

# Newport City Council and Newport City Council Group - Detailed Audit Plan 2023

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# About Audit Wales

## Our aims and ambitions

### Assure



the people of Wales that public money is well managed

### Explain



how public money is being used to meet people's needs

### Inspire



and empower the Welsh public sector to improve



Fully exploit our unique perspective, expertise and depth of insight



Strengthen our position as an authoritative, trusted and independent voice



Increase our visibility, influence and relevance



Be a model organisation for the public sector in Wales and beyond

# Contents

Introduction	5
Your audit at a glance	8
Financial audit materiality	9
Significant financial audit risks	10
Other audit risks	11
Financial audit timetable	12
Planned performance audit work	13
Certification of grant claims and returns, and statutory audit functions	14
Fee and audit team	15
Audit quality	17
<b>Appendices</b>	
Appendix 1 – key ISA315 changes and impact	18

# Introduction

I have now largely completed my planning work.

This Detailed Audit Plan specifies my statutory responsibilities as your external auditor and to fulfil my obligations under the Code of Audit Practice.

It sets out the work my team intends undertaking to address the audit risks identified and other key areas of focus during 2023.

It also sets out my estimated audit fee, details of my audit team and key dates for delivering my audit team's activities and planned outputs.



**Adrian Crompton**

Auditor General for  
Wales

## My audit responsibilities

I complete work each year to meet the following duties:

- I audit the Council and Group's financial statements (incorporating the accounts of Newport Transport Ltd.) to make sure that public money is being properly accounted for.
- 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.
- The Council needs to comply with the sustainable development principle when setting and taking steps to meet its well-being objectives. The Auditor General must assess the extent to which it is doing this.

## Audit of financial statements

I am required to issue a certificate and report on your financial statements which includes an opinion on their 'truth and fairness' and an assessment as to whether the Narrative Report and Annual Governance Statement is prepared in line with the CIPFA Code and relevant guidance and is consistent with your financial statements and my knowledge of the Authority.

In addition to my responsibilities for auditing the Council and Group's financial statements, I also have responsibility for:

- certifying a return to the Welsh Government which provides information about the Council 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 limited assurance review of the Greater Gwent Crematorium Joint Committee; and
- the certification of a number of grant claims and returns as agreed with funding bodies.

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 is set out later in this plan.

I will also report by exception on a number of matters which are set out in more detail in our [Statement of Responsibilities](#).

There have been no limitations imposed on me in planning the scope of this audit.

## Performance audit work

I carry out a programme of performance audit work to discharge my duties<sup>1</sup> as Auditor General in relation to value for money and sustainable development.

My local performance audit programme will continue to be delivered through a combination of an Assurance and Risk Assessment Project, bespoke local projects and thematic projects examining risks common to all councils.

The majority of my performance audit work is conducted using INTOSAI auditing standards. The International Organisation of Supreme Audit Institutions is a global umbrella organisation for the performance audit community. It is a non-governmental organisation with special consultative status with the Economic and Social Council (ECOSOC) of the United Nations.

<sup>1</sup> When we undertake audit work under our statutory powers and duties we may collect information from public bodies that contains some personal data. Our general audit fair processing notice, explains what we do with personal data, and how you can contact our Data Protection Officer.

# Your audit at a glance



## **My financial statements audit will concentrate on the following areas of identified risk**

My audit planning work has identified the following risks:

### **Significant financial statement risk**

- Management override of controls.

### **Other areas of audit focus**

- Property, Plant and Equipment (infrastructure, fully depreciated assets and depreciated replacement cost valuations).
- Provisions and Contingent Liabilities.
- Senior Officer Remuneration.
- Related Parties.



## **My performance audit will include:**

- Assurance and Risk Assessment
- Thematic reviews: commissioning and contract management, and financial sustainability in local government.
- Local reviews: planning services, and collaboration and partnerships.



## **Group**

We will also perform an audit of Newport City Council Group (incorporating the audits of Newport Transport Ltd.)



