



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

2020 Audit Plan – Merthyr Tydfil County Borough 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 the financial statements of Merthyr Tydfil County Borough Council (the Council) 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 also 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.

Audit of financial statements

- 6 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 financial statements by 15 September 2020.
 - 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 consistent with the financial statements prepared by the Council and with our knowledge of the Council.
- 7 In addition to our responsibilities for auditing the Council's financial statements, we also have responsibility for responding to questions and objections about the accounts from local electors (additional fees will be charged for this work, if necessary).
- 8 There have been no limitations imposed on me in planning the scope of this audit.
- 9 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

10 The following table sets out the significant risk I have identified which requires special audit consideration. Also, included are other areas of audit attention my team will be focussing on.

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>The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • test the appropriateness of journal entries and other adjustments made in preparing the financial statements; • review accounting estimates for biases; and • evaluate the rationale for any significant transactions outside the normal course of business.
Other areas of audit attention	
<p>Financial statements production – timeliness and quality</p> <p>Faster closing has impacted upon the timetable for producing and certifying the financial statements from 2018-19. The Council is required to prepare the financial statements by 15 June 2020 and publish by 15 September 2020.</p> <p>The 2018-19 accounts were submitted for audit more than two weeks before the statutory deadline of 15 June 2019 and we completed our audit work by the end of August 2019. This was a noteworthy achievement.</p> <p>The Council is looking to consolidate on achievements last year and bring forward its year-end timetable further in order to submit supporting working papers at the commencement of the audit alongside the draft financial statements, whilst maintaining robust arrangements for assuring their quality.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • provide support and advice to the Council wherever possible without compromising our independence; • provide an audit deliverables report to assist the Council in the preparation of relevant working papers in support of the financial statements; • review the closedown timetable and action plans to assess that arrangements are in place to produce robust and complete financial statements within the prescribed timetable; • review the Council's proposed accounting statements format for Code compliance prior to the production of the draft financial statements; and • agree a timetable for the audit and certification of the financial statements.

Audit risk	Proposed audit response
Other areas of audit attention	
<p>McCloud judgement</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’ 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.</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 made in relation to the McCloud judgement and monitor progress on the development of proposals for a remedy to be applied in the LG pension scheme.</p>
<p>Other pension liabilities</p> <p>Over recent years there have been a number of legal judgements that impact on pension liabilities. The pension regulations are complex, increasing the risk of error or omission in the financial statements.</p>	<p>My audit team will review the Council’s arrangements for identifying and recording pension liabilities, to ensure they are materially accurate and complete.</p>
<p>IFRS16 Leases</p> <p>The introduction of IFRS 16 Leases in 2020-21 may pose implementation risks.</p>	<p>My team will:</p> <ul style="list-style-type: none"> • review the Council’s preparedness for the introduction of IFRS 16 Leases; and • review disclosures within the notes to the financial statements for accuracy and compliance with the Code.

Performance audit

- 11 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	A project common to all local councils that will assess financial sustainability in the light of current and anticipated future challenges building on work undertaken during 2019-20.
We will discuss any further local work with the Council.	

Certification of grant claims and returns

- 12 I have been requested to undertake certification work on the Council's grant claims and returns.
- 13 For 2019-20 this will include the certification of the Housing Benefit Subsidy claim, Non-Domestic Rates return and Teachers Pension Contributions return.
- 14 My estimated fee for this work is included within [Exhibit 3](#).

Fee, audit team and timetable

- 15 My fees and planned timescales for completion of the audit are based on the following assumptions:
 - the financial statements are provided in accordance with the agreed timescales, 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.

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

Fee

17 Your estimated fee for 2020 is set out in [Exhibit 3](#). There have been some small changes to my fee 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 represents a 4.5% decrease compared to your actual 2019 fee arising from a reduction in the grant certification work programme.

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	160,000	160,000
Performance audit work ³	100,390	100,471
Grant certification work ⁴	30,000	43,754
Total fee	290,390	304,225

18 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 Chief Finance Officer and the Audit Committee.

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

Audit team

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

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.

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
Huw Rees	Engagement Director and Engagement Lead – Performance Audit	029 2032 0599	Huw.Rees@audit.wales
Derwyn Owen	Engagement Lead – Financial Audit	029 2032 0651	Derwyn.Owen@audit.wales
Helen Goddard	Audit Manager (Financial Audit)	029 2032 0642	Helen.Goddard@audit.wales
Neall Hollis	Audit Lead (Financial Audit)	029 2032 0657	Neall.Hollis@audit.wales
Sara-Jane Byrne	Audit Manager (Performance Audit)	07786 111385	Sara-Jane.Byrne@audit.wales
Ian Phillips	Audit Lead (Performance Audit)	029 2032 0678	Ian.Phillips@audit.wales

Timetable

- 21 Financial accounts work will be undertaken over the period January to July 2020. The timing and exact scope of individual performance audit projects will be confirmed by the Audit Manager with responsibility for performance audit work in due course.
- 22 I can confirm that my team members are all independent of the Council and your officers. In addition, I am not aware of any potential conflicts of interest that I need to bring to your attention.

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