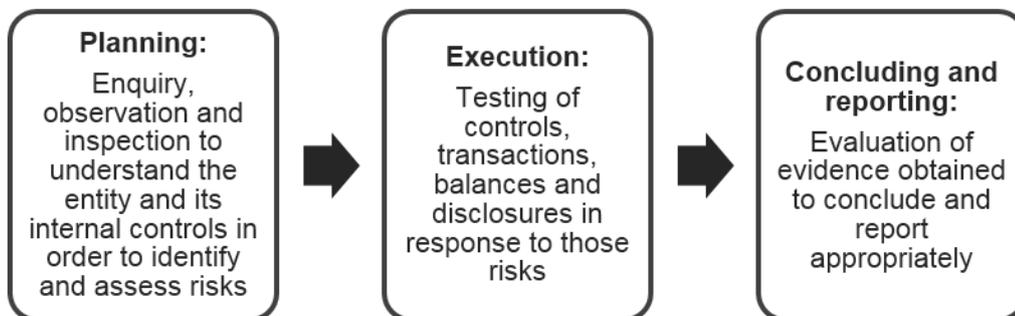
Summary

- 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



9 The risks of material misstatement which I consider to be significant and which therefore require special audit consideration, are set out in [Exhibit 2](#), along with the work I intend to undertake to address them.

Exhibit 2: financial audit risks

Financial audit risk	Proposed audit response
Significant Risks	
<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.

Financial audit risk	Proposed audit response
<p>Risk of late certification of the Joint Committee accounts</p> <p>The Joint Committee's draft financial statements will consolidate the operating results and balances of the Committee and its subsidiary, Compound Semi-Conductor Foundry Ltd (CSC Foundry Ltd). The accounts for CSC Foundry Ltd are prepared by officers of Monmouthshire County Council and are independently audited by a private sector accountancy practice.</p> <p>Our '2017-18 Audit of Financial Statements Report' presented to the Joint Cabinet on 17 December 2018, highlighted that we were unable to complete our audit of the Joint Committee's 2017-18 financial statements in line with the statutory deadline of 30 September 2018. This was because, as at that date, the independent audit of CSC Foundry Ltd was ongoing, with a number of technical accounting issues still to be resolved. The nature of these issues required material changes to the consolidated financial statements.</p> <p>In response to the recommendation contained in the above report, officers of Cardiff and Monmouthshire Councils have been working together to put arrangements in place to ensure that all reasonable steps are taken to meet the deadlines for compiling the draft consolidated financial statements and the early completion and audit of the CSC Foundry Ltd Accounts.</p> <p>However, there remains a risk that the audit of the subsidiary accounts is not completed in sufficient time to allow the final results to be consolidated in the Joint Committee's financial statements prior to the earlier statutory deadline of 15 September 2019.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • review the arrangements established to minimise the risk of the late certification of CSC Foundry Ltd.'s financial statements; • liaise with the auditors of CSC Foundry Ltd to confirm that their audit has been undertaken in compliance with International Standards on Auditing (ISA's) and to identify the level and nature of any unadjusted errors in the CSC financial statements; and • test the appropriateness of journal entries and other adjustments made in the preparation of the draft and final version of the Joint Committee's consolidated financial statements.