# Financial audit materiality



## Materiality

Materiality (Council)	£5.9 million
Materiality (Group)	£6.1 million
Reporting threshold (both audits)	£0.3 million

My aim is to identify and correct material misstatements, that is, those that might otherwise cause the user of the accounts to be misled.

Materiality is calculated using:

- 2022-23 draft accounts gross expenditure of £5.9 million (Council) and £6.1 million (Group).
- Materiality percentage of 1%.

I report to those charged with governance any misstatements above a trivial level (set at 5% of materiality).



## Areas of specific interest

There are some areas of the accounts that may be of more importance to the user of the accounts, and we have set a lower materiality level for these:

- Remuneration report: £1,000
- Related party disclosures £10,000 (for disclosures relating to individual Members)

# Significant financial audit risks

Significant risks are identified risks of material misstatement for which the assessment of inherent risk is close to the upper end of the spectrum of inherent risk or those which are to be treated as a significant risk in accordance with the requirements of other ISAs. The ISAs require us to focus more attention on these significant risks.

## Exhibit 1: significant financial statement risks

Significant risk	Our planned response
<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 [ISA 240.32-33].</p>	<p>The 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 bias; and</li><li>• evaluate the rationale for any significant transactions outside the normal course of business.</li></ul>

# Other audit risks

I set out other identified risks of material misstatement which, whilst not determined to be significant risks as above, I would like to bring to your attention.

## Exhibit 2: other areas of focus

Audit risk	Our planned response
<p><b>Property, Plant and Equipment – infrastructure assets</b></p> <p>The 2021-22 accounting and legislative framework for infrastructure assets were retrospectively updated for all Councils, in order to:</p> <ul style="list-style-type: none"> <li>Remove the disclosure of the Gross Book Value of such assets within Property, Plant and Equipment, instead requiring the Net Book Value of assets to be disclosed.</li> <li>Confirm that the Council deems any replacement assets to be valued at zero.</li> </ul> <p>We are satisfied that any amendments were made appropriately in the 2021-22 accounts. However, given the late and unusual nature of these changes there is a residual risk that the 2022-23 disclosures will not meet the requirements of the Code or statute.</p>	<p>My audit team will review these disclosures in detail to ensure that they meet the requirements of the CIPFA Code and statutory instruments, and that they have been appropriately calculated.</p>
<p><b>Property, Plant and Equipment - fully depreciated assets</b></p> <p>Our 2021-22 audit identified £12.8 million of fully depreciated assets no longer in use by the Council, which needed to be removed from the accounts.</p> <p>In response, the Council agreed to review its remaining population of fully depreciated assets in 2022-23 to ensure that only assets still in use remained in the accounts.</p>	<p>My audit team will review and test the population of fully depreciated assets to gain assurance that any such assets remain in use by the Council at year-end.</p>
<p><b>Property, Plant and Equipment - depreciated replacement cost valuations</b></p> <p>In 2021-22 the Council reviewed all building assets valued under the depreciated replacement cost method, as current inflationary pressures meant that such assets could be materially undervalued in total.</p> <p>We reviewed this exercise in 2021-22 and were satisfied with the work performed by the Council. However, inflationary pressures persist and so a similar review will be required in 2022-23. The review is complex and subject to an element of judgement.</p>	<p>My audit team will review the results of the work performed by the Council to gain assurance that any valuation updates are reasonable and are in line with expectation and professional guidance.</p>

**Provisions and Contingent Liabilities**

We are aware of various ongoing legal cases involving the Council, which have been previously disclosed in the accounts as either provisions or contingent liabilities. We will need to review these cases again for 2022-23, to ensure that their disclosure and valuation is appropriate and based on relevant and up-to-date evidence.

My audit team will review these legal cases to ensure that any valuation and disclosure is reasonable and appropriate.

**Senior Officer Remuneration**

This is an area of complexity and significant interest, which often leads to amendments arising from the audit process, including following our 2021-22 audit. We are also aware of recent changes in personnel at senior officer level, many of which were recorded appropriately in last year's accounts.

My audit team will review these disclosures in detail to ensure that they are reasonable and in line with legislative requirements.

