

Reference: GPJAC 12 June 2024

Date issued: 30 May 2024

Gwent Police & Crime Commissioner and Chief Constable for Gwent Police

Joint Audit Committee 12 June 2024 – Audit Update Paper

2023-24 Financial Statements

- **Audit Planning**

Audit planning work for 2023-24 has commenced. We will shortly prepare our Audit Plan for 2024 which we will agree with management before presenting to the Joint Audit Committee. We continue to work closely with management to discuss and agree the timings for the 2023-24 audit cycle.

- **INFLO Collaborate**

For the 2023-24 audit cycle, we will again be using Inflo Collaborate, a secure digital portal which will enable us to collate auditor requests, responses and documents all in one place.

Other matters for consideration

Local Government Audit of Accounts 2023-24

We recently issued a letter to Local Government S151 Officers following a recent Society of Welsh Treasurers 'Closure of Accounts' workshop held in Llandrindod Wells. A copy of the letter is attached for information at Appendix 1. The letter provides additional context to the LG Sector and reiterates some of the key messages from the workshop.

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 March 2024:

- **Annual Plan 2024-25 (April 2024)**

The Annual Plan covers 1 April 2024 to 31 March 2025 and includes additional information on our longer-terms strategy and key performance indicators. The Annual Plan marks the mid-point of our five-year strategy and outlines our priorities in terms

of our audit work and how we operate as a business. In our Annual Plan, we give an update on our programme of work and new work we plan on starting in 2024-25, as well as including plans to improve the timeliness of our performance audit work at NHS and local government bodies and to restore the auditing of accounts of the 800 public bodies across Wales to pre-pandemic timescales over the next few years.

- **From firefighting to future-proofing – the challenge for Welsh public services**

In the context of the Welsh Government's draft budget for 2024-25, the Auditor General identified themes that the work of Audit Wales suggests would help public organisations achieve more value from the money they already spend, including:

- Reducing cost and damage to public confidence from failures in governance and financial management;
- Minimising loss to fraud and error;
- Ensuring that our complex public service landscape delivers value for money;
- Addressing long term workforce issues across many sectors and professions;
- Accelerating the use of digital technology to drive service transformation and efficiencies, and tackling digital exclusion;
- Shifting resources towards prevention to avoid higher costs in the future, and
- Rigorously appraising decisions for value for money backed up by effective monitoring and evaluation of outcomes.

Good Practice Exchange

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

David Williams – Audit Manager

30 May 2024

Appendix 1

By email

Date issued: 10 May 2024

To:

Local Government Section 151 Officers

Local Government Finance Policy and Sustainability Division – Welsh Government

WLGA

Dear Colleague

Local Government – Audit of Accounts 2023-24

The Auditor General and I were delighted to be able to attend the recent Society of Welsh Treasurers ‘Closure of Accounts’ workshop held in Llandrindod Wells. We came away encouraged by the importance placed by Treasurers on the annual accounts process and the commitment to working with Audit Wales to return to a more traditional timetable for the preparation and audit of accounts. As Adrian set out on the day, one of the key priorities in the recently published [Audit Wales Annual Plan](#) is our commitment to a phased plan to bring forward the timetable for delivering the audits, but we can only achieve that with your support.

Planning work has recently commenced on our 2023-24 accounts audit work for all local government (LG) bodies, this includes unitary authorities, fire authorities, police and crime commissioners and chief constables, national parks, and the LG pension funds. We therefore thought it was useful to write to you to reiterate some of the key messages from the ‘Closure of Accounts’ session and further information on how we will undertake your audit.

Within this letter, we consider the following:

- the timeliness of preparation of the draft 2022-23 accounts;
- the timeliness of 2022-23 audits;
- a consideration of the current position;
- common themes arising during the audits;
- the proposed timetable for 2023-24 and future years;

- a look forward to key issues impacting on the 2023-24 accounts and other developments; and
- an update on audit fees.

Timeliness of the preparation of draft 2022-23 accounts

The Welsh Government set 31 July 2023 as the deadline for the production of draft 2022-23 accounts. In terms of the 32 primary local government bodies (councils, police, fire and parks) 22 (68%) published draft accounts by this date. Looking only at the councils, the percentage was the same, with 15 councils (68%) providing accounts for audit by 31 July.

The draft accounts not published by 31 July were published between August and December 2023, and one body has yet to publish a 2022-23 draft accounts.

We recognise the significant financial and workforce capacity pressures currently being experienced by LG bodies, and the delays in completing audits arising since the pandemic. However, timely publication of high-quality draft accounts and working papers remains critical for the sector.

All 8 LG Pension Fund accounts were prepared on time.

