



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# 2020 Audit Plan – Police and Crime Commissioner for Gwent and Chief Constable of Gwent Police

Audit year: 2019-20

Date issued: February 2020

Document reference: 1756A2020-21



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# 2020 Audit Plan

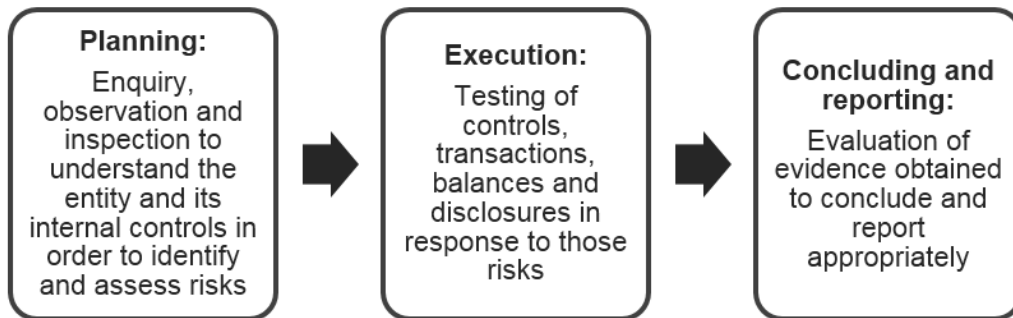
## Summary

- 1 As your external auditor, my objective is to carry out an audit which discharges my statutory duties as Auditor General and fulfils my obligations under the Public Audit (Wales) Act 2004 and the Code of Audit Practice, namely to:
  - examine and certify whether your financial statements are ‘true and fair’; and
  - assess whether you have made proper arrangements for securing economy, efficiency and effectiveness in the use of resources.
- 2 The purpose of this plan is to set out my proposed work, when it will be undertaken, how much it will cost and who will undertake it.
- 3 There have been no limitations imposed on me in planning the scope of this audit.
- 4 My responsibilities, along with those of management and those charged with governance, are set out in [Appendix 1](#).

## Audit of accounts

- 5 It is my responsibility to issue a certificate and report on the financial statements of both the Police and Crime Commissioner for Gwent (the Commissioner) and Chief Constable of Gwent Police (the Chief Constable) which includes an opinion on their ‘truth and fairness’. This provides assurance that the accounts:
  - are free from material misstatement, whether caused by fraud or error;
  - comply with statutory and other applicable requirements; and
  - comply with all relevant requirements for accounting presentation and disclosure.
- 6 I also consider whether or not the Commissioner and the Chief Constable have made proper arrangements for securing economy, efficiency and effectiveness in their use of resources and report by exception if the Annual Governance Statements do not comply with requirements.
- 7 [Appendix 1](#) sets out my responsibilities in full.
- 8 The audit work I undertake to fulfil my responsibilities responds to my assessment of risks. This understanding allows me to develop an audit approach which focuses on addressing specific risks whilst providing assurance for the financial statements as a whole. My audit approach consists of three phases as set out in [Exhibit 1](#).

Exhibit 1: My audit approach



9 The risks identified from my initial audit planning work that will impact on my financial statements audit are set out in [Exhibit 2](#), along with the work I intend to undertake to address them. [Exhibit 2](#) identifies risks common to both the Commissioner and the Chief Constable and, where appropriate, risks that are specific to either the Commissioner or to the Chief Constable.

Exhibit 2: financial statements audit risks

Financial statements: significant audit risks	Proposed audit response
<p><b>Management override</b></p> <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; and</li> <li>• evaluate the rationale for any significant transactions outside the normal course of business.</li> </ul>

Financial statements: significant audit risks	Proposed audit response
<p><b>Brewster judgement</b></p> <p>In February 2017, the Supreme Court ruled that as married couples and civil partners were not required to nominate each other for pension survivor benefits, it was unlawful discrimination to require co-habiting partners to do so.</p> <p>The Police Pension Scheme 2006 provided for survivor pensions to be paid to nominated unmarried partners. This requirement to nominate a survivor remained following the introduction of the new Police Pension Scheme in 2015 despite the fact that other Pension Schemes including the LGPS and the Firefighters Pension Schemes had removed the requirement in April 2014 and April 2015 respectively.</p> <p>Following the Brewster judgement there is a risk that additional pension payments will be due and that, as a result, the Pension Scheme liabilities will be materially understated.</p>	<p>My audit team will check whether Gwent Police have properly evaluated their potential exposure to this issue and correctly disclosed and accounted for it in the financial statements.</p>
<p><b>McCloud judgements</b></p> <p>In 2015 the Government introduced reforms to public sector pensions, meaning most public sector workers were moved into new pension schemes.</p> <p>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 judgment applies to all of the main public service pension schemes.</p> <p>The impact of the judgement is likely to have a significant impact on the IAS19 disclosed liabilities.</p>	<p>My audit team will review the provision made in relation to the McCloud judgement to ensure the accounting disclosures are correct and monitor progress on the development of proposals for a remedy to be applied in the LG/Police/Firefighters pensions scheme</p>

