

## 2022 Audit Plan – Newport City Council & Newport City Council Group

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# 2022 Audit Plan

## About this document

- 1 This document sets out the work I plan to undertake during 2022 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 Newport City Council's (the Council) and Newport City Council Group's (the Group) financial statements 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.

## Sustainable development principle

- 5 The Council needs 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

- 6 The COVID-19 pandemic has had an unprecedented impact on the United Kingdom and the work of public sector organisations.
- 7 While Wales is currently at Coronavirus Alert Level 0, Audit Wales will continue to monitor the position and will discuss the implications of any changes in the position with your officers.

## Audit of financial statements

- 8 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 and Group's financial statements for the financial year ended 31 March 2022; and

- an assessment as to whether the Councils and Group'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 and Group.
- 9 In addition to my responsibilities for auditing the Council's financial statements, I also have responsibility for:
- certifying a return to the Welsh Government which provides information about the Council and Group to support preparation of Whole of Government Accounts;
  - responding to questions and objections about the accounts from local electors (additional fees will be charged for this work, if necessary);
  - the examination of the Greater Gwent Crematorium Joint Committee's annual return for the year ended 31 March 2022;
  - the certification of a number of grant claims and returns as agreed with the funding bodies.
- 10 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 Governance and Audit Committee prior to completion of the audit.
- 11 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.
- 12 There have been no limitations imposed on me in planning the scope of this audit.
- 13 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**

- 14 The following table sets out the significant risks I have identified for the audit of the Council and Group.

**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>Management override of controls</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 [ISA 240.31-33].</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>
<b>Other audit risks</b>	
<p><b>Impact of COVID-19 - resources</b>                      Although COVID-19 restrictions have now been removed, there have been ongoing pressures on staff resource and of remote working that may impact on the preparation, audit and publication of accounts. There is a risk that the quality of the accounts and supporting working papers e.g. around estimates and valuations, may be compromised leading to an increased incidence of errors. Quality monitoring arrangements may be compromised due to timing issues and/or resource availability.</p>	<p>My audit team 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>

Audit risk	Proposed audit response
<p><b>Impact of COVID-19 – funding streams</b></p> <p>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 Council. In some cases, these monies provide financial support to the Council itself. In other cases, the funds have been administered by the Council, making payments to third parties on behalf of the Welsh Government. The amounts involved are material to the accounts.</p> <p>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>My audit team will review the funding streams received from the Welsh Government and confirm the appropriate accounting treatment with the Council.</p>
<p><b>Impact of COVID-19 - disclosures</b></p> <p>Last year I included an ‘Emphasis of matter’ paragraph in my audit report, drawing attention to material valuation uncertainty in the financial statements in respect of the valuation of land and buildings and investment properties. This uncertainty arose from the COVID-19 pandemic, and my audit opinion was not modified in respect of these matters. However, it remains possible that similar disclosures may be required this year.</p>	<p>My audit team will review the asset valuer’s year-end reports and consider the impact on my audit of any reported material valuation uncertainties.</p>
<p><b>Cardiff Capital Region City Deal</b></p> <p>City deals are arrangements negotiated with government that give greater accountability for actions in return for new powers to help encourage growth</p>	<p>Liaising closely with other local council auditors, my audit team will:</p> <ul style="list-style-type: none"> <li>• monitor progress with the City Deal project and carry out early</li> </ul>

Audit risk	Proposed audit response
<p>and jobs. The Cardiff Capital Region City Deal (the City Deal) involves ten local authorities.</p> <p>The authorities have established a joint committee (the Regional Cabinet) to oversee delivery of a range of programmes designed to increase connectivity and to improve physical and digital infrastructure over 20 years.</p> <p>There will be a number of accounting issues to address, including consolidation of the joint committee into the Council's accounts.</p>	<p>work, as necessary, to assess the existing and proposed financial and governance arrangements;</p> <p>and</p> <ul style="list-style-type: none"> <li>consider work undertaken by HM Treasury to scrutinise the effectiveness of the region's governance arrangements.</li> </ul>
<p><b>McCloud judgement</b></p> <p>In 2015 the Government introduced reforms to public sector pensions, meaning that most public sector workers were moved into new pension schemes. In December 2018, the Court of Appeal ruled that the 'transitional protection' arrangements amounted to unlawful discrimination.</p> <p>Consultations on proposed remedies closed in October 2020 and the UK Government have set out their proposed approach in response via Ministerial Statements, although full details of how the remedy is to be implemented are yet to be fully set out.</p> <p>Once confirmed, the impact of the remedy is likely to have a significant impact on the Council's proposed pension liabilities.</p>	<p>In conjunction with management, my audit team will continue to monitor developments regarding the McCloud judgement and any proposed remedies, as well as any impacts these could have on the 2021-22 financial statements.</p>



