

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

## Annual Financial Audit Outline

# Rhondda Cynon Taf County Borough Council

**Audit year:** 2013-14

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**This document is a draft pending further discussions with the audited body. The contents of this draft may not yet have been fully verified and should not be distributed beyond those at Rhondda Cynon Taf County Borough Council who have a business need to access it.**

## Status of document

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The Auditor General is independent of government, and is appointed by Her Majesty the Queen. The Auditor General undertakes his work using staff and other resources provided by the Wales Audit Office, which is a statutory board established for that purpose and to monitor and advise the Auditor General. The Wales Audit Office is held to account by the National Assembly.

Together with appointed auditors, the Auditor General audits local government bodies in Wales, including unitary authorities, police, probation, fire and rescue authorities, national parks and community councils. He also conducts local government value for money studies and assesses compliance with the requirements of the Local Government (Wales) Measure 2009.

Beyond local government, the Auditor General is the external auditor of the Welsh Government and its sponsored and related public bodies, the Assembly Commission and National Health Service bodies in Wales.

The Auditor General and staff of the Wales Audit Office aim to provide public-focused and proportionate reporting on the stewardship of public resources and in the process provide insight and promote improvement.

This document was produced by John Herniman, Jeremy Saunders and Helen Holt

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# Annual Financial Audit Outline

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## Introduction

1. This Annual Financial Audit Outline has been prepared by John Herniman on behalf of Anthony Barrett, the Appointed Auditor.
2. As your external auditor my objective is to carry out an audit which discharges my statutory duties as Appointed Auditor and fulfils my obligations under the Code of Audit Practice, namely to:
  - examine and certify whether your financial statements are 'true and fair'; and
  - assess whether you have made proper arrangements for securing economy, efficiency and effectiveness in the use of resources.
3. The purpose of this outline is to explain to you:
  - My audit team's approach to:
    - the audit of your financial statements for the year ending 31 March 2014 including the significant risks of material misstatement in your financial statements and how we plan to address them; and
    - the assessment of your arrangements for securing economy, efficiency and effectiveness in the use of resources.
  - The planned timetable, fees and audit team.
  - The scope of the audit, our respective responsibilities and how we ensure independence and objectivity in our work.
4. There have been no limitations imposed on me in planning the scope of this audit.

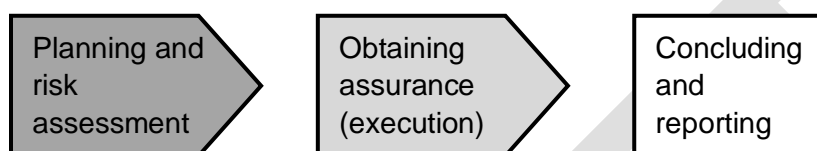
## Financial statements audit

5. It is my responsibility to issue a report on the financial statements which includes an opinion on:
  - Whether or not the accounts give a 'true and fair view' of Rhondda Cynon Taf County Borough Council's (the Council) financial outturn and position. 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.
  - The consistency of information in the Explanatory Foreword with the financial statements.
6. My report must also state by exception if the Annual Governance Statement for 2013-14 does not comply with requirements.

## Audit approach

7. My team's audit work uses a range of techniques to assess risk and obtain audit evidence and assurance and is based on a thorough understanding of your business. This understanding allows my team to develop an audit approach which focuses on addressing specific risks whilst providing assurance for the financial statements as a whole. Our audit approach consists of three phases as set out in [Exhibit 1](#).

