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By e-mail

**Reference:**

**Date issued:** April 2020

Dear Phil and Ben

### Annual Audit Plan 2020 – Impact of COVID-19

The COVID-19 national emergency has had an unprecedented impact on the UK and will significantly impact on public bodies' preparation of the 2019-20 accounts and our audit work, both financial audit and performance audit.

Due to the UK Government's restrictions on movement and anticipated sickness absence levels, we understand that many public bodies will not be able to prepare accounts in line with the timetables set out.

Alongside the delivery of the Auditor General's statutory responsibilities, our priority is to ensure the health, safety and well-being of Audit Wales staff, their families and those of our partners elsewhere in the public service at this incredibly challenging time.

In response to the government advice and subsequent restrictions, we have ceased all on site work at audited bodies and our own offices have closed. Audit Wales staff are working from home and we will continue to make whatever progress we can whilst working and engaging with you remotely.

We commit to ensuring that our audit work will not have a detrimental impact on you at a time when public bodies are stretched and focused on dealing with the COVID-19 national emergency.

## Amendments to the audit plan issued April 2020

In light of the above, the audit plan issued to you earlier this month will need to be amended.

### Audit of accounts

#### CIPFA/LASAAC Code of Accounting Practice

You will be aware that the CIPFA/LASAAC Code Board recently considered a proposed Code Update 2019-20 that would have disapplied large parts of the 2019-20 Code. After discussion, the CIPFA/LASAAC Code Board decided not to adopt the proposed Code Update. Therefore, the 2019-20 Code (the Code) will apply in full for this year. We understand that the authority is working towards preparing accounts in accordance with the full Code.

### Audit risks

As a result of the COVID-19 national emergency, we need to update our assessment of audit risks. The schedule at [Annex A](#) replaces Exhibit 1 in the 2020 audit plan.

### Potential audit issues

We are aware of concerns expressed by a number of local authorities about various aspects of the accounts.

Specific areas of concern raised with us include:

- Increased use of estimates. Due to the UK lockdown, authorities may be required to use more estimations for their accounts than in previous years. Our auditors are used to dealing with estimates and applying auditing standards in relation to estimates. We will discuss with you the key assumptions and evidence bases underlying estimates and will do this at an early stage.
- Asset valuations. Authorities have raised concerns about professional valuers applying disclaimers to their valuations and the potential impact on audit opinions. We will discuss these valuations and any necessary disclosures related to the valuations with you to ensure that the financial statements as a whole present a true and fair view.
- Pensions valuations. Due to the significant movements in investment markets, there are concerns over whether valuations provided by actuaries will be acceptable. Our audit process includes the use of a consulting actuary to provide audit assurance over the methodology and assumptions used by actuaries in providing data for IAS19 disclosures. We will review your actuary's IAS19 reports and our consulting actuary's assessment and discuss any concerns with you at an early stage.
- Removal of disclosure notes to simplify the accounts preparation process. We have been asked for our views on the potential for excluding disclosure

notes where it is felt that the notes add limited value to the user of the accounts. Examples quoted include the remuneration notes and related party disclosures. The remuneration notes are required by statute and therefore cannot be removed from the accounts. For the other notes, we draw your attention to the Code's provisions related to materiality. The Code sets out that omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. The nature or size of the item, or a combination of both, could be the determining factor. The Authority should consider the Code's provisions related to materiality when reviewing the disclosure notes and discuss any concerns with the audit team. Further detail on materiality can be found in the following paragraphs in the Code: 1.7.1, 2.1.2.14, 3.3.2.4, 3.4.2.7 and 3.9.2.17.

If you have any further areas of concern, please raise these with your audit team as soon as possible. Our auditors will seek to be pragmatic about the timely provision of information and evidence and sympathetic in our verbal and written communication and reporting on issues brought about by current events. That said, I am sure you will understand that we must continue to undertake our audit work in accordance with auditing standards.

