



WALES **AUDIT** OFFICE
SWYDDFA **ARCHWILIO** CYMRU

Annual Financial Audit Outline

Denbighshire County Council

Audit year: 2013-14

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This document was produced by Derwyn Owen, Anthony Veale and Nick Raynor.

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Annual Financial Audit Outline

Introduction

1. This Annual Financial Audit Outline has been prepared by Derwyn Owen, Engagement Lead 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.

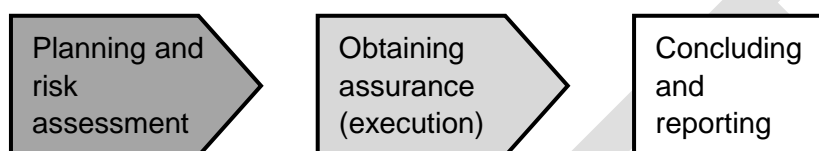
Financial statements audit

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 Denbighshire County Council's (the Council) financial out-turn 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

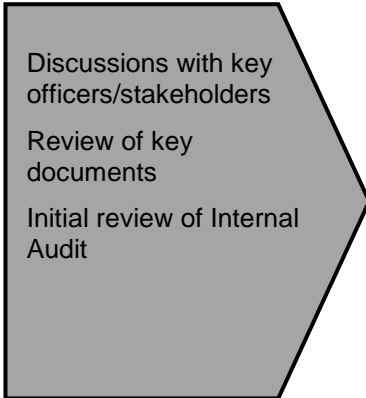


8. The work undertaken in each of these three areas is set out in more detail in [Exhibit 2](#).
9. I do not seek to obtain absolute assurance that the financial statements and related notes are true and fair, but adopt a concept of materiality. In planning and executing the audit, we aim to identify 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 Audit Committee 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

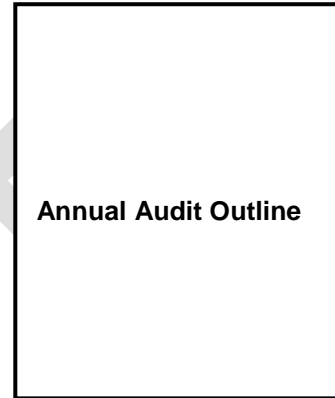
Key tasks



Objectives

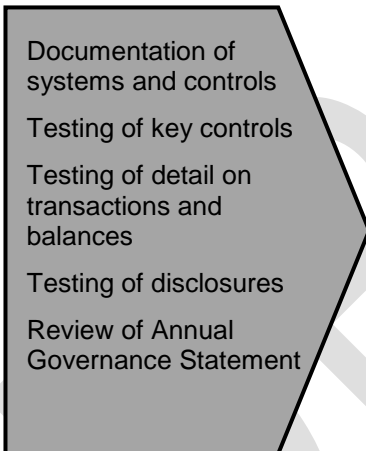


Output

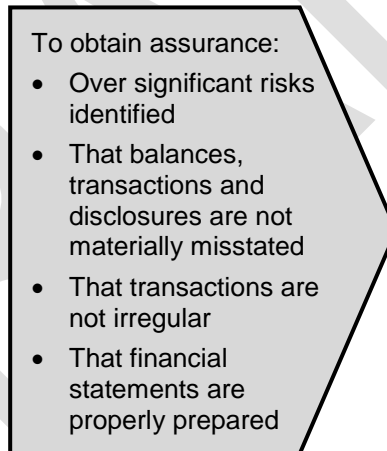


Obtaining assurance (execution)