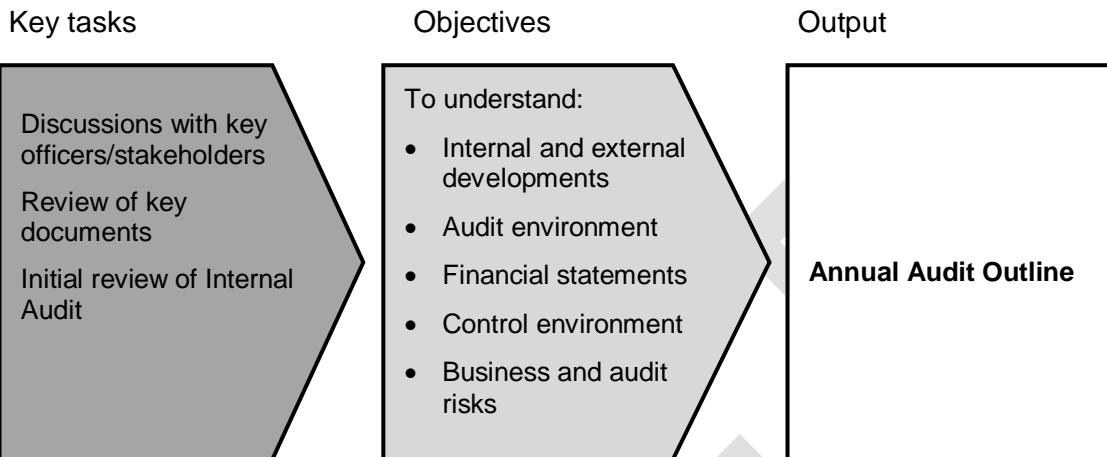
### Exhibit 1: Our audit approach



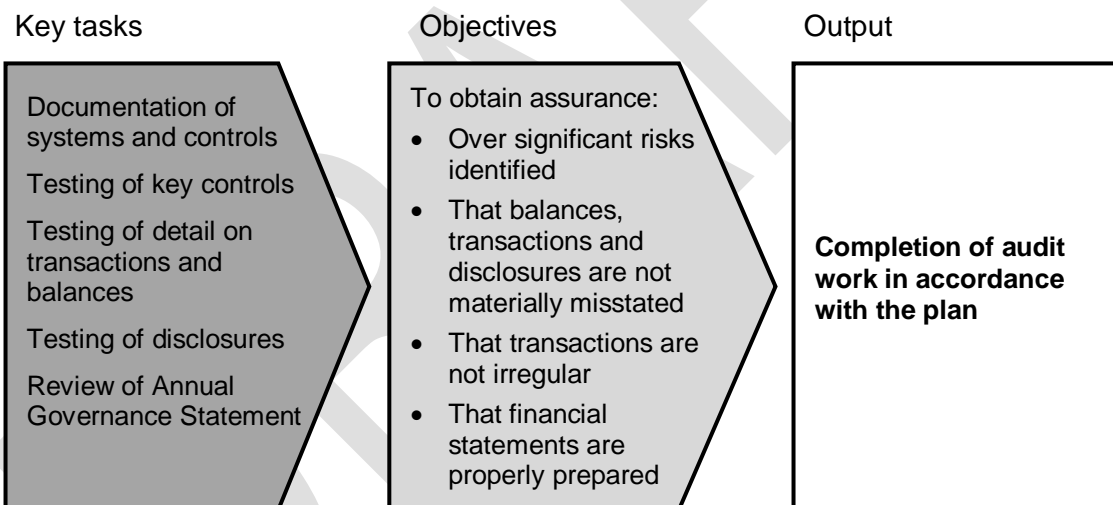
8. The work undertaken in each of these three areas is set out in more detail in [Exhibit 2](#).
9. I do not seek to obtain absolute assurance that the financial statements and related notes are true and fair, but adopt a concept of materiality. In planning and executing the audit, we aim to identify material misstatements in the financial statements and related notes, 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 Council prior to completion of the audit.
10. For reporting purposes, we will treat any misstatements below a 'trivial' level (the lower of five per cent of materiality or £100,000) as not requiring consideration by those charged with governance and therefore will not report them.