## Performance audit

- 15 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 in paragraphs 4 and 5 in relation to value for money and sustainable development.
- 16 In response to the pandemic, I adopted a flexible approach to my performance audit work both in terms of topic coverage and methodology. This enabled me to respond to the fast-moving external environment and provide more real-time feedback in a range of formats.
- 17 For 2022-23, I intend to continue 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 continue to be delivered through the Assurance and Risk Assessment Project, that will be ongoing throughout the year.
- 18 Given the high degree of commonality in the risks facing councils I also intend to deliver a number of thematic projects examining risks common to all councils.
- 19 During 2020-21, I consulted public bodies and other stakeholders on how I will approach my duties in respect of the Well-being of Future Generations (Wales) Act 2015 from 2020-2025.
- 20 In March 2021, I wrote to the public bodies designated under the Act setting out my intentions, which include:
- carrying out specific examinations of how public bodies have set their well-being objectives; and
  - integrating my sustainable development principle examinations of steps to meet well-being objectives with my national and local audit programmes.
- 21 My auditors are liaising with the Council to agree the most appropriate time to examine the setting of well-being objectives.
- 22 The examination of steps to meet well-being objectives will be conducted as part of work set out in this audit plan and successive audit plans, leading up to my statutory report under the Act in 2025.
- 23 For 2022-23 my performance audit work at the Council is set out below.

## Exhibit 2: Performance Audit Programme 2022-23

This table summarises the performance audit programme for 2022-23:

Performance audit programme	Brief description
<b>Assurance and Risk Assessment</b>	<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 and acting in accordance with the sustainable development principle</p> <p>The project is likely to focus in particular on:</p> <ul style="list-style-type: none"><li>• financial position;</li><li>• capital programme management;</li><li>• use of performance information – with a focus on service user feedback and outcomes; and</li><li>• setting of well-being objectives.</li></ul>
<b>Thematic review - unscheduled care</b>	<p>We intend to undertake a cross-sector review focusing on the flow of patients out of hospital. This review will consider how the Council is working with its partners to address the risks associated with the provision of social care to support hospital discharge, as well as prevent hospital admission. The work will also consider what steps are being taken to provide medium to longer-term solutions.</p>
<b>Thematic review – to be confirmed</b>	<p>Details of this thematic work to be confirmed following the consultation referred to in paragraph 24 below.</p>
<b>Local audit work</b>	<p>To be confirmed following discussions with the Council over the course of the 2022-23 financial year.</p>

24 In March 2022, I published a [consultation](#) inviting views to inform our future audit work programme for 2022-23 and beyond. In particular, it considers topics that may be taken forward through our national value for money examinations and studies and/or through local audit work across multiple NHS, central government and local government bodies. As we develop and deliver our future work programme, we will be putting into practice key themes in our new five-year strategy, namely:

- the delivery of a strategic, dynamic, and high-quality audit programme; supported by
  - a targeted and impactful approach to communicating and influencing.
- 25 The possible areas of focus for future audit work that we set out in the consultation were framed in the context of three key themes from our Picture of Public Services analysis in autumn 2021, namely: a changing world; the ongoing pandemic; and transforming service delivery. We also invited views on possible areas for follow-up work.
- 26 We will provide updates on the performance audit programme through our regular updates to the Governance and Audit Committee.