Timeliness of the audit of 2022-23 accounts

Our audits of LG accounts for the year ended 31 March 2023 were carried out under revised Auditing Standard, ISA 315. In planning our audit at individual LG bodies, we were required to undertake more detailed and extensive risk assessment procedures to identify the risks of material misstatement and to develop an audit approach designed to address those risks.

This revised standard had a significant impact on our audit methodology, and we are grateful to finance teams for their engagement and the support they provided to our audit teams.

The Welsh Government set 30 November 2023 as the deadline for the publication (audit) of the 2022-23 accounts. In terms of the 32 primary local government bodies, 12 (38%) had audited accounts by this date. Looking only at the councils, 7 (32%) had audited accounts by 30 November.

At the date of publication of this letter, there are 7 bodies (6 councils) where 2022-23 accounts remain uncertified. The audits for the majority of these will be completed shortly.

All 8 LG Pension Fund accounts were audited by the prescribed deadline.

A consideration of the current position

The analysis set out above in terms of accounts preparation and audit reinforces the need for both LG bodies and Audit Wales to work together to get us back on track. And this was the commitment we made jointly at the recent workshop.

In terms of accounts preparation, in a number of cases, a complete set of working papers to support the accounts were not available at the time the draft accounts were provided for audit. This undoubtedly makes the audit process far more difficult and protracted. We will continue to work with LG bodies to facilitate improvements to accounts and working papers where these are required.

I recognise that the availability of Audit Wales has been a challenge; there is no doubt that auditors are in demand across the industry which has impacted on our ability to recruit and retain qualified

staff. We are working hard on a number of fronts to return our staffing numbers to pre-pandemic levels and have recently made significant progress on this. Our trainee programme continues to provide us with a pipeline of high-calibre auditors and we have recently been successful in recruiting a number of new trainees who will join us over the coming months.

We have held a number of meetings with key LG finance groups during the year and we intend to continue with these meetings going forward where we will discuss both the delivery of draft accounts/working papers and audits and how the themes identified can be addressed going forward.

Common themes arising during the audit

Preparation of LG accounts remains technically challenging and this, combined with capacity issues and other pressures on bodies, has resulted in audit adjustments being made to all bodies' draft accounts. Whilst these adjustments varied in terms of size and impact, we did identify some common themes:

- Property, plant, and equipment transactions and balances – our work resulted in material amendments in many cases for a variety of reasons including:
 - carrying values of assets were not always updated to reflect current economic conditions;
 - disclosures did not reflect underlying evidence; and
 - technical accounting requirements were not always followed.
- Senior Officer Remuneration disclosures – material amendments were made in many bodies to ensure that disclosures reflected underlying evidence and complied with the statutory requirements.
- Related Party disclosures – disclosures were not always consistent with underlying evidence and, in some cases, declarations of interest were not available for all relevant officers and members.
- Accounting for joint operations – the increasing complexity of some joint committees means that principal bodies' draft statements are often prepared using information that subsequently requires update. (Looking ahead to the 2023-24 accounts the transactions of the South East Wales CJC/City Deal, in particular, will likely be material even when disaggregated across the 10 participating bodies. The accounts for the CJC/City Deal will need to be produced and audited on a timely basis to avoid creating consequential delays on council audits).

The proposed timetable for 2023-24 and onwards

We understand that the Welsh Government are proposing a 30 June deadline for the preparation of draft accounts for 2023-24 and future years. The proposed deadline for audit is 30 November for 2023-24.

We aim therefore to certify by 30 November all accounts that:

- have been received by 30 June;
- are of good quality and fully supported; and
- have no significant audit matters either remaining from the prior year or arising in year.

We understand that proposals for future years are:

- Audit of Accounts 2024-25 – certification by 31 October 2025; and
- Audit of Accounts 2025-26 and future years – certification by 30 September 2026.

Our understanding is that these dates are consistent with Welsh Government's planned update to the Accounts and Audit (Wales) Regulations.

The achievement of the timetable for 2023-24 is not without its challenges, however with a collective renewed focus I believe they are achievable. We will be working closely with LG finance teams over the next few months to agree the required supporting working papers and the timetable for audit.

For information, the dates above remain ahead of the planned dates for English bodies which are currently subject to consultation¹. The consultation in England proposes a gradual plan to move the certification date to 30 November 2028 for 2027-28 accounts as follows:

- Year ends 31 March 23 and previous: 30 September 2024
- Year end 31 March 2024: 31 May 2025
- Year end 31 March 2025: 31 March 2026
- Year end 31 March 2026: 31 January 2027
- Year end 31 March 2027: 30 November 2027
- Year end 31 March 2028: 30 November 2028

A look forward to key issues impacting on the 2023-24 accounts audit and other developments

As well as reflecting on last year, it is important to have a look at some of the issues that could impact on the 2023-24 and future years accounts.