Financial statements: significant audit risks	Proposed audit response
<p><b>Langford judgement</b></p> <p>In July 2019, the Court of Appeal held that a rule in the armed services pension scheme which prevented the surviving partner of a deceased member receiving pension because they remained married to another person was unlawful discrimination. This case is being appealed to the Supreme Court of the Ministry of Defence.</p> <p>The number of people affected by this judgement is expected to be low and the impact of this ruling on the accounts of public sector employees is likely to be relatively small and not expected to be material.</p> <p>However, if employers have not taken the Langford judgement into account, there is a risk of misstatement of pension liabilities in the annual accounts.</p>	<p>My audit teams will check whether employers have evaluated the potential exposure to this matter and that it has been appropriately disclosed and accounted for.</p>
<p><b>IFRS 16 – Leases</b></p> <p>The introduction of IFRS 16 Leases in 2020-21 may pose implementation risks if Gwent Police is not fully prepared. IFRS 16 is a significant change in lessee accounting.</p>	<p>My team will undertake some early work to review preparedness for the introduction of IFRS 16 Leases. See <a href="#">Appendix 3</a>, <a href="#">Exhibit 7</a> for more detail.</p>
<p><b>New Headquarters Capital Build</b></p> <p>In October 2018, Gwent Police received planning approval for the capital project to build the new Gwent Police Headquarters. Building work began in 2019 and will continue until completion of the project in May 2021.</p> <p>There is a risk that expenditure is not recorded correctly in the financial statements.</p>	<p>My audit team will review the impact of the transactions associated with this new capital project on the financial statements, and ensure they are appropriately accounted for in line with the requirements of the Code and in line with relevant guidance and regulations.</p>
<p><b>Early repayment of the PFI scheme</b></p> <p>On 31 January 2020, Gwent Police paid £7.2 million to terminate the Ystrad Mynach Police station PFI scheme.</p> <p>There is a risk that this expenditure is not correctly accounted for within the financial statements.</p>	<p>My audit team will review the impact of the transactions associated with the termination of the PFI scheme on the financial statements, and ensure they are appropriately accounted for in line with the requirements of the Code and in line with relevant guidance and regulations.</p>

Financial statements: significant audit risks	Proposed audit response
<p><b>Early closing deadline</b></p> <p>From 2018-19, the Commissioner and Chief Constable have had to prepare their accounts by 31 May and publish their audited accounts by 31 July. The 31 July 2019 statutory deadline was met, however, there were a number of challenges arising during the accounts preparation and audit processes which put at risk the completion of the audit by this date.</p> <p>As a result, and to mitigate the risk of not meeting the statutory deadline for publishing the financial statements by 31 July 2020, the Finance Team has been restructured. In addition, the Finance Team have updated a detailed closedown plan for the production of the 2019-20 financial statements and are monitoring progress on a regular basis to ensure the statutory deadline for publication of the audited financial statements by 31 July 2020 is met.</p>	<p>My audit team will continue to work with management to address the challenges of meeting the earlier statutory deadline.</p> <p>We will continue to work closely with the Finance Team and monitor the progress of the year end closedown process.</p> <p>As in previous years, we will also provide a detailed audit deliverables document that will outline our working paper requirements and will structure our audit in such a way that will ensure the statutory deadlines can be met.</p>

- 10 I do not seek to obtain absolute assurance on the truth and fairness of the financial statements and related notes but adopt a concept of materiality. My aim is to identify material misstatements, that is, those that might result in a reader of the accounts being misled. The levels at which I judge such misstatements to be material will be reported to the Commissioner and the Chief Constable prior to completion of the audit.
- 11 For reporting purposes, I will generally treat any misstatements below a 'trivial' level (5% of materiality) as not requiring consideration by those charged with governance and therefore, I will not report them.
- 12 My fees and planned timescales for completion of the audit are based on the following assumptions:
- controls within key financial systems operate effectively during the year;
  - working papers will be well documented and evidenced providing clear audit trails to source information, and documenting processes and judgements;
  - the financial statements are provided in accordance with the agreed timescales, to the quality expected and have been subject to a robust quality assurance review;