**Exhibit 2: Our audit approach**

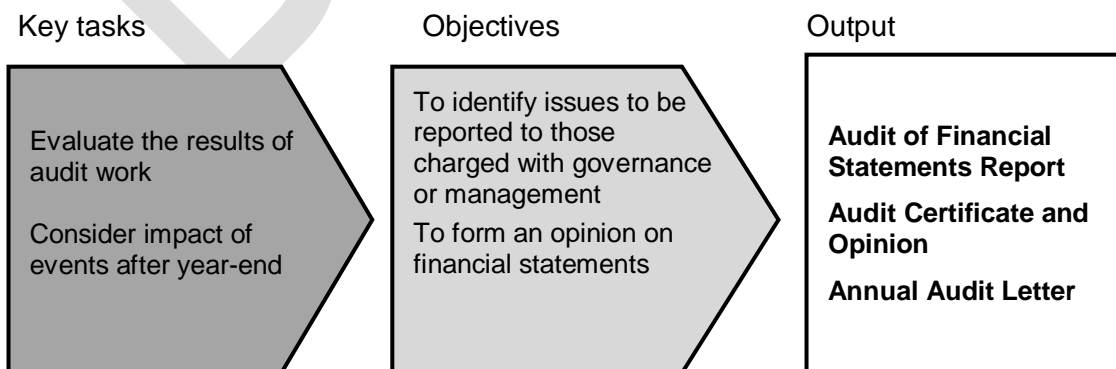
**Planning and risk assessment**



**Obtaining assurance (execution)**



**Concluding and reporting**



11. In planning my work and obtaining an understanding of the Council I consider the control environment including the activities of Internal Audit to determine the potential impact of its work on my planned procedures and to evaluate the extent to which I can rely on that work. Discussions are ongoing at present with Internal Audit about planned reliance.
12. As part of the planning process, my staff considered the information which would be required to support the accounts submitted for audit. The fees, once agreed, will assume that this information will be provided by the timescales agreed and to the quality standards that we expect. My other main assumptions in setting the estimated fees will be that :
- appropriate accommodation and facilities are provided to enable my audit team to deliver our audit in an efficient manner;
  - the financial statements and supporting working papers have been subject to review and validation by management, to provide the Responsible Financial Officer with assurance that they are 'true and fair';
  - 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 has completed its planned programme of work and that management has taken all necessary remedial action on issues that could have affected the financial statements.

## Audit risks and issues

### Risks of material misstatement in the accounting statements

13. **Exhibit 3** provides information regarding the main operational and financial risks faced by the Council that could affect my audit. These are the main risks that I have identified during the initial audit planning process, based upon information currently available, and the actions proposed to address them. I may need to change the audit plan if any new risks emerge. I will not make any changes to the audit plan without first discussing them with officers and, where relevant, those charged with governance.

Exhibit 3: Summary of main audit risks and proposed responses

Risks	Action proposed
<b>Control environment risks</b>	
<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>I 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;</li> <li>• evaluate the rationale for any significant transactions outside the normal course of business;</li> </ul>
<p>There is an inherent risk of material misstatement due to fraud in revenue recognition in entities with material revenue sources and as such this is treated as a significant risk. However, my initial assessment of the Council's income sources indicates that apart from grants there are no individual sources of revenue which are above my materiality threshold.</p>	<p>I will review general controls over grant income, reviewing specifically for potential material fraud.</p>
<p>The Council needs to make significant efficiency savings, in order to bridge the funding gap for the 2013-14 financial year. The Council may not make the efficiency savings it needs and there could be an impact on the accounts or the accounting treatment for specific items.</p>	<p>I will monitor the impact of the Council's financial position in the accounts and the supporting high level controls (e.g. Budgetary control) used in their production.</p>
<p>The Council holds material amounts within earmarked reserves. The Council will need to ensure that all relevant information is taken into account when establishing these reserves and setting budgets..</p>	<p>I will confirm that the Council has considered amounts held within earmarked reserves when setting the budgets and that material balances held within earmarked reserves are held for specific purposes that are appropriately explained.</p>



Risks	Action proposed
<b>Preparation of the accounts risks</b>	
<p>The Code requires the fair value of specialised property which is rarely sold to be estimated using the Depreciated Replacement Cost (DRC) method of valuation.</p> <p>Fair values of specialised property may be misstated.</p>	<p>I will review a sample of DRC based valuations to assess whether:</p> <ul style="list-style-type: none"> <li>• the Gross Replacement Cost of the Modern Equivalent Asset reflects the actual usage rather than the capacity of the existing asset;</li> <li>• an appropriate adjustment has been made for physical obsolescence; and</li> <li>• consideration has been given to the functionality and specification of the existing asset compared to its modern equivalent.</li> </ul> <p>I will also review the process adopted by the Council, to satisfy itself that the valuations provided by the valuer are in accordance with the Code requirements.</p>
<p>During 2012-13 year, the Revenue Expenditure Funded from Capital Under Statute (REFCUS) was not reflected in the property plant and equipment note in accordance with the requirements of the code. It was included as an addition and impaired rather than revenue expenditure. This may reoccur in 2013-14.</p>	<p>I will be reviewing to confirm that the REFCUS expenditure has been reflected in accordance with the Code requirements for 2013-14.</p>
<p>In 2012-13 draft financial statements, the intra-group transactions were not correctly eliminated in the group accounts that were prepared. This may reoccur in 2013-14.</p>	<p>I will review to confirm that intra-group transactions have been correctly eliminated from the groups accounts for 2013-14.</p>
<p>The Council has approved a scheme for reducing employment costs. Given the budget pressures being experienced at the Council, there is a risk that the full liabilities in respect of any employees who take up the scheme are not fully recorded in the financial statements.</p>	<p>I will review to confirm that the amounts included in the financial statements in respect of the employees who have taken up the scheme are the total liabilities for the Council.</p>

Risks	Action proposed
<p>The Council has approved a number of school closures. These need to be accounted for appropriately.</p>	<p>I will review the accounting treatment of these aspects to confirm they are accounted for in accordance with the requirements of the Code.</p>

#### Accounting and reporting issues

14. In addition to the audit risks set out above, I also need to consider any new financial accounting and reporting requirements which impact on my responsibilities. I summarise the more significant accounting and reporting changes that apply to 2013-14 in [Exhibit 4](#).

