

Reference: GPJAC 2 March 2023

Date issued: 20 February 2023

Gwent Police & Crime Commissioner and Chief Constable for Gwent Police

Joint Audit Committee 2 March 2023 – Audit Update Paper

2021-22 financial statements

Joint Post Project Learning Session

From recent discussions it has been agreed by the Welsh forces that the All-Wales Police and Audit Wales Post Project Learning session will not go ahead this year. This is primarily due to not all Welsh police accounts having been signed off by 31 January 2023.

2022-23 financial statements

- **Audit Planning**

In light of the revised ISA315 – *Identifying and assessing the risks of material misstatement* the Auditor General and Director of Audit Services will be issuing a letter to management and the joint Audit Committee Chair which sets out the impact of ISA315, the resulting impact on audit fees and the timetable for the Audit of Accounts 2022-23 and future years. The letter will also outline the key changes and potential impact on Gwent Police in terms of information requests from our audit teams. We will share a copy of this letter with Joint Audit Committee members as soon as it is available. A briefing paper regarding our accounts audit approach can be found at **Appendix 1**.

Audit Directors for police bodies will also be offering to arrange a session with all Chief Finance Officers and Joint Audit Committee chairs to provide an opportunity to explain in more detail what the revised ISA315 means for audited bodies, if required.

Our revised approach will also be discussed at a local level with management, along with timings, prior to commencing our work. We anticipate starting our planning and interim audit work in March, following which we will be able to prepare our Audit Plan 2023 which we will agree with management before presenting to the Joint Audit Committee.

- **Info Collaborate**

For the 2022-23 audit cycle, we will be using Info Collaborate, a secure digital portal which will enable us to collate auditor requests, responses and documents all in one

place. The rationale for using this portal is for a more efficient way of managing requests for working papers and ensuring there is a clear audit trail of follow up queries and responses. We have issued a letter to management which addresses data security, data governance and training and guidance around the use of Inflo. A copy of that letter can be found in **Appendix 2**. Management have responded to this letter, and we are currently in the process of setting up Gwent Police on Inflo Collaborate.

Other matters for consideration

Audit Wales publications

Our publications can be accessed via <https://www.audit.wales/publications>. Below are some that have been added since our last Audit Update dated December 2022:

- **A missed opportunity’ – Social Enterprises (December 2022)**

Our report looks at how local authorities are working to grow and make the most of Social Enterprises

This report looks at the strategic approach of local authorities to working with Social Enterprises.

This is the second of three reviews on the challenge of alleviating and tackling poverty.

Our recommendations are designed to support local authorities to effectively work with Social Enterprises to maximise their impact, make better use of resources and improve services for people and communities.

The Auditor General highlights the important role social enterprises play in meeting the needs and helping people in communities across Wales.

- **‘Together we can’ – Community resilience and self-reliance (January 2023)**

Our report looks at how local authorities are creating the conditions needed to help communities thrive as independently as possible.

This report specifically looks at the priority placed on community resilience and self-reliance in local authority plans, and how local authorities are equipping people to be less reliant on often over stretched local authority services.

This is the third of three reviews on the challenge of alleviating and tackling poverty.

Our recommendations are designed to support local authorities to use our report to self-evaluate current engagement, management, performance, and practice to identify where improvement is needed.

The Auditor General highlights the important role communities can play in a more active role and become less dependent on public services but sustaining this requires local authorities to change how they work.

- **Fee Scheme 2023-24 16 January 2023**

We've published the Fee Scheme for 2023-24, approved by the Senedd, which provides the basis on which we charge fees.

The Fee Scheme reflects our approved Estimate for 2023-24 and sets out:

- The enactments under which we charge audit fees.
- The arrangements for setting those fees, which comprise either:
 - Fee scales that set out fee ranges for particular areas of audit work in local government; or
 - Fee rates for work not covered by fee scales.

Good Practice Exchange (GPX)

We continue to seek opportunities for finding and sharing good practice from all-Wales audit work through our forward planning, programme design and good practice research.

Details of future events are available on the GPX website <https://www.audit.wales/our-work/good-practice> .

Tracy Veale - Audit Manager

20 February 2023

Appendix 1

Accounts audit approach briefing

Introduction

- 1 Our audits for accounts ended 31 March 2023 will be carried out under a revised auditing standard (ISA 315 (UK) Identifying and Assessing the Risks of Material Misstatement (Revised July 2020)). The revised standard will have significant and far-reaching impacts on how auditors undertake audit risk assessments and therefore on the overall audit.
- 2 The revised standard requires us to undertake more detailed and extensive risk assessment procedures to identify risks of material misstatement. The subsequent design and performance of our audit approaches will be responsive to each assessed risk.
- 3 The purpose of this briefing is to outline the key changes and the potential impact on your organisation in terms of information requests from our audit teams.