- information is provided to support the financial statements is in accordance with the agreed audit deliverables document<sup>1</sup>;
  - appropriate accommodation and facilities are provided to enable my audit team to deliver the audit in an efficient manner;
  - all appropriate officials will be available during the audit;
  - you have all the necessary controls and checks in place to enable the Responsible Financial Officer to provide all the assurances that I require in the Letter of Representation addressed to me; and
  - Internal Audit's planned programme of work is complete, and management has responded to issues that may have affected the financial statements.
- 13 In addition to my responsibilities in respect of the audit of the Commissioner and the Chief Constable's statutory financial statements set out above, I am also required to certify a return to the Welsh Government which provides information about the Commissioner and the Chief Constable to support preparation of Whole of Government Accounts.

## Statutory audit functions

- 14 In addition to the audit of the accounts, I have statutory responsibilities to receive questions and objections to the accounts from local electors. These responsibilities are set out in the Public Audit (Wales) Act 2004:
- Section 30 Inspection of documents and questions at audit; and
  - Section 31 Right to make objections at audit.
- 15 Audit fees will be chargeable for work undertaken in dealing with electors' questions and objections. Because audit work will depend upon the number and nature of any questions and objections, it is not possible to estimate an audit fee for this work.
- 16 If I do receive questions or objections, I will discuss potential audit fees at the time.

## Use of Resources

- 17 It is my responsibility to satisfy myself that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. [Appendix 2](#) shows the criteria we need to assess in coming to our conclusion on your arrangements.

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<sup>1</sup> The agreed audit deliverables document sets out the expected working paper requirements to support the financial statements and includes timescales and responsibilities.

- 18 In considering these criteria I shall place reliance upon:
- the results of the audit work undertaken on the financial statements;
  - the results of the work of other external review bodies eg, HMIC and the National Audit Office, where relevant to my responsibilities;
  - the Commissioner and the Chief Constable's systems of internal control, as reported in the Annual Governance Statement and my report thereon; and
  - the results of other work carried out by the Auditor General and data-matching exercises.
- 19 This work will relate to specific elements of the corporate governance and financial management processes in place for the Commissioner and Chief Constable and will include a focus on the financial pressures faced, the monitoring arrangements in place and the financial resilience of the Offices of the Commissioner and Chief Constable. Where necessary, we will supplement the assurance obtained from the audit work outlined in paragraph 18, with audit work in other areas.
- 20 We are also undertaking a piece of work regarding the Gwent-based Shared Resource Service (SRS). This is a collaborative technology provision between five partners: Torfaen County Borough Council, Monmouthshire County Council, Blaenau Gwent County Borough Council, Newport City Council and Gwent Police (Commissioner and Chief Constable) to deliver shared Information Technology (IT) services.
- 21 This review will follow up on the recommendations made by the Auditor General in 2015 on the SRS and will seek to answer the question: *Is the shared resource service (SRS) collaboration delivering effectively now and what conditions could be strengthened so it is well placed for the future?*

## Fee, audit team and timetable

### Fee

- 22 My fee rates for 2020 have increased overall by 3%, however, my audit teams will continue to drive efficiency in their audits to ensure fee increases are not passed onto you.
- 23 Your estimated fee for 2020 is set out in **Exhibit 3**. This figure is unchanged from last year's estimated fee. Due to delays and the challenges experienced during the financial statements audit, the actual financial audit fee for 2018-19 exceeded the estimated audit fee by £7,822.

### Exhibit 3: audit fee

Audit area	Proposed fee (£) <sup>2</sup>	Actual fee last year (£)
Audit of accounts	77,900	77,900
Additional audit fee		7,822
Use of resources	4,700	4,700
	82,600	90,422
Review of SRS	11,984	
<b>Total fee</b>	<b>94,584</b>	<b>90,422</b>

- 24 The fee for the financial audit is driven by the skill mix required to deliver the work, together with the daily charge rate for each grade of staff member. We estimate that a total of 166 days will be required to complete the audit.
- 25 Planning will be ongoing, and changes to my programme of audit work and therefore my fee, may be required if any key new risks emerge. I shall make no changes without first discussing them with the Chief Finance