**Related Party Disclosures**

Over a number of years, our audits have identified issues with the number of related party returns completed by Members each year. Our audits have also identified corrections required to these disclosures in the accounts, which are complex and detailed in nature.

My audit team will review these disclosures in detail to ensure that they are reasonable, complete and in line with CIPA Code requirements.

# Financial audit timetable

I set out below key dates for delivery of my accounts audit work and planned outputs.

## Exhibit 3: key dates for delivery of planned outputs

Planned output	Work undertaken	Report finalised
<b>2023 Outline Audit Plan</b>	March 2023	March 2023
<b>2023 Detailed Audit Plan</b>	July - August 2023	September 2023
<b>Audit of financial statements:</b> <ul style="list-style-type: none"><li>• Audit of Financial Statements Report</li><li>• Opinion on the Financial Statements</li></ul>	August - November 2023	November 2023

# Planned performance audit work

I set out below details of my performance audit work and key dates for delivery of planned outputs.

## Exhibit 4: key dates for delivery of planned outputs

<b>Assurance and risk assessment</b>	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.	Ongoing
<b>Thematic review – financial sustainability of local government</b>	A review of councils’ financial sustainability including a focus on the actions, plans and arrangements to bridge funding gaps and address financial pressures over the medium term.	Date TBC
<b>Thematic review – commissioning and contract management</b>	A review focusing on how councils’ arrangements for commissioning, and contract management apply value for money considerations and the sustainable development principle.	Date TBC
<b>Local review – planning services</b>	To be scoped.	Spring 2024
<b>Local review – collaboration and partnerships</b>	To be scoped.	Date TBC

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, and statutory audit functions

## Certification of grant claims and returns

I have also been requested to undertake certification work on the Council's grant claims, which I anticipate will include Housing Benefits, Teachers Pensions, Non-Domestic Rates and NHS money transfers.

## Statutory audit functions

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.

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 and audit team

In January 2023 I published the [fee scheme](#) for the 2023-24 financial year as approved by the Senedd Finance Committee. My fee rates for 2023-24 have increased by 4.8% for inflationary pressures. In addition, my financial audit fee has a further increase of 10.2% for the impact of the revised auditing standard ISA 315 on my financial audit approach. More details of the revised auditing standard and what it means for the audit I undertake is set out in **Appendix 1**.

I estimate your total audit fee will be £401,536.

## Exhibit 5: audit fee

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

Audit area	Proposed fee (2023-24) <sup>2</sup>	Actual fee (2022-23)
Audit of accounts <sup>3</sup>	£228,690	£198,380
Performance audit work <sup>4</sup>	£111,510	£106,848
Grant certification work <sup>5</sup>	£60,000	£65,000
Other financial audit work <sup>6</sup>	£1,336	£1,244
<b>Total fee</b>	<b>£401,536</b>	<b>£371,472</b>

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.

### Our financial audit fee is based on the following assumptions:

- The agreed audit deliverables sets out the expected working paper requirements to support the financial statements and includes timescales and responsibilities.
- No matters of significance, other than as summarised in this plan, are identified during the audit.

<sup>2</sup> The fees shown in this document are exclusive of VAT, which is not charged to you.

<sup>3</sup> Payable November 2022 to October 2023.

<sup>4</sup> Payable April 2023 to March 2024.

<sup>5</sup> Payable as work is undertaken.

<sup>6</sup> Payable as work is undertaken on the Greater Gwent Crematorium Joint Committee.



The main members of my team, together with their contact details, are summarised in **Exhibit 6**.

**Exhibit 6: my local audit team**

Name	Role	Contact number	E-mail address
Matthew Edwards	Engagement Director	029 2032 0663	<a href="mailto:matthew.edwards@audit.wales">matthew.edwards@audit.wales</a>
Gary Emery	Audit Director (Performance Audit)	029 2032 0590	<a href="mailto:gary.emery@audit.wales">gary.emery@audit.wales</a>
Gareth Lucey	Audit Manager (Financial Audit)	029 2082 9398	<a href="mailto:gareth.lucey@audit.wales">gareth.lucey@audit.wales</a>
Sara-Jane Byrne	Audit Manager (Performance Audit)	029 2267 7822	<a href="mailto:sara-jane.byrne@audit.wales">sara-jane.byrne@audit.wales</a>
Kathryn Watts	Audit Lead (Financial Audit)	029 2032 0681	<a href="mailto:kathryn.watts@audit.wales">kathryn.watts@audit.wales</a>
Bethan Hopkins	Audit Lead (Performance Audit)	029 2082 9363	<a href="mailto:bethan.hopkins@audit.wales">bethan.hopkins@audit.wales</a>

I can confirm that my team members are all independent of the Council and Group and their officers.