Financial audit risk	Proposed audit response
Other areas of audit attention	
<p>New accounting standards</p> <p>IFRS 9 financial instruments applies from 1 April 2018 and brings in 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 recognition of expected credit losses and will impact on how the bad debt provision is calculated.</p> <p>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 a body expects to be entitled to, in exchange for those goods or services. It will also require more extensive disclosures than are currently required.</p>	<p>My audit team will assess the likely impact of the new IFRSs and as part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018-19 CIPFA Code.</p>
<p>Consideration of relevant Related Parties</p> <p>The Joint Committee received quarterly performance reports monitoring the Annual Business Plan, including reports from the accountable body's Internal Auditors. The first audit reported in July 2018 covered governance, transparency and the effectiveness of decision making and included a recommendation to: <i>'Establish and maintain a register of declared interests'</i> covering both the annual declarations made by each Regional Cabinet member and also any additional declarations made in Regional Cabinet meetings. Should any declarations include bodies the Cabinet member has control or influence over, then the sum of any transactions between the Joint Committee and these bodies will need to be identified and disclosed.</p>	<p>My audit team will assess the collation of Related Party disclosures to confirm sufficient review of all declarations made, has established where control and influence exists and then identified all transactions needing disclosure</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 of the Accountable Body;
 - 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 2018-19 financial statements.
- 13 My proposed audit fee for this work is set out in [Exhibit 3](#) and 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 cost 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 continue to minimise work that focuses on the process of improvement planning.
- 19 In my audit plan for 2018, I explained that in previous years I had 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 it is likely that I will be unable to rely on my work under the Measure, in 2019-20, and subsequent years, the focus of my local performance audit programmes will continue to be more clearly aligned to discharging my Public Audit (Wales) Act 2004 duty.
- 20 In 2018-19 I undertook a review focusing on the Joint Committee's evolving value for money and governance arrangements. My 2019-20 work will continue to assess if the Joint Committee is putting in place proper arrangements to secure value for money in the use of resources. We will discuss the specific focus of our work with the Director of the City Deal and Accountable Body officers.

Fee, audit team and timetable

Fee

21 Your estimated fee for 2019 is set out in [Exhibit 3](#).

Exhibit 3: audit fee

The 2018-19 audit fee totals £26,901 as follows:

Audit area	Proposed fee (£) ¹	2017-18 Actual Fee £
Audit of accounts ²	12,110	15,302
Performance audit work ³	14,791	14,996*
Other audit work ⁴	nil	55,000
Total fee	26,901	85,298

Notes:

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

² Payable November 2018 to October 2019.

³ Payable April 2019 to March 2020.

*We are currently in the process of clearing the output of our 2018-19 review with the City Deal so are unable to specify the actual fee at this stage.

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 Accountable Body Corporate Director, Resources.

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

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
Ian Phillips	Performance Audit Lead	02920 320678	ian.phillips@audit.wales

25 There is one potential conflict of interest that I wish to bring to your attention. This relates to the Audit Manager of my financial audit team whose wife previously worked with, and remains, a friend of the Chair of the Joint Cabinet's mother. However, in my opinion as the work of the Audit Manager does not require any direct contact with the Chair outside of the Joint Cabinet meetings, I do not believe that this impacts on our objectivity and independence. With the exception of this, I am not aware of any other 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

Planned output	Work undertaken	Report finalised
2018 Audit Plan	January 2019 to April 2019	May 2018
Financial accounts work: <ul style="list-style-type: none"> Audit of Financial Statements Report Opinion on Financial Statements Financial Accounts Memorandum 	April to August 2019	September 2019 September 2019 September 2019
Performance work: <ul style="list-style-type: none"> VFM arrangements 	To be discussed	March 2020
2020 Audit Plan	December 2019 to February 2020	March 2020

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),
- 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

A. Forthcoming key IFRS changes

Exhibit 6: changes to IFRS standards

Standard	Effective date	Further details
IFRS 16 leases	Expected in 2020-21	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 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.

B. Good Practice Exchange

The Wales Audit Office's GPX helps public services improve by sharing knowledge and practices that work. Events are held where knowledge can be exchanged face to face and resources shared online. The main areas of work are regarding financial management, public-sector staff and governance.

C. Brexit: preparations for the United Kingdom's departure from membership of the European Union

In accordance with the Brexit vote of 2017, the United Kingdom will potentially cease to be a member of the European Union. Negotiations are continuing, and it currently remains unclear whether agreement will be reached on a transition period.

The Auditor General has commenced a programme of work looking at the arrangements that the public sector in Wales, is putting in place to prepare for, and respond to, Britain's exit from the European Union. This will take the form of a high-level overview to establish what is being put in place across the Welsh public sector, and what the key issues are from the perspectives of different parts of the Welsh public service.

The Auditor General intends to carry out this initial work in two tranches. In autumn 2018, he issued a call for evidence to compile a baseline summary of arrangements being put in place. On 19 February, the Auditor General issued a report¹ on preparations in Wales for a 'no-deal' Brexit. This will be followed up by further audit fieldwork during the rest of 2019.

¹ www.audit.wales/publication/preparations-wales-no-deal-brexite

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