## Exhibit 4: Significant accounting and reporting changes for 2013-14

### Accounting and reporting change

#### **IAS 1 *Presentation of Financial Statements***

The Comprehensive Income and Expenditure Statement has been amended as a result of the June 2011 amendments to IAS 1 *Presentation of Financial Statements* (where relevant to an authority) and the June 2011 amendments to IAS 19. The requirement for Financing and Investment Income and Expenditure to include 'pensions interest cost and expected return on pensions assets' has been replaced by 'net interest on the net defined benefit liability (asset)'. Financing and Investment Income and Expenditure also now include 're-measurements of the net defined benefit liability (asset) for long-term employee benefits recognised in accordance with section 6.2'.

#### **IAS 19 *Employee Benefits***

Chapter 6 of the code includes revisions as a result of the June 2011 amendments to IAS 19 *Employee Benefits*:

- amendments to the definitions in section 6.1;
- updated terminology, amendments to the recognition requirements and clarifications of the disclosure requirements in section 6.2;
- amendments to the recognition requirements of section 6.3 Termination Benefits and clarification of the disclosure requirements; and
- amendments to the classification, recognition, measurement and disclosure requirements in section 6.4 Post-employment Benefits.

## Use of resources audit

15. To discharge my responsibilities regarding the arrangements that the Council has established to secure economy, efficiency and effectiveness in its use of resources, I shall place reliance upon:
- the results of the audit work undertaken on the financial statements;
  - the Council's system of internal control, as reported in the Annual Governance Statement and my report thereon;
  - the results of work carried out by the Auditor General, 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.

## Certification of grant claims and returns

16. The Appointed Auditor, acting as an agent of the Auditor General, undertakes certification work on the Council's grant claims and returns in accordance with instructions issued by the Auditor General. The Council's arrangements for preparing grant returns for certification are generally effective. As such there are no specific risks and issues I need to bring to your attention.

## Other work undertaken

17. I am also responsible for the audit of, Central South Consortium Joint Education Service Joint Committee, Llywdcoed Crematorium Joint Committee and the Welsh Church Act Fund. I wish to draw your attention to the following specific risks, other than management override and income recognition I have identified in relation to the joint committees:

### **Central South Consortium Joint Education Committee**

- The legal status for the Joint Education Committee had not been finalised in 2012-13 year. We will review to confirm that this has been finalised in 2013-14 year.
- In 2012-13 financial year, the pension liabilities have not been formally transferred to the Joint Education Committee. We will follow up the position for the 2013-14 year
- In the 2012-13 financial year, the debtors, creditors and cash were shown as a net position in the original draft accounts. There is a risk that this may re-occur in 2013-14 year
- There are requirements around the inclusion of amounts paid for consultants who carry out senior management roles within remuneration disclosures. We will review to confirm that the necessary disclosures are made in respect of these costs.

### **Llywdcoed Crematorium Joint Committee**

- No specific risks

### **Welsh Church Act Fund.**

- there is an inherent risk that grants have been awarded to individuals or organisation which are not in line with the charity's aims and objectives. I will assess the arrangements for award of grant

18. I am also required to certify a return to the Welsh Government which provides information about the Council to support preparation of Whole of Government Accounts.

## Auditor General's Regulatory Programme

19. A separate document, the Auditor General's Regulatory Programme for Performance Audit, will be issued setting out the work to be delivered by the Auditor General under the Measure.