Technical accounting changes

At this point in time, we are not anticipating any new significant issues for 2023-24, but we will continue to liaise with the Society of Welsh Treasurers and Chief Accountants groups and will discuss issues as they arise.

Implementation of IFRS16 Leased assets

A new accounting standard relating to leased assets will be implemented in the 2024-25 financial statements. This is likely to have a significant impact for most bodies. There are some disclosure requirements relating to this for 2023-24 accounts and bodies will likely need to undertake preparatory

¹ Addressing the local audit backlog in England: Consultation – Department of Levelling Up, Housing and Communities.

work for full implementation alongside the preparation and audit of the 2023-24 accounts. We have begun discussing the practical implementation issues with the Chief Accountants Group.

Groups and joint arrangements

Arrangements for service delivery are becoming increasingly complex resulting in most bodies being part of joint arrangements and/or formal group structures. These are having an increasing impact on LG accounts. In addition, the auditing standard for group arrangements will be significantly revised for 2024-25 audits. We are currently working through what this means for our audits, but it is likely that changes to our audit process will be required with more focus on groups and other joint arrangements.

Governance

The Auditor General places significant importance to seeing high standards of governance and financial management and will continue to shine a light and report on weaknesses in these areas.

Update on audit fees

As a result of ISA 315, the revised audit approach applied in 2022-23 required us to employ more experienced, professionally qualified, staff on the audits, resulting in the larger than usual increase in your audit fee last year. We estimated that fee increase required to support the implementation of this new approach would be around 10.2%. In addition, we also applied a 4.8% fee increase last year in respect of inflation resulting in a combined average fee increase of 15%.

In terms of this year, our [Fee Scheme for 2024-25](#) is now available. Our fee rates are increasing on average by 6.4% next year. Some further context is provided in the consultation foreword, but we have incorporated the key message into this letter.

Like the rest of the public sector, we are facing significant staff cost pressures. These are exacerbated by a global shortage of audit and finance professionals, which we are seeing reflected in our ability to recruit and retain qualified staff.

To help offset increasing staff costs, we are taking difficult decisions to reduce our non-staff expenditure. We have moved to smaller, cheaper offices in both South and North Wales, have significantly reduced our travel and associated costs, and removed financial allowances previously paid to staff.

It is worth pointing out that audit fees have increased significantly across the whole audit profession in response to regulatory pressures, new auditing standards (including, but not limited to, ISA 315) and rising staff costs. The table in **Appendix 2** summarises current Public Sector Audit Appointment (PSAA) rates and then compares them to current Audit Wales fee rates. The table illustrates the very substantial change in PSAA rates over the past four years (following the Redmond Review) and highlights the very marked difference between current local government rates in England and those of Audit Wales.

Legislation requires that the fees we charge may not exceed the full cost of exercising the function to which the fee relates. We set our audit fees based on our estimated cost base, the estimated skills mix for audit work and the estimated number of days required to complete the work. We do not, and cannot, make a profit from our work. Our fees are set at a level to recover the estimated full cost but no more.

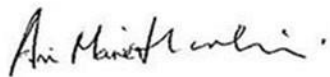
We are also mindful of us moving into the second year of our new audit approach and methodology. On the basis that we are more familiar with the new approach, we are expecting to see some level of efficiency. As stated above, as our fees are set at a level to only recover the full cost, where the full cost is less than the estimated fee, we will issue a refund to individual bodies. In this context, we remain determined to minimise audit fees whilst ensuring that our audit quality continues to meet rigorous standards.

Your Engagement Director will discuss the proposed fee for your audit once the audit commences and the risk assessment for your organisation has been completed.

We remain committed to working collaboratively with you to successfully navigate the challenges set out in this letter, building on our shared experiences.

Thank you to you and your teams for continuing to work so well with us.

Yours sincerely

A handwritten signature in black ink, appearing to read "Ann-Marie Harkin". The signature is written in a cursive, flowing style.

Ann-Marie Harkin

Executive Director Audit Services

Appendix 2

A comparison of current Public Sector Audit Appointment (PSAA) fee rates with Audit Wales

| Grade | Audit Wales Fee Rates | Public Sector Audit Appointments (PSAA) Rate Cards | |
|--------------------------|-----------------------|--|--------------|
| | 2023-24 £ | 2023-24 £ | 2018-20 £ |
| Partner / Director | 168 | 414 | 132 |
| Senior Manager / Manager | 129 | 228 | 73 |
| Audit Lead | 106 | 148 | 47 |
| Other | 40-85 | 113 | 36 |