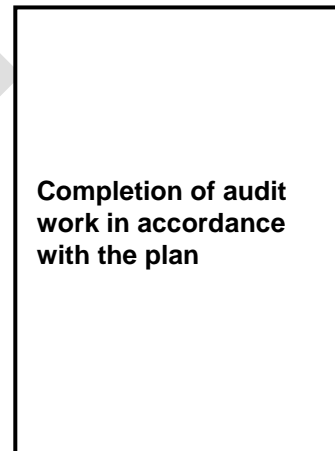
Key tasks



Objectives

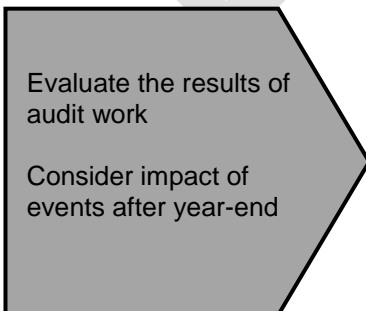


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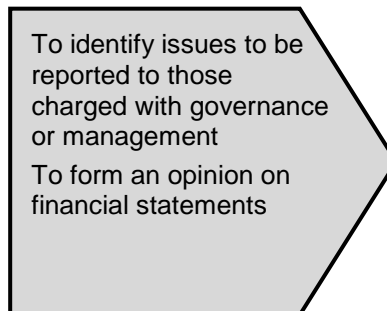


Concluding and reporting

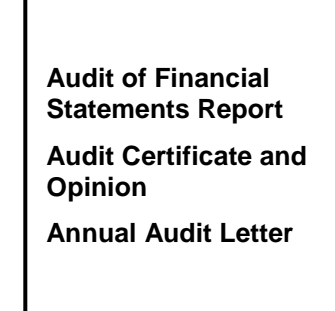
Key tasks



Objectives



Output



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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.
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.
13. The Council is now the lead authority for the Joint Committee in respect of the Area of Natural Beauty (AONB). We will need to be formally appointed as the external auditor of this Joint Committee and confirm an additional audit fee with officers.

Audit risks and issues

Risks of material misstatement in the accounting statements

14. **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
Control environment 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. In addition, the Council continues to face significant financial pressures, including funding cuts. The current financial pressures on the Council increase the risk that management judgements and estimates could be biased in an effort to meet its financial challenges.</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; • focus its testing on areas of the financial statements which could contain reporting bias; • evaluate the rationale for any significant transactions outside the normal course of business; and • test the posting of transactions to the general ledger before and after the year-end to ensure that income and expenditure is correctly recorded in the appropriate year of account.
Financial systems risks	
<p>Risk that the Council's procedures high-level financial controls are not designed or operating effectively to prevent and detect material misstatements in the financial statements.</p>	<p>We will review the design and test the operation of high-level controls in the:</p> <ul style="list-style-type: none"> • main accounting system; • budgetary control system; and • the accounts preparation process.
Preparation of the accounts risks	
<p>Risk that changes to the financial statements to comply with the 2013-14 Code of Practice on Local Authority Accounting in the United Kingdom (the Code) may be incorrectly completed.</p>	<p>We will review the draft financial statements to ensure that they have been prepared, in all material respects, in accordance with the Code.</p>
<p>Risk of material misstatement in the financial statements arising from the revaluation of property including council houses.</p>	<p>We will assess the revaluation ensuring that the revaluation has been conducted in line with accounting policies and that it has been, in material respects, accurately reflected in the financial statements.</p>

Risks	Action proposed
<p>I have identified a number of disclosures as being material by nature. These include the disclosure of Related Parties, Remuneration note and Members Allowances.</p> <p>There is a risk that exit packages paid by the Council do not fully comply with the requirements of the Code and Council policy. We have considered such payments as sensitive items of expenditure and therefore material by nature.</p>	<p>We will design detailed testing to obtain the required assurance that disclosures identified as material by nature have not been misstated.</p> <p>My audit team will consider the accounting treatment and disclosure of exit packages.</p>
<p>The preparation of the financial statements will involve the estimation of a number of account figures such as provisions for the Council's liabilities (e.g. equal pay claims, and insurance provisions).</p>	<p>We will review:</p> <ul style="list-style-type: none"> the annual assessment made by officers of the basis on which estimates are made and revised in line with the latest information; and documentation held to support estimates derived and judgements made, and refer to papers provided in support of them. <p>We will also monitor the impact of any Council decision in respect of Clwyd Leisure with a view to assessing whether there are any financial implications or accounting issues that need to be considered by the Council in respect of the 2013-14 financial statements.</p>
Financial statements risks	
<p>Risk of material misstatement in the financial statements arising from error or omission of transactions, balances and disclosure.</p>	<p>On receipt of the 2013-14 draft financial statements in June 2014, we will undertake a review of the statements and update our risk assessment accordingly. We will design audit testing programmes to focus our work on material balances and transactions and any additional financial statement risks that arise following our review of the draft financial statements.</p>