## Certification of grant claims and returns

- 27 I have also been requested to undertake certification work on the Council's grant claims, which I anticipate will include Housing Benefits, Teachers Pension and NDR returns, along with a statement of money transfers from NHS bodies under the NHS (Wales) Act 2006.
- 28 In respect of the 2020-21 certification of Grants and Returns, we will produce a separate report which summarises the more significant and/or recurring issues identified when undertaking grant certification work in 2020-21. This report will be completed following the conclusion of our work on the 2020-21 Housing Benefit Subsidy return.

## 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;
  - when we are able to resume on-site activities, 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 As set out in our [Fee Scheme 2022-23](#), our fee rates for 2022-23 have increased by 3.7% as a result of the need to continually invest in audit quality and in response to increasing cost pressures.
- 34 The estimated fee for 2022 is set out in **Exhibit 3**. This represents a 3.5% increase compared to your total actual 2021 fee, in line with the above increase in fee rates.

### Exhibit 3: audit fee

This table sets out the proposed audit fee for 2022, by area of audit work, alongside the actual audit fee for last year.

Audit area	Proposed fee (£) <sup>1</sup>	Actual 2021 fee (£)
Audit of accounts <sup>2</sup>	198,380	191,900
Performance audit work <sup>3</sup>	106,848	103,090
Other financial audit work <sup>4</sup>	1,244	1,244
<b>Total fee</b>	<b>306,472</b>	<b>296,234</b>

- 35 As noted in paragraph 29, our grant certification work for 2020-21 is ongoing. We will produce a separate report which summarises any significant issues and will update the Council on the proposed fee for 2021-22, as well as the actual fee for 2020-21.
- 36 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 Council.
- 37 Further information can be found in my [Fee Scheme 2022-23](#).

### Audit team

- 38 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
Anthony Veale	Engagement Director	029 2032 0585	<a href="mailto:anthony.veale@audit.wales">anthony.veale@audit.wales</a>

<sup>1</sup> The fees shown in this document are exclusive of VAT, which is not charged to you.

<sup>2</sup> Payable November 2021 to October 2022.

<sup>3</sup> Payable April 2022 to March 2023.

<sup>4</sup> Payable as examination work is completed on the Greater Gwent Crematorium Joint Committee Annual Return.

Name	Role	Contact number	E-mail address
Gareth Lucey	Audit Manager (Financial Audit)	029 2082 9398	<a href="mailto:gareth.lucey@audit.wales">gareth.lucey@audit.wales</a>
Ramim Khan	Audit Lead (Financial Audit)	029 2032 0632	<a href="mailto:ramim.khan@audit.wales">ramim.khan@audit.wales</a>
Timothy Buckle	Audit Manager (Performance Audit)	029 2032 0653	<a href="mailto:timothy.buckle@audit.wales">timothy.buckle@audit.wales</a>
Martin Gibson	Audit Lead (Performance Audit)	029 2032 0617	<a href="mailto:martin.gibson@audit.wales">martin.gibson@audit.wales</a>

39 I can confirm that team members are all independent of you and your officers. In addition, I am not aware of any potential conflicts of interest that we need to bring to your attention.

## Timetable

- 40 The key milestones for the work set out in this plan are shown in **Exhibit 5**.
- 41 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.

### Exhibit 5: audit timetable

Planned output	Work undertaken	Report finalised
<b>2022 Audit Plan</b>	February – March 2022	March 2022

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>	February – October 2022	October 2022 <sup>5</sup> October 2022 November 2022
<b>Performance audit work</b>	Timescales for individual projects will be discussed with the Council and detailed within the specific project briefings produced for each piece of work.	
<b>Grants certification work</b>	November 2022 to January 2023	March 2023
<b>Other financial audit work</b> <ul style="list-style-type: none"> <li>• Examination of Greater Gwent Crematorium Joint Committee</li> </ul>	October 2021	October 2021
<b>Annual Audit Summary</b>	November 2022	December 2022

<sup>5</sup> The statutory deadline for certification of local government accounts is July 2022. However, legislation allows for over-runs where appropriate notification is made on the Council website, and this approach was followed for the 2019-20 and 2020-21 accounts and audit. The Welsh Government has confirmed that for the 2021-22 accounting year, it expects all Council accounts to be certified by the end of November 2022.









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