

**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: 2012-13

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Status of document

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This document was produced by Richard Harries.

Contents

Annual Financial Audit Outline

Roles and responsibilities	4
----------------------------	---

The audit approach	5
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Reporting	7
-----------	---

Audit fee	8
-----------	---

Appendices

Key elements of the audit engagement	9
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Financial audit team	10
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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 Pembrokeshire Coast National Park Authority (the Authority) 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 Authority. In accordance with professional standards that apply by virtue of the Code of Audit Practice set under the act, this involves giving an opinion on whether the accounts give a true and fair view of the Authority'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 Authority 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 Authority 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 Authority'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.

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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. I understand that 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 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 and Scrutiny 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 Authority 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
Control environment risks	
Failure of the Authority to meet its duty to ensure that robust accounting records and internal controls are in place to ensure materially correct outputs.	Review of accounting records and high level controls in place to ensure materially correct outputs are robust.
Financial systems risks	
Ongoing risks as a consequence of financial pressures and the adverse economic climate and the need to set a realistic financial budget and to manage spending within it.	Review of the 2012-13 budget-setting and monitoring, and the arrangements to develop medium term financial planning.
Preparation of the accounts risks	
The risk of failing to ensure an effective and robust plan is prepared as a key method in ensuring the information contained in the financial statements is accurate and complete.	Review of the 'closedown plan' to assess whether procedures are likely to reduce the risk of incomplete income and expenditure within the financial statements.
Financial statements risks	
Risk of material misstatements and inconsistencies within the financial statements.	Final accounts testing based on risk assessment 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 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 Authority'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 Authority, and I confirm that there are no known threats to my independence as Appointed Auditor or on the independence of staff or contractors working for me.
20. This document provides information regarding the planning of the audit.
21. I will submit reports to the Audit and Corporate Services Review Committee, and where necessary, to the National Park Authority in a timely manner.
22. 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	August 2013	September 2013
Audit Opinion on the 2012-13 Financial Statements	September 2013	September 2013
Annual Audit Letter	October 2013	November 2013

Audit fee

- 23.** The proposed fee for 2012-13 financial audit work is £20,367 (excluding VAT) and 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. A ruling has been received recently 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 its implications.
- 24.** The 2012-13 financial audit fee is unchanged from the equivalent element of the appointed auditors' responsibilities included as part of my 2011-12 fee.
- 25.** In previous years there have been no formal 'objections' to the Authority's financial statements. However, I do receive a limited 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.
- 26.** 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 Authority, 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 for any grants that we are requested to audit will reflect the size, complexity and particular issues relating to them and an estimate will be provided prior to any work commencing.

Appendix 1

Key elements of the audit engagement

Key elements	Requirements	Position at the 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 are outlined above and in this appendix. 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.
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.
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 (see Wales Audit Office rotation of audits policy); and • contentious or difficult issues. 	I can confirm that 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.
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

Financial audit team

Name	Role	Contact number	E-mail address
Anthony Barrett	Appointed Auditor	029 2032 0500/ 012 4452 5970	Anthony.barrett@wao.gov.uk
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