Accounting and reporting issues

15. In addition to the significant 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 includes '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

16. 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

17. 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.

Overall issues identified

18. **Exhibit 5** summarises the key issues I identified when undertaking grant certification work in 2012-13.

Exhibit 5: Overall issues relating to grant claim and return certification

Qualified grant claims and returns qualified in 2012-13

In 2013-14 my team audited 24 grant claims and returns, of which two were qualified and amended and 12 were amended. The claims and returns were largely amended or qualified as they were not completed in line with guidance or did not agree with supporting records. There were no significant risks relating to specific grant claims and returns which I need to consider for the purposes of my financial statements audit.

Other work undertaken

19. In addition to my responsibilities in respect of the audit of the body's statutory financial statements set out above, 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

20. 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

21. We are currently unable to provide you with an estimate of our fee for our 2013-14 audit work.
22. 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 is currently consulting on his fee

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- scales, which take account of revisions made in anticipation of the new legislation. That consultation provides further information about the new legislative requirements.
23. After the end of the consultation process (28 February 2014), and after considering the consultation responses, we will be able to provide you with an estimate of your fee for 2013-14, which we anticipate being able to do in late March 2014.
 24. 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 Head of Finance and Assets. Further information on the new Wales Audit Office fee scales and fee setting will be provided once finalised.
 25. In previous years, there have been a number of formal objections to the Council's financial statements. In addition, I 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.
 26. 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.
 27. 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.
 28. 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.

Audit team

29. **Exhibit 6** highlights the key members of the audit engagement at the Council. I can confirm that with the exception of one member of staff, there are no known threats to my independence as Appointed Auditor or on the independence of staff or contractors working for me.
30. With regards to the exception noted above, one member of the audit team is related to a member of the Council's administration staff. We have reviewed this and concluded that the possibility of this relationship affecting the financial results of the Council or the audit of the financial statements is considered remote. However, we have taken steps to ensure that our member of staff is not involved in any work we may do that covers the pooled budget arrangement with Betsi Cadwaladr Local Health Board, or the Council's payroll.

Exhibit 6: My team

Name	Role	Contact number	E-mail address
Derwyn Owen	Engagement Lead – Financial Audit	02920 320651	derwyn.owen@wao.gov.uk
Anthony Veale	Financial Audit Manager	02920 320585	anthony.veale@wao.gov.uk
Nick Raynor	Financial Audit Team Leader	01824 706270	nicholas.raynor@wao.gov.uk

Timetable

31. I will provide reports, or other outputs as agreed, to the Audit Committee covering the areas of work identified in this document. My key milestones are set out in [Exhibit 7](#).

Exhibit 7: Timetable

Planned output	Work undertaken	Report finalised
Annual Financial Audit Outline for 2014	December 2013 – February 2014	March 2014
Financial accounts work: <ul style="list-style-type: none">Annual Assessment of Internal AuditAudit of Financial Statements ReportOpinion on Financial StatementsWhole of Government AccountsFinancial Accounts Memorandum	March 2014 July - September 2014 September 2014 September 2014 September 2014	May 2014 September 2014 September 2014 September 2014 September 2014
Use of Resources Work	September – October 2014	November 2014
Annual Audit Letter 2014	October 2014	November 2014
Outline of Audit Work for 2015	December 2014 – February 2015	March 2015

Appendix 1

Roles and responsibilities

This Annual Financial Audit Outline has been prepared to meet the requirements of auditing standards and proper audit practices. It provides Denbighshire County 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.

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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