When is the revised standard effective and to whom does it apply?

- 4 The revised standard is effective for audits of financial statements for periods beginning on or after 15 December 2021. Our audit approach will therefore be different for our 2022-23 audits. The revised standard applies to the audit of all entities regardless of their nature, size or complexity although it is designed to be scalable.

Why did the standard change?

- 5 The standard has been amended to drive better quality and more effective risk assessments, as well as to promote greater exercise of professional scepticism.
- 6 Financial reporting frameworks and governance structures are becoming increasingly more complex while technology continues to play a more advanced role in the control environment of entities. These changes require risk identification and assessment to be more enhanced and rigorous processes. The previous standard also did not address automated tools and techniques, which are increasingly being used by auditors to inform risk assessment. The revised standard therefore introduces specific considerations relating to the auditors use of automated tools and techniques.

The key changes to the standard and the potential impact on your organisation

Key change	Potential impact on your organisation
<p>More detailed and extensive risk identification and assessment procedures</p>	<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"> - information on your organisation’s business model and how it integrates the use of information technology (IT); - information about your organisation’s risk assessment process and how your organisation monitors the system of internal control; - 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 - more detailed discussions with your organisation to support the audit team’s assessment of inherent risk.
<p>Obtaining an enhanced understanding of your organisation’s environment, particularly in relation to IT</p>	<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"> - IT applications relevant to financial reporting; - the supporting IT infrastructure (e.g. the network, databases); - IT processes (e.g. managing program changes, IT operations); and - the IT personnel involved in the IT processes. <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>
<p>Enhanced requirements relating to exercising professional scepticism</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>

Key change	Potential impact on your organisation
Risk assessments are scalable depending on the nature and complexity of the audited body	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.
Audit teams may make greater use of technology in the performance of their audit	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.

Impact on audit fees

- 7 As a result of changes outlined above, it is expected that audits will require us to use more qualified staff to deal with the higher level of judgement necessitated by the standard.
- 8 In our January 2023 Publication on Fee Scales we indicated that our initial assessment of the impact of this richer skills mix on fees was that it might result in a potential average increase in fee scales for our financial audit work of between 12% and 18%. This is consistent with expectations across the UK public audit organisations and private sector audit firms.
- 9 We will be shortly starting our risk assessment under the new audit approach and will be able to provide you with an updated assessment of the audit fee once we have completed that initial risk planning. Your Engagement Director will discuss the proposed fee for your audit once that risk assessment has been completed.

Appendix 1

Q&A:

Q. How do the changes to ISA 315 impact the time taken to complete the audit and the audit fee?

- The engagement will take more time, particularly at the planning stages and in the first year of implementation. It will require a richer skill mix to perform the risk identification and assessment procedures. As a result, it is likely that audit fees will increase. This expectation is in line with other UK public audit bodies and private sector audit firms. After the new approach has been implemented, we will review our audit fees to ensure they remain appropriate.

Q. Will more risks be identified under the new approach?

- Risks of material misstatement and where applicable, risks of material irregularity will be assessed for their likelihood of occurring and their magnitude if the misstatement were to occur. This approach may result in teams identifying risks or significant risks in areas which were not previously identified as being at risk. The assessed level of risk will determine the nature and extent of audit procedures to be applied. We anticipate that a greater number of risks may be identified in areas such as accounting estimates (i.e. property valuations, pension valuations, provisions) but also that some areas will require less work as lower risk.

Q. Will the execution of the audit change under the new approach?

- Management will likely receive an additional number of inquiries at the planning stage of the audit as the audit team perform more extensive and detailed risk assessment procedures. Management may notice that the focus of testing at the fieldwork stages changes. There will be less extensive audit procedures performed for areas of less risk and more extensive procedures performed in areas of greater risk.
- As audit teams are required to document an enhanced understanding of the IT environment and consider the potential IT risks relating to financial reporting, management may see an increased number of IT related inquiries. This may involve audit teams liaising directly with IT personnel who have not been previously involved in the audit process. The extent of work required in this area will be determined by the assessed level of risk.

Q. What is professional scepticism?

- This involves an ongoing questioning and critical evaluation of audit evidence obtained and representations made as part of the audit, and being alert to information or behaviours that may indicate misstatement or irregularity due to fraud or error. It includes considering the reliability and completeness of information to be used as audit evidence, and seeking both corroborating and contradictory audit evidence.

Q. How will risk assessment be scalable?

- As part of planning, audit teams will obtain a comprehensive understanding of the entity. This will include:

- the environment in which it operates, including its business model and framework of authorities,
- the systems of internal control established,
- the requirements of the financial reporting framework and accounting policies established for its circumstances,
- the financial reporting activities and their underlying information flows,
- the use of accounting estimates, considering the levels of complexity, subjectivity and estimation uncertainty, and
- how IT is used within the financial reporting activities and information flows.

