



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

# Annual Financial Audit Outline

## Denbighshire County Council

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# Status of document

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# Annual Financial Audit Outline

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## Roles and responsibilities

1. 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 2012-13 financial statements.
2. Under the provisions of the Public Audit (Wales) Act 2004, the Auditor General is responsible for appointing external auditors (appointed auditors) to local government bodies.
3. As Appointed Auditor, I am required by the Public Audit (Wales) Act 2004 to examine and certify the accounts of the Council. 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.
4. I am also required to certify that the audit has been completed in accordance with the Public Audit (Wales) Act 2004.
5. 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.
6. 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.
7. The key elements of the audit are set out in [Appendix 1](#).
8. 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 Local Government (Wales) Measure 2009.
9. 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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## The audit approach

### The audit team

10. Information regarding the financial audit team is provided in [Appendix 2](#).

### Audit of financial statements

11. I understand that internal controls are designed, implemented and maintained by the Council to address identified business risks that threaten the achievement of an audited body's objectives regarding:
- the reliability of its financial reporting;
  - the effectiveness and efficiency of its operations; and
  - its compliance with applicable laws and regulations.
12. I will:
- assess the effectiveness of high-level internal controls and key system-level internal controls in preventing and detecting material errors in the accounting statements;
  - assess the effectiveness of Internal Audit;
  - review and seek to place reliance upon work undertaken by Internal Audit, as appropriate; and
  - develop substantive procedures to respond to risks of material misstatement in the accounting statements.
13. I do not seek to obtain absolute assurance that the financial statements and related notes are true and fair, but adopt the concept of materiality. Therefore in planning and conducting the audit, I seek to identify material misstatements in the accounting statements and related notes, that is, those that might result in a reader of the accounts being misled.
14. The levels at which I judge such misstatements to be material will be reported in my report to the Audit Committee prior to completion of the audit.

### Risks of material misstatement in the accounting statements

15. [Exhibit 1](#) 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 1: Summary of main audit risks and proposed responses

Risks	Action proposed
<b>Control environment risks</b>	
<p><b>Financial Challenges</b>            The Council is facing significant financial challenges in common with the rest of the public sector. The increase in demand for services presents a risk of overspending although the Council has plans in place to deliver savings and monitor the position.</p>	<p>I will assess the Council's arrangements for:</p> <ul style="list-style-type: none"> <li>ensuring effective financial management; and</li> <li>providing internal audit coverage which meets the professional standards set by CIPFA.</li> </ul> <p>I will continue to review the overall control environment in respect of the Council's financial challenges and assess the impact on the financial statements, including accounting and disclosure requirements.</p>
<b>Preparation of the accounts risks</b>	
<p><b>Partnerships and collaboration</b>            The Council continues to work in partnership and collaboration with a number of external bodies.            Based on our work in 2011-12, there are potential risks (eg, financial, reputational, governance) to the Council if it does not effectively manage these relationships and account for them correctly in its Accounts.</p>	<p>I will undertake work which enables me to:</p> <ul style="list-style-type: none"> <li>understand how the partnership organisations operate so that I can fully assess the financial and accounting implications for the Council; and</li> <li>ensure that appropriate disclosures are included in the accounts in relation to related party disclosures in respect of both Members and Officers.</li> </ul>
<p><b>Capital Programme</b>            The Council has a capital programme of some £33 million in 2012-13. This includes financing from prudential borrowing, capital receipts, revenue funding, supported borrowing and funding from specific grants and contributions.</p>	<p>I will review the accounting treatment of the capital programme to ensure that both the accounting and disclosure requirements are met.</p>
<p><b>Council House valuations</b>            The Council is planning to review the basis on which council houses are valued to ensure it aligns with the Existing Use Value methodology.</p>	<p>I will ensure that any potential changes to council house valuations are correctly recorded and disclosed in the financial statements.</p>

Risks	Action proposed
<p><b>Accounting for estimates</b></p> <p>The preparation of the Statement of Accounts will involve the estimation of a number of account figures such as provisions for the Council's liabilities eg, equal pay claims.</p>	<p>I will review:</p> <ul style="list-style-type: none"> <li>the annual assessment made by officers of the basis on which estimates are made and revised in line with the latest information; and</li> <li>documentation held to support estimates derived and judgements made, and refer to papers provided in support of them.</li> </ul> <p>I will also ensure that appropriate accounting and disclosure requirements are included within the financial statements.</p>
<p><b>Accounting for Landfill Site obligations</b></p> <p>Where a council operates or has operated landfill sites for which it has a responsibility, there is a duty to restore the site and undertake appropriate aftercare and monitoring for several decades after closure. As a result financial obligations arise and these must be recognised in the Council's financial statements. There is a risk that insufficient accounting provision is set aside for the liabilities associated with these landfill sites.</p>	<p>I will obtain an understanding of the Council's responsibilities in relation to landfill sites and consider whether the Council has made appropriate accounting provision within its financial statements.</p>
<p><b>Disclosures that are material by nature</b></p> <p>I have identified a number of disclosures as being material by nature. These include the disclosure of Related Parties and the Remuneration note.</p>	<p>I will design detailed testing to obtain the required assurance that disclosures identified as material by nature have not been misstated.</p>

## Use of resources

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, 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.

