

**JOINT REPORT OF THE CHIEF FINANCIAL OFFICER
& 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

Audit 2010/11

April 2011

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Ref: 229A2011

Financial Audit Outline

Pembrokeshire Coast National Park Authority

Contents

Financial Audit Outline

Roles and responsibilities	4
The audit approach	5
Reporting	7
Audit fee	7

Appendices

Key elements of the audit engagement	9
Financial audit team	10

Status of this report

This document has been prepared for the internal use of Pembrokeshire Coast National Park Authority as part of work performed in accordance with statutory functions, the Code of Audit Practice and the 'Statement of Responsibilities' issued by the Auditor General for Wales.

No responsibility is taken by the Wales Audit Office (the Auditor General and his staff) and, where applicable, the appointed auditor in relation to any member, director, officer or other employee in their individual capacity, or to any third party.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 Code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales (and, where applicable, the appointed auditor) is a relevant third party. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at infoofficer@wao.gov.uk.

Roles and Responsibilities

1. This 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 2010-11 financial statements.
2. Since 1 April 2005, the Public Audit (Wales) Act 2004 the Auditor General functions have included the appointment of external auditors (Appointed Auditors) for 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 accounting proper 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

10. Information regarding the financial audit team is provided in Appendix 2.

Audit of financial statements

11. Internal controls are designed, implemented and maintained 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 significant risks.
13. 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 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 National Park Authority prior to completion of the audit.

Audit risks

15. Exhibit 1 provides information regarding the audit 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 significant new risks emerge. No changes will be made without first discussing them with officers and, where relevant, those charged with governance.

Exhibit 1: Audit risks

Control environment risks	Action proposed
There is a requirement to introduce an annual governance statement this year and a risk that the Authority will not have in place arrangements to enable it to report in line with the new requirements.	Discussion with officers of the arrangements put in place to prepare the new governance statement and a detailed review and testing of the content and accuracy against audit expectations.
Effective information and technology (IM&T) systems form a key element of the control environment, contributing to the accuracy and reliability of transactions and balance reported in the financial statements.	Review of the IM&T internal control environment and of the controls within the financial management system.
Financial standing risks	Action proposed
Financial pressures and the current economic climate present risks to the Authority. It needs to set a realistic budget and maintaining spending within that budget.	Review of the 2010-11 budget setting and monitoring, and of arrangements to develop medium-term financial planning.
Financial statements risks	Action proposed
The CIPFA Code requires 2010-11 financial statements to comply with the International Financial Reporting Standards (IFRS). The Balance Sheet at 31 March 2009 and the entire 2009-10 accounts require conversion to comply with the revised standards. There is a risk that any errors in conversion will result in incorrect disclosure in the 2010-11 financial statements.	Review the conversion of prior year accounts and balances.
The IFRS conversion is also required for the Whole of Government Accounts, with a risk that this may be misstated.	Audit the Whole of Government Accounts in accordance with Treasury guidance.
The format of the financial statements and disclosure notes have changed considerably from last year and there is a risk of incorrect compliance with disclosure requirements.	Review the draft financial statements to ensure compliance with reporting and disclosure requirements
Risk of material misstatements in the financial statements.	Final accounts testing, based on work undertaken during the year and review of the draft financial statements.

Use of resources

16. 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

17. The Code of Audit Practice issued by the Auditor General requires Appointed Auditors to comply with auditing and ethical standards. International Standards on Auditing (ISAs) require formal reporting at various stages during the audit to those charged with governance.
18. 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.
19. 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.
20. This document provides information regarding the planning of the audit.
21. I will submit reports to the National Park Authority in a timely manner, prior to the completion of audit.
22. 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
Financial Audit Outline	February 2011	April 2011
Financial statements report to those charged with governance	August 2011	September 2011
Annual Audit Letter	October 2011	November 2011

Audit fee

23. The proposed fee for 2010/11 financial audit work is £20,367 (plus VAT) and will be charged in equal instalments between November 2010 and October 2011. This fee is in line with the Auditor General's fees letter and is based on the new zero-based fee model for financial audit.
24. Overall, the 2010/11 financial audit fee represents a slight reduction on the equivalent element of Appointed Auditor's responsibilities included as part of my 2009/10 fee, £20,510.

25. I am required to undertake additional audit work arising from the change to IFRS International Financial Reporting Standards. I have decided to bear the cost of this work without passing it on to the Authority. However if substantial additional work is required because of any failure to comply with the new Code and related guidance, or the inadequacy of audit trails, I may need to reconsider this and discuss further with the Finance Manager.
26. In previous years, there have been no formal objections to the Authority's financial statements. 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 Finance Manager 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. Although grant work fluctuates from year to year, based on past experience and initial indications of changes in grant schemes and conditions, I estimate that the total fee for grant work will be in the approximately £1,000.

Appendix 1

Key elements of the audit engagement

Key elements	Requirements	Position at Pembrokeshire Coast National Park Authority
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 outlined above and in Appendix 1. The full statement of responsibilities can be found at: http://www.wao.gov.uk/assets/englishdocuments/statement_of_responsibilities_of_auditors_eng.pdf
Appointment of auditors and engagement partners	It is the Auditor General's responsibility to appoint local government external auditors and to assign responsibility for each engagement to an engagement partner.	Details of the Appointed Auditor and the Engagement Partner 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.
Engagement performance	Engagement partners 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 Partner has established appropriate review levels based on the experience of the staff undertaking the audit work.

Appendix 2

Financial audit team

Name	Role	Contact Number	E-mail address
Anthony Barrett	Appointed Auditor	029 20320500	anthony.barrett@wao.gov.uk
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