# Audit quality

Our commitment to audit quality in Audit Wales is absolute. We believe that audit quality is about getting things right first time.

We use a three lines of assurance model to demonstrate how we achieve this. We have established an Audit Quality Committee to co-ordinate and oversee those arrangements. We subject our work to independent scrutiny by QAD\* and our Chair, acts as a link to our Board on audit quality. For more information see our [Audit Quality Report 2022](#).

## Our People



The first line of assurance is formed by our staff and management who are individually and collectively responsible for achieving the standards of audit quality to which we aspire.

- Selection of right team
- Use of specialists
- Supervisions and review

## Arrangements for achieving audit quality



The second line of assurance is formed by the policies, tools, learning & development, guidance, and leadership we provide to our staff to support them in achieving those standards of audit quality.

- Audit platform
- Ethics
- Guidance
- Culture
- Learning and development
- Leadership
- Technical support

## Independent assurance



The third line of assurance is formed by those activities that provide independent assurance over the effectiveness of the first two lines of assurance.

- EQCRs
- Themed reviews
- Cold reviews
- Root cause analysis
- Peer review
- Audit Quality Committee
- External monitoring

\* QAD is the quality monitoring arm of ICAEW.

# Appendix 1

## The key changes to ISA315 and the potential impact on your organisation

Key change	Potential impact on your organisation
<b>More detailed and extensive risk identification and assessment procedures</b>	<p>Your finance team and others in your organisation may receive a greater number of enquiries from our audit teams at the planning stage of the audit. Requests for information may include:</p> <ul style="list-style-type: none"><li>• information on your organisation's business model and how it integrates the use of information technology (IT);</li><li>• information about your organisation's risk assessment process and how your organisation monitors the system of internal control;</li><li>• more detailed information on how transactions are initiated, recorded, processed, and reported. This may include access to supporting documentation such as policy and procedure manuals; and</li><li>• more detailed discussions with your organisation to support the audit team's assessment of inherent risk.</li></ul>
<b>Obtaining an enhanced understanding of your organisation's environment, particularly in relation to IT</b>	<p>Your organisation may receive more enquiries to assist the audit team in understanding the IT environment. This may include information on:</p> <ul style="list-style-type: none"><li>• IT applications relevant to financial reporting;</li><li>• the supporting IT infrastructure (e.g. the network, databases);</li><li>• IT processes (e.g. managing program changes, IT operations); and</li><li>• the IT personnel involved in the IT processes.</li></ul> <p>Audit teams may need to test the general IT controls and this may require obtaining more detailed audit evidence on the operation of IT controls within your organisation.</p> <p>On some audits, our audit teams may involve IT audit specialists to assist with their work. Our IT auditors may need to engage with members of your IT team who have not previously been involved in the audit process.</p>

Key change	Potential impact on your organisation
<p><b>Enhanced requirements relating to exercising professional scepticism</b></p>	<p>Our audit teams may make additional inquiries if they identify information which appears to contradict what they have already learned in the audit.</p>
<p><b>Risk assessments are scalable depending on the nature and complexity of the audited body</b></p>	<p>The audit team's expectations regarding the formality of your organisation's policies, procedures, processes, and systems will depend on the complexity of your organisation.</p>
<p><b>Audit teams may make greater use of technology in the performance of their audit</b></p>	<p>Our audit teams may make use of automated tools and techniques such as data analytics when performing their audit. Our teams may request different information or information in a different format from previous audits so that they can perform their audit procedures.</p>



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