#### Audit timetable

In respect of our accounts work, we are aware that there may be difficulties in meeting the accounts preparation and publication dates set by the Accounts and Audit (Wales) Regulations 2014. Welsh Government have indicated that the Regulations will not be amended as they already provide sufficient flexibility to deal with any delays resulting from COVID-19.

The Regulations require the publication of a notice where the authority does not expect to achieve the dates specified by the Regulations. I have included further detail in [Annex B](#) and example notices in [Annex C](#) that the Authority may wish to consider using.

The requirements for the exercise of electors' rights under the Public Audit (Wales) Act 2004 continue to apply. This presents some practical difficulties while lockdown restrictions still apply e.g. public access to the authority's accounting records.

Therefore, the audit team will discuss with you an appropriate timetable for public inspection when we have a clear idea of the date on which the accounts will be available and when lockdown restrictions have been sufficiently relaxed.

The audit team will issue an audit notice in due course setting out the appointed date.

This may mean that there is a delay before we can issue our audit opinion.

We will need to discuss any amendments to the timetables for the production and audit of accounts with you but will continue to work as flexibly as we can. It will be vital that this engagement continues over the next few months, against what will

doubtless be a fast-changing backdrop. My assessment is that our ability to meet revised audit completion dates will mainly depend on:

- the extent to which remote working and auditing is possible if the current lockdown restrictions are not lifted;
- the quality of the draft accounts and supporting working papers made available to us (driven in part by the extent of any pre-audit management reviews of that material);
- the continued availability of audited body staff to respond promptly to audit queries (given the potential pressures of sickness absences, carer and back-filling responsibilities etc);
- the continued availability of Audit Wales staff to conduct the audit work; and
- the ability of those charged with governance to convene (potentially on a virtual basis) to approve accounts.

We will of course be keeping a very close eye on all of these factors in the coming weeks and exploring options to overcome potential barriers to timely completion wherever possible, and will keep you and your team fully up to speed with any developments in this area.

### **Programme of performance work**

Our annual audit plan also set out a programme of performance audit work at the Council. On 18 March 2020, the Auditor General wrote to the Chief Executive explaining that, following Government guidance, he had decided to suspend all on-site performance audit work with immediate effect. We will make as much progress as possible with these activities by working remotely, if appropriate. However, the COVID-19 outbreak will have an inevitable impact on the delivery of our programme of performance audit work. We are keeping this under on-going review and will communicate further information on any revisions to our programme, timings and performance audit outputs when more is known about the duration of the COVID-19 restrictions and the wider impact of the outbreak on the local government sector.

We will provide further updates as and when necessary. In the meantime, if you have any questions, please contact one of our audit team.

Yours sincerely

**Huw Rees**  
Engagement Director

## Annex A: Amended financial statement audit risks

The following exhibit replaces Exhibit 1 in the audit plan issued in April 2020.

### 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>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;</li> <li>• evaluate the rationale for any significant transactions outside the normal course of business.</li> </ul>
<p><b>Impact of COVID-19 – general risks</b></p> <p>The COVID-19 national emergency is likely to have a significant impact on the Authority and its accounts production process. Potential risks include:</p> <p>Subsequent events. The Authority is at present, unlikely to prepare its accounts in accordance with the timetable laid down by the Accounts and Audit (Wales) Regulations 2014. The shifting reporting deadlines increases the period (and therefore the related risks) for events occurring between the date of the financial statements and the date of the auditor’s report. The consequences of the virus post 31 March 2020 will generally be non-adjusting post balance sheet events but some form of disclosure may be needed.</p>	<p>My audit team will undertake the following steps to ensure the risks arising from COVID-19 are adequately addressed:</p> <p>We will extend the period of review of subsequent events in order to identify any material subsequent events related to COVID-19, and whether these have been appropriately addressed or disclosed in the financial statements in accordance with the financial reporting framework.</p> <p>We will consider if there are areas that may require management to provide further evidence due to the fast-changing nature of this issue.</p> <p>We will ensure that appropriate changes been made to recognise any enhanced uncertainty in the calculation of accounting estimates</p>

