

## 2021 Audit Plan – Merthyr Tydfil County Borough Council

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# Contents

2021 Audit Plan	
About this document	4
My duties	4
Impact of COVID-19	5
Audit of financial statements	5
Performance audit	8
Certification of grant claims and returns	11
Statutory audit functions	11
Fee, audit team and timetable	11

# 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 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

- 4 The 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) met 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 on the 'truth and fairness' of the Council'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:
  - responding to questions and objections about the accounts from local electors (additional fees will be charged for this work, if necessary); 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 prior to completion of the audit.
- 14 Any misstatements below a trivial level (set at 5% of materiality) I 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 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
<b>Significant risks</b>	
<p><b>Impact of COVID-19 – Quality of Draft Account</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</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>to timing issues and/or resource availability.</p>	
<p><b>Impact of COVID-19 – audit risks</b>  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 authority. In some cases, these monies provide financial support to the authority itself. In other cases, the funds have been administered by the authority, making payments to third parties on behalf of the Welsh Government. The amounts involved are material to the accounts.  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> <li>• potential year-end valuation uncertainty; and</li> <li>• estimation of accrued annual leave provisions.</li> </ul>	<p>We will review the funding streams received from the Welsh Government and confirm the appropriate accounting treatment with the authority.</p>
<p><b>Management Override</b>  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"> <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>Other audit risks</b></p>	
<p><b>McCloud judgement</b>  In 2015 the Government introduced reforms to public sector pensions,</p>	<p>My audit team will review the provision previously made in relation to the McCloud judgement and</p>

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' arrangements amounted to unlawful discrimination.

Consultations on proposed remedies for the Local Government, Police and Fire pensions schemes closed in October 2020. 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.

The impact of the judgement is likely to have a significant impact on the IAS 19 disclosed liabilities.

monitor progress on the development of proposals for a remedy to be applied in the LG pension schemes.

### **Classification of Income and Expenditure**

As part of our 2019-20 audit, we identified that a material prior-year restatement was required due to an area of income/expenditure moving from one service heading to another in the 2019-20 year.

The Code of Practice on Local Authority Accounting states that 'if a local authority changes the presentation or classification of items in its financial statements, the authority shall reclassify comparative amounts unless reclassification is impracticable.'

My audit team undertake audit procedures to confirm that any reclassification of expenditure between service headings in 2020-21 has been correctly accounted for and disclosed in the current and prior year primary statements and notes.

## **Performance audit**

- 18 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.
- 19 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.

- 20 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.
- 21 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.
- 22 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.
- 23 In my consultation I have set out and sought views on proposals to:
- a) continue to undertake specific examinations to assess the setting of well-being objectives and how steps are being taken to meet them, respectively;
  - b) integrate the examination of steps alongside value for money studies and local audit work, wherever possible; and
  - c) strengthen and expand the co-ordination of work with the Future Generations Commissioner.
- 24 I have written 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.
- 25 In view of the above factors I intend to retain a high degree of flexibility in my local performance audit programme at the Council and will continue to update the Council as the audit programme changes.
- 26 For 2020-21 this work is set out below.

## Exhibit 2: 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	Further details to follow
Improvement reporting audit	Audit of discharge of duty to publish an assessment of performance.

<p>Assurance and Risk Assessment</p>	<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 Merthyr Tydfil County Borough 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>• progress against the recommendations in our report entitled 'Assessment of progress to address key concerns'</li> </ul>
<p>Springing Forward – Examining the building blocks for a sustainable future</p>	<p>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.</p>
<p>Local projects</p>	<p>We will discuss with the Council the focus of one or more local projects. We are currently discussing a project that will focus on the Cwm Taf Morgannwg University Health Board footprint.</p>

## Certification of grant claims and returns

- 27 I have been requested to undertake certification work on the Council's grant claims and returns, namely: the Housing Benefit Subsidy claim, the Non-Domestic Rates return and the Teachers' Pension Contributions return.
- 28 My estimated fee for this work is included within **Exhibit 3**.

## Statutory audit functions

- 29 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.
- 30 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

- 31 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.
- 32 If I do receive questions or objections, I will discuss potential audit fees at the time.

## Fee

- 33 Your estimated fee for 2021 is set out in **Exhibit 3** which is in line with that charged in 2020.

### Exhibit 3: 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>	Actual fee last year (£)
Audit of accounts <sup>2</sup>	160,000	160,000
Performance audit work <sup>3</sup>	100,390	100,390
Grant certification work <sup>4</sup>	33,000	33,216
<b>Total fee</b>	<b>293,390</b>	<b>293,606</b>

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

### Audit team

- 36 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
Huw Rees	Engagement Director & Engagement Lead (Performance Audit)	029 2032 0599	<a href="mailto:huw.rees@audit.wales">huw.rees@audit.wales</a>
Derwyn Owen	Engagement Lead (Financial Audit)	029 2032 0651	<a href="mailto:derwyn.owen@audit.wales">derwyn.owen@audit.wales</a>

<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.

Name	Role	Contact number	E-mail address
Helen Goddard	Audit Manager (Financial Audit)	029 2032 0642	<a href="mailto:helen.goddard@audit.wales">helen.goddard@audit.wales</a>
Neall Hollis	Audit Lead (Financial Audit)	029 2032 0657	<a href="mailto:neall.hollis@audit.wales">neall.hollis@audit.wales</a>
Sara-Jane Byrne	Audit Manager (Performance Audit)	07786 111385	<a href="mailto:sara-jane.byrne@audit.wales">sara-jane.byrne@audit.wales</a>
Ian Phillips	Audit Lead (Performance Audit)	07811 757163	<a href="mailto:ian.phillips@audit.wales">ian.phillips@audit.wales</a>

## Timetable

- 37 The key milestones for the work set out in this plan are shown in **Exhibit 5**. As highlighted earlier, there may be a need to revise the timetable in light of developments with COVID-19.
- 38 The Public Audit (Wales) Act 2004 provides electors with the right to ask questions and to make objections to the Authority'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 Authority'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 5: Audit timetable

Planned output	Work undertaken	Report finalised
2021 Audit Plan	January-March 2021	April 2021

Planned output	Work undertaken	Report finalised
<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>	July-September 2021	September 2021  September 2021  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>• Thematic work – Springing Forward</li> <li>• Local project(s) TBD</li> </ul>	Timescales for individual projects will be discussed with you and detailed within the specific project briefings produced for each study.	
<b>Grants certification work</b> <ul style="list-style-type: none"> <li>• Housing Benefit</li> <li>• Non-Domestic rates</li> <li>• List other schemes</li> </ul>	September – November 2021	December 2021
<b>Annual Audit Summary</b>	N/A	December 2021

39 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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