This understanding will inform and reflect the nature and complexity of the entity. Expectations regarding the formality of policies, procedures, processes and systems will be in direct proportion to the *nature and complexity* of the entity's structure, business, reporting channels and financial reporting activities.

In turn, risks identified will be proportionate to:

- the level of complexity, subjectivity, uncertainty, change, and susceptibility due to: bias, fraud, non-compliance, eligibility/entitlement, no authority etc identified, and
- the magnitude of the misstatement/irregularity if it were to occur.

Q. Will you increase the use of technology in your audit?

- Engagement teams will consider whether it is possible / appropriate to make use of technology to gain sufficient, appropriate audit evidence. Where audit teams elect to make use of technology such as data analytics, they will be in contact with management to request information different from that normally requested or in a different format. Our audit teams will engage closely with management on the nature of the information required to perform our audit procedures.

Q. Is there any scope to make the audit process more efficient?

- We remain committed to making the audit process efficient whilst ensuring we deliver a high quality audit. We will review our new audit approach post implementation to identify areas for improvement.

Q, What additional information will you need from management?

- Engagement teams may require additional information at the planning stages of the audit, this may include more information relating to IT related matters. Our audit teams will liaise closely with management on information requests.

Q. Are there any additional requirements or information needed from those charged with governance?

- ISA 315 does not change any of the requirements in relation to our communications with those charged with governance. We remain committed to working with those charged with governance throughout the audit process.

Appendix 2

Mr Darren Garwood Pask &
Mr Nigel Stephens
Chief Finance Officer &
Assistant Chief Officer - Resources,
Gwent Police HQ,
Llantarnam Park Way,
Cwmbran
NP44 3FW

24 Cathedral Road / 24 Heol y Gadeirlan
Cardiff / Caerdydd
CF11 9LJ
Tel / Ffôn: 029 2032 0500
Fax / Ffacs: 029 2032 0600
Textphone / Ffôn testun: 029 2032 0660
info@audit.wales / post@archwilio.cymru
www.audit.wales / www.archwilio.cymru

Date issued: 14 February 2023

Via email

2022-23 Audit of Accounts - use of Inflo Collaborate

Police and Crime Commissioner for Gwent and Chief Constable of Gwent Police

Acknowledgement of use

Dear Darren and Nigel

My audit team has been discussing with your staff the use of Inflo Collaborate during the audit of accounts for 2022-23.

What is Inflo Collaborate?

Inflo Collaborate is a secure digital portal to collate auditor requests, responses and documents all in one place. The rationale for using this portal is for a more efficient way of managing requests for working papers and ensuring there is a clear audit trail of follow up queries and responses.

Can I see it?

Here is a quick 3 minute [introduction video](#) to the portal.

What about data security?

- Hosted on Azure cloud platform/services, ISO27001, ISO27018 and ISO 22301 certified
- Custom domain with dedicated secure socket layer certificate
- Data encrypted between web browser and web server
- All data is 256-bit AES encrypted
- File storage on Azure blob, ISO27001 certified
- In storage files are encrypted
- Files are held in MS Azure secure data centre
- Data centres are replicated and backed up in in a separate data centre in the same region - Europe – Ireland (primary)/Netherlands (backup)
- Data and files are held and stored in compliance with GDPR ([data privacy statement](#))

And data governance?

We have completed a Data Protection Impact Assessment for use of the software as a new process. Article 35 of UK GDPR states that a DPIA is mandatory for processing that is likely to result in a high risk to individuals. Our assessment and view from our Data Protection Officer is that the Inflo portal is unlikely to result in a high risk to individuals, though we completed a DPIA as good practice and have completed an information security risk assessment.

I can confirm that an agreement between the Wales Audit Office (Audit Wales is the umbrella brand for the WAO and AGW - not a legal entity) and Inflo has been signed, with relevant provisions relating to data protection and data processing. We as the customer are the data controller, and Inflo only processes data to the extent necessary to provide the software and services, and does not disclose any data to third parties.

What about training and guidance?

Audit Wales will set up the engagement on Inflo. We will then need from you a list of officers to be given access to the portal to invite them to join. Officers will log in using their email address and password. **We recommend officers set up two factor authentication** to strengthen access controls. This can be done within their personal settings, and we will cover how to do this in our training video.

We will invite users into Inflo where they will then have access to a to a training video – we strongly recommend that users watch this video to see how to use the system and hints/tips.

Please can you reply to this memo to confirm that you are content:

- to the use of Inflo Collaborate for the 2022-23 Audit of Accounts;
- for officers to watch the training video; and
- to ensure officers set up their accounts using two factor authentication.

If you have any questions, then please contact the audit team or email helen.goddard@audit.wales.

Best regards,

Richard Harries
Engagement Director