

**JOINT REPORT OF THE FINANCE MANAGER
& WALES AUDIT OFFICE**

**SUBJECT:
FINANCIAL AUDIT OUTLINE**

A presentation will be made by the Wales Audit Office on its Financial Audit Outline.

Recommendation:

Members are invited to CONSIDER and ACCEPT the Financial Audit Outline from the Wales Audit Office.

For further information on this report, please contact Mr Richard Griffiths (Chief Financial Officer)



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

Annual Financial Audit Outline

Pembrokeshire Coast National Park Authority

Audit year: 2011-12

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This document is a draft version pending further discussions with the audited and inspected body. Information may not yet have been fully verified and should not be widely distributed.

Status of document

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This document was produced by Terry Lewis.

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Annual Financial Audit Outline

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 the Pembrokeshire Coast National Park Authority (the Authority) with an outline of the financial audit work required for the 2011-12 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 Authority, satisfying myself that the accounts:
 - give a true and fair view of the Authority's financial position;
 - comply with all relevant legislative requirements; and
 - have been prepared in accordance with proper accounting practices.
4. I am also required to:
 - satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources; and
 - certify that the audit has been completed in accordance with the Public Audit (Wales) Act 2004.
5. The audit does not relieve the Authority of its responsibility to:
 - put systems of internal control in place 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 Authority's financial statements, to ask me, as the Appointed Auditor questions about the accounts and, where appropriate, to challenge items in the accounts.
7. The key requirements of the Auditor General and the Appointed Auditor 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 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.

The audit approach

The audit team

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

Audit of financial statements

11. Internal controls are designed, implemented and maintained by the Authority 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 specific 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. 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 and Corporate Services Review Committee prior to completion of the audit.
15. A more detailed Financial Audit Plan will be discussed with officers. This will set out our planned audit work in more detail.

Risks of material misstatement in the accounting statements

16. **Exhibit 1** provides information regarding the main operational and financial risks faced by the Authority that could impact on my audit. These are the main risks that have been identified during the initial audit planning process, based upon information currently available, and the actions proposed to address them. Changes to the audit may be required if any new risks emerge. No changes will be made 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 |
|---|--|
| Control environment risks | |
| This is the second year that the Authority has to produce an annual governance statement . There is a risk that the Authority will not have developed its arrangements to enable it to report comprehensively in 2012 and meet the requirements fully. | Discussion with officers about the arrangements put in place to develop its governance statement and a review of the content and accuracy against audit expectations. They should reflect the Authority's own improvement processes. |
| The Authority has a duty to ensure that robust accounting records and internal controls are in place to ensure materially correct outputs. | Review accounting records and high-level controls in place to ensure materially correct outputs are robust. |
| Financial systems risks | |
| Financial pressures and the adverse economic climate present ongoing risks to the Authority. It needs to continue to set a realistic budget and maintain spending within that budget. | Review of the 2011-12 budget-setting and monitoring, and of arrangements to develop medium-term financial planning. |
| Preparation of the accounts risks | |
| The Authority needs to ensure that it has an effective and robust closedown plan as a key method by which budget holders are aware of their responsibilities in ensuring that information contained within the financial statements are accurate and complete. | Review the Authority's closedown plan to assess whether revised procedures are likely to reduce the risk of incomplete income or expenditure within the financial statements. |

| Risks | Action proposed |
|---|--|
| Financial statements risks | |
| Risk of material misstatements and inconsistencies within the financial statements. | Final accounts testing, based on work undertaken during the year and review of the draft financial statements. |
| The CIPFA Code requires 2011-12 financial statements to comply with the International Financial Reporting Standards (IFRS) . The Balance Sheets at 31 March 2011 and 2012 will require separate disclosure of Heritage Assets to comply with the revised standards. There is a risk that any errors will result in incorrect disclosure in the 2011-12 financial statements. | Review the disclosure of Heritage Assets within the Financial Accounts as at 31 March 2011 and 2012. |

Use of resources

17. To discharge my responsibilities regarding the arrangements that the Authority has in place 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 audited body's system of internal control, as reported in its 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 our responsibilities; and
 - any other work that addresses matters not covered by the above, and which I consider necessary to discharge my responsibilities.

Reporting

18. The Code of Audit Practice issued by the Auditor General requires Appointed Auditors to comply with relevant auditing and ethical standards, which require formal reporting at various stages during the audit to those charged with governance.
19. In particular, auditors must report:
 - relationships that may bear on 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.
20. **Appendix 1** highlights the key elements of the audit engagement at the Authority, and confirms that there are no known threats to the independence of the Appointed Auditor or other audit staff.
21. This document provides information regarding the planning of the audit.
22. I will submit reports to the Audit and Corporate Services Review Committee and/or the Authority in a timely manner, prior to the completion of audit.
23. I will provide reports, or other 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 | February 2012 | March 2012 |
| Audit of Financial Statements (ISA 260) Report | July 2012 | August 2012 |
| Audit Opinion on the 2011-12 Financial Statements | August 2012 | September 2012 |
| Annual Audit Letter | October 2012 | November 2012 |

Audit fee

24. The proposed fee for 2011-12 financial audit work is £20,367 (plus VAT) which will be charged in instalments. This fee is in line with the Auditor General's fees letter and is based on the 'zero-based' fee model for financial audit. The fee has not increased from the 2010-11 level.
25. In previous years, there have been no formal objections to the Authority'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 has been included within the fee to deal with minor queries, as part of the overall management of the audit.

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- 26.** Any detailed investigations or other work required to respond to queries and objections will result in an additional audit 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 Authority, prior to undertaking the work.
- 27.** In respect of the audit of any grant claims or returns, the Auditor General is required to recover 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. We understand that we will not be required to audit any grant claims or returns this year.

Appendix 1

Key elements of the audit engagement

| Key elements | Requirements | Position |
|--|---|---|
| Engagement activities | | |
| 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 Appendix 2 . The full statement of responsibilities can be found at: http://www.wao.gov.uk/assets/english/documents/statement_of_responsibilities_of_auditors_eng.pdf |
| 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 Appendix 2 of this document. |
| 'Non-statutory' work | The Auditor General has set out clear criteria for approval of any 'non-statutory' work requested by audited bodies. | No 'non-statutory' work has been requested or is proposed. |
| Limitations on audit work | I am required to advise you of any limitations on the work that I propose to undertake, including limitations imposed by management. | No limitations have been placed on the work that I propose to undertake. |
| Ethical considerations | | |
| Independence | Appointed Auditors are required to consider the following: <ul style="list-style-type: none">• threats to auditor independence (including litigation);• family and other personal relationships;• long association with the audited body, based on the Wales Audit Office rotation of audits policy; and• contentious or difficult issues. | I can confirm that there are no known threats to the independence of the Appointed Auditor or other audit staff and I have complied with the Wales Audit Office rotation policy. |

| Key elements | Requirements | Position |
|---|--|---|
| Ethical considerations (continued) | | |
| 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 all audits and the Engagement Lead has established appropriate review levels based on the experience of the staff undertaking the audit work. |

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Appendix 2

Financial audit team

| Name | Role | Contact number | E-mail address |
|-----------------|---------------------------------|--------------------------------|----------------------------|
| Anthony Barrett | Appointed Auditor | 029 2032 0500 | anthony.barrett@wao.gov.uk |
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| Terry Lewis | Audit Manager | 029 2032 0500 077 4776 1594 | terry.lewis@wao.gov.uk |
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