## Fee, audit team and timetable

### Fee

20. We are currently unable to provide you with an estimate of our fee for our 2013-14 audit work.
21. Owing to the requirements of the Public Audit (Wales) Act 2013, we have needed to revise our approach to fee setting. This act introduces a slightly revised fee-setting requirement on the new Wales Audit Office for all our audit work once its provisions come into effect from 1 April 2014. In anticipation of this new requirement, we have needed to take legal advice to clarify a number of its provisions. In the light of that advice, we have reviewed our cost allocation and apportionment processes to ensure that going forward our fee setting will fully comply with these new statutory requirements. This unfortunately has been a time-consuming process. The exercise has now been completed and the Auditor General has consulted on his fee scales, which take account of revisions made in anticipation of the new legislation. That consultation provides further information about the new legislative requirements.
22. We will be able to provide you with an estimate of your fee for 2013-14, in May 2014.
23. 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 Director of Finance. Further information on the new Wales Audit Office fee scales and fee setting will be provided once finalised.
24. In previous years, there have been no formal objections to the Council's financial statements. However, I do receive a number of queries and items of correspondence from members of the public and other interested parties. A small amount of time will be included within the fee to deal with minor queries, as part of the overall management of the audit.
25. Any detailed investigations or other work required to respond to queries and objections will result in an additional fee. Any such additional fee will be charged at daily rates based on the specific grade or skill mix required for the work, but will be discussed with the Council, prior to undertaking the work.
26. The Auditor General is required to recover, in respect of each grant or return, an amount that covers the full cost of the relevant work undertaken. Grant and return certification work is charged on a daily basis in line with the skill-related fee scales set out in the Auditor General's local government fees letter. The fees will reflect the size, complexity and particular issues relating to the specific grants.

27. Further information on the Auditor General’s fee scales and fee setting can be found on our website at: [www.wao.gov.uk/aboutus/4240.asp](http://www.wao.gov.uk/aboutus/4240.asp).

## Audit team

### Exhibit 5: My team

Name	Role	Contact number	E-mail address
John Herniman	Engagement Lead – Financial Audit	02920 320500	john.herniman@wao.gov.uk
Jeremy Saunders	Financial Audit Manager	01443 680355	jeremy.saunders@wao.gov.uk
Helen Holt	Financial Audit Team Leader	01443 680349	helen.holt@wao.gov.uk
Gareth Lewis	IT Specialist	02920 320500	gareth.lewis@wao.gov.uk

28. I can confirm that my team members are all independent of the Council, its officers and any joint committees. In addition, I am not aware of any potential conflicts of interest that I need to bring to your attention.

## Timetable

29. I will provide reports, or other outputs as agreed, to the Council or Audit Committee as appropriate covering the areas of work identified in this document. My key milestones are set out in [Exhibit 6](#).

### Exhibit 6: Timetable

Planned output	Work undertaken	Report finalised
<b>Annual Financial Audit Outline for 2014</b>	January 2013 – February 2014	May 2014
<b>Financial accounts 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> <li>• Whole of Government Accounts</li> </ul>	July to September 2014	September 2014 September 2014 November 2014 October 2014
<b>Annual Audit Letter 2014</b>	October 2014	November 2014

Planned output	Work undertaken	Report finalised
Outline of Audit Work for 2015	December to January	February 2015

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# Appendix 1

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## Roles and responsibilities

This Annual Financial Audit Outline has been prepared to meet the requirements of auditing standards and proper audit practices. It provides Rhondda Cynon Taf County Borough Council (the Council) with an outline of the financial audit work required for the 2013-14 financial statements.

The Public Audit (Wales) Act 2013 (the 2013 Act) sets out that the Auditor General is to be the auditor of local government bodies in Wales. The 2013 Act does, however, provide transitional arrangements where the appointment of a person as an auditor under section 13 of the Public Audit (Wales) Act 2004 continues to have effect until the end of the period for which the appointment was made (subject to any earlier termination). The Auditor General has appointed me as the auditor of the Council's accounts for the year ending 31 March 2014.

As Appointed Auditor, I am required by the Public Audit (Wales) Act 2004 to examine and certify the accounts of the Council. In accordance with professional standards that apply by virtue of the Code of Audit Practice set under the act, this involves giving an opinion on whether the accounts give a true and fair view of the Council's financial position and of its income and expenditure for the year. The act also requires me to satisfy myself of these things:

- that the accounts are prepared in accordance with regulations under section 39 of the act (the Accounts and Audit (Wales) Regulations 2005);
- that the accounts comply with the requirements of all other statutory provisions applicable to them;
- that proper practices have been observed in the compilation of the accounts; and
- that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

I am also required to certify that the audit has been completed in accordance with the Public Audit (Wales) Act 2004.

The audit does not relieve the Council of its responsibility to:

- establish systems of internal control to ensure the regularity and lawfulness of transactions and to ensure that its assets are secure;
- maintain proper accounting records;
- prepare a Statement of Accounts in accordance with relevant requirements; and
- establish and keep under review appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Public Audit (Wales) Act 2004 sets out the rights of the public and electors to inspect the Council'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.

A separate Annual Financial Audit Outline for the audit of the 2013-14 accounts of the Rhondda Cynon Taf Pension Fund will be issued.



The Auditor General is required to certify certain grant claims and returns. The Appointed Auditor, acting as an agent of the Auditor General, undertakes the audit work relating to those claims and returns.

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