<p>Use of estimates. The uncertainties and delays caused by the UK wide lockdown may result in actual data being unavailable and greater use of estimates in preparing the accounts</p>	<p>(including impairment calculations). We will also consider whether assumptions are appropriate in the circumstances and</p> <p>We will adopt a greater focus on the following areas:</p> <ul style="list-style-type: none"> <li>○ The financial statement closing process (in particular journal entries and other adjustments made); and</li> <li>○ The auditor's evaluation of the overall presentation of the financial statements, including consideration of whether adequate disclosures have been made.</li> </ul>
<p><b>Audit risk</b></p>	<p><b>Proposed audit response</b></p>
<p><b>Other areas of Audit attention</b></p>	
<p><b>Introduction of the Oracle Cloud based system</b></p> <p>The Council is introducing a new cloud based financial system in 2020/21. Given the magnitude of the project, there is an inevitable impact on the capacity of Finance staff. This could, in turn, impact on the ability of staff to produce the financial statements to the expected quality standards and to any agreed deadlines.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> <li>● continue to review the accounts closure plans;</li> <li>● provide an audit deliverables report to assist in the preparation of relevant working papers;</li> <li>● assess the Council's quality arrangements supporting the production of the financial statements; and</li> <li>● assess whether additional estimates have been included in the financial statements and, if necessary, tailor our audit approach accordingly.</li> </ul>
<p><b>City deal</b></p> <p>The Swansea Bay Region City Deal (the City Deal) joint committee agreement was signed by City and County of Swansea, Carmarthenshire, Neath Port Talbot and Pembrokeshire Councils in July 2018. This established the statutory</p>	<p>Liaising closely with the external auditors of the other Local Authorities, my audit team will monitor progress with the City Deal project and carry out early work as necessary to</p>

joint committee to oversee delivery of 11 projects which are designed to increase connectivity and to improve physical and digital infrastructure in the region over the course of 15 years.

The City Deal includes total funding of £1.3 billion, of which £241 million is provided by Government, £637 million provided by private funding and £396 million provided by public funding. Business cases have been approved for two projects, including the Swansea Central Phase 1 project. Welsh Government has made their first annual contribution of £18 million to the joint committee and the Council is due to receive £7.4 million from the joint committee for this project over the next few weeks.

The joint committee will have to produce its first full set of financial statements in 2019-20. Going forward there will be a number of accounting issues to address, including potential consolidation of the joint committee accounts into the Council's main financial statements.

assess the accounting implications for the 2019-20 financial year.

### **McCloud judgement**

In 2015 the Government introduced reforms to public sector pensions, meaning most public sector workers were moved into new pension schemes in 2015.

In December 2018, the Court of Appeal ruled that the 'transitional protection' offered to some members of the judges' and firefighters' schemes, as part of the reforms, amounted to unlawful discrimination. On 15 July 2019 the Government announced that they accept that the judgement applies to all of the main public service pension schemes, including the Local Government pension schemes.

The impact of the judgement is likely to have a significant impact on the IAS 19 disclosed liabilities.

My audit team will review the provision made in relation to the McCloud judgement and monitor progress on the development of proposals for a remedy to be applied in the LG pensions scheme.

<p><b>Capital expenditure on the Swansea Central Phase 1 project</b></p> <p>The Council has started progressing the Swansea Central Phase 1 project and by 31 March 2020 will have spent approximately £18 million on the project. A large percentage of this expenditure will relate to the planning and design phases of the project. However, some of the expenditure may not satisfy the criteria of being capital expenditure and there is a risk that this expenditure is not classified correctly between capital and revenue in the Statement of Accounts.</p>	<p>My audit team will undertake detailed audit testing of a sample of transactions to ensure that capital expenditure is correctly classified in the financial statements.</p>
<p><b>Consideration of related parties and senior officer remuneration disclosures</b></p> <p>We consider related party transactions and senior officer remuneration disclosures to be material by nature. As such, it is important that the Council maintains:</p> <ul style="list-style-type: none"> <li>• an accurate register of declared interests' covering both the declarations made by relevant officers and Councillors; and</li> <li>• remuneration information covering senior officers.</li> </ul> <p>There is a risk that not all relevant disclosures are included in the 2019-20 financial statements.</p>	<p>My audit team will assess the related party and senior officer remuneration disclosures to confirm they are accurate, complete and in accordance with the Code.</p>



## **Annex B: Requirements of the Accounts and Audit (Wales) Regulations 2014**

You may be aware that in England, the Local Government Secretary Robert Jenrick MP announced that the deadline for preparation of local government accounts will be extended to 31 August 2020 and publication of audited accounts to 30 November.

Audit Wales discussed this development with Welsh Government officials to establish if a similar announcement will be made for Wales. The Welsh Government position (as communicated to local government bodies) is currently as set out below.

### Statutory requirements

The statutory position for local government bodies in Wales is set out in the Accounts and Audit (Wales) Regulations 2014 (as amended).

### Welsh Government interpretation

Regulation 10 sets out the expected timetable for the preparation, approval and audit of the annual accounts. Due to the impact of COVID-19, Welsh Government recognises that it may not be possible for all local government bodies to meet this timetable. Regulation 10(4) provides local government bodies with sufficient flexibility to deal with delays caused by COVID-19. Its guidance on the Regulations, notes that:

“Where, extraordinarily, certification cannot happen before 15 June, action needs to be taken to publish a statement that clearly sets out the reasons why this has not happened before that date and agree a course of action to ensure this is done as soon as is practicable after 15 June.”

The guidance also notes that the accounts should be published by 15 September even if the accounts have not been approved.

On the basis that sufficient flexibility is built into the current Regulations, Welsh Government does not consider it necessary to amend the Regulations.

### Audit Wales view and impact on the audit process

Audit Wales concurs with the Welsh Government assessment that sufficient flexibility already exists in the Regulations.

In the event that the accounts are not prepared by the statutory timetable, audited bodies should notify their audit team and publish a notice setting out there is a delay and the reason for the delay. Example wording is provided in [Annex C](#).

## Annex C: Accounts and Audit (Wales) Regulations 2014 – suggested notice

Audit notice where RFO unable to certify the accounts either due to illness or because the accounts have not been prepared

Regulation 10(1) of the Accounts and Audit (Wales) Regulations 2014 (as amended) requires that Responsible Financial Officer of City and County of Swansea Council sign and date the statement of accounts, and certify that it presents a true and fair view of the financial position of the body at the end of the year to which it relates and of that body's income and expenditure for that year. The Regulations required that this be completed by 15 June 2020.

The Responsible Financial Officer has not signed and certified the accounts for the year ended 31 March 2020. Due to the COVID-19 outbreak, the authority has diverted resources to support key frontline services and the statement of accounts has not yet been prepared. The statement of accounts will be prepared and the Responsible Financial Officer will sign and certify the statement of accounts when the immediate pressures of the COVID-19 outbreak have subsided.

Audit notice where RFO has certified the accounts but the audited body is not meeting and therefore unable to approve the accounts

Regulation 10(1) of the Accounts and Audit (Wales) Regulations 2014 (as amended) requires that Responsible Financial Officer of City and County of Swansea Council sign and date the statement of accounts, and certify that it presents a true and fair view of the financial position of the body at the end of the year to which it relates and of that body's income and expenditure for that year. The Regulations required that this be completed by 15 June 2020.

The Responsible Financial Officer signed and certified the accounts on [date].

Regulation 10(2) of the Accounts and Audit (Wales) Regulations 2014 (as amended) requires that following the certification by the Responsible Financial Officer referred to above, City and County of Swansea Council approve and publish the audited statement of accounts. The Regulations required that this be completed by 15 September 2020.

[Due to the COVID-19 outbreak, the statement of accounts has not yet been prepared.]

OR

[Due to the COVID-19 outbreak, [name of body] has not met to approve the statement of accounts.]

OR

[Due to the COVID-19 outbreak, the audit of the 2019-20 statement of accounts has not yet been completed and no audit opinion has been provided. The statement of accounts that is published is the unaudited statement of accounts.]