## Reporting

17. The Code of Audit Practice issued by the Auditor General requires appointed auditors to comply with relevant auditing and ethical standards. These standards require formal reporting at various stages during the audit to those charged with governance.
18. In particular, auditors must report:
  - relationships that may affect the auditor's independence;
  - audit planning information; and
  - certain matters to those charged with governance (as distinct from management) before they give an opinion on the financial statements.
19. Appendix 1 highlights the key elements of the audit engagement at the Council, and I 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.
20. With regards to the exception noted above, one member of the audit team is related to a member of the Council's administration staff. Our Compliance Department has reviewed this and has 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 Cadwallader Local Health Board, or the Council's payroll. .
21. I will submit reports to the Corporate Governance Committee, and where necessary, to the Cabinet or Council in a timely manner. I will provide other reports or output as agreed. The key milestones are set out in [Exhibit 2](#).

### Exhibit 2: Key milestones

Planned output	Planned start date	Report finalised
Annual Financial Audit Outline	March 2013	April 2013
Audit of Financial Statements (ISA 260) Report	January 2013	September 2013
Audit Opinion on the 2012-13 Financial Statements	January 2013	September 2013
Annual Audit Letter	October 2013	November 2013



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## Audit fee

- 22.** The proposed fee for 2012-13 financial audit work is £165,802 which is in line with our final 2011-12 fee. The fee will be charged in equal instalments between November 2012 and October 2013. This fee is in line with the Auditor General's fees letter and is based on the zero-based fee model for financial audit. We have recently received a ruling from HMRC regarding changes in the VAT status of the Auditor General which will take effect from 1 April 2013. We are currently liaising with HMRC regarding the precise scope of this ruling and will shortly be writing to you separately to explain the implications of this ruling.
- 23.** In recent years there have been no formal objections to the Council's financial statements. However, we have already received a number of queries and items of correspondence from members of the public and other interested parties. A small amount of time has been included within the fee to deal with minor queries, as part of the overall management of the audit.
- 24.** 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.
- 25.** 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.
- 26.** Although grant certification work fluctuates from year to year, based on past experience including our concerns set out above and initial indications of changes in grant schemes and conditions, I estimate that the total fee for grant work will be in the range of £90,000 and £100,000.

# Appendix 1

## Key elements of the audit engagement

Key elements	Requirements	Position at the [Council/Authority]
<b>Engagement activities</b>		
Terms of the audit engagement	The Public Audit (Wales) Act 2004 sets out responsibility for appointment of local government external auditors in Wales.	Roles and responsibilities of appointed auditors are outlined above and in this appendix. The full Statement of Responsibilities can be found at: <a href="http://www.wao.gov.uk/assets/english_documents/statement_of_responsibilities_of_auditors_eng.pdf">http://www.wao.gov.uk/assets/english_documents/statement_of_responsibilities_of_auditors_eng.pdf</a>
Appointment of auditors and engagement leads	It is the Auditor General's responsibility to appoint local government external auditors and to assign responsibility for each engagement to an engagement lead.	Details of the Appointed Auditor and the Engagement Lead are provided in <a href="#">Appendix 2</a> of this document.
Discretionary work by agreement	The Auditor General has set out clear criteria for approval of any discretionary work requested by audited bodies.	No discretionary agreement work has been requested or is proposed.
<b>Ethical considerations</b>		
Independence	Appointed auditors are required to consider the following: <ul style="list-style-type: none"> <li>• threats to auditor independence (including litigation);</li> <li>• family and other personal relationships;</li> <li>• long association with the audited body (see Wales Audit Office rotation of audits policy); and</li> <li>• contentious or difficult issues.</li> </ul>	I confirm that with the exception of one member of staff, there are no known threats to my independence as the Appointed Auditor or to the independence of staff or contractors working for me, and I have complied with the Wales Audit Office rotation policy. Details of how this potential conflict of interest is to be managed has been detailed in paragraph 20 of this document.
Engagement performance	Engagement Leads need to consider what level of quality assurance and review levels are appropriate.	Wales Audit Office quality control review mechanisms are in place for the audit, and the Engagement Lead has established appropriate review levels based on the experience of the staff undertaking the audit work.

## Appendix 2

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### Financial audit team

Name	Role	Contact number	E-mail address
Anthony Barrett	Appointed Auditor	029 20 320571/ 012 4452 5970	<a href="mailto:anthony.barrett@wao.gov.uk">anthony.barrett@wao.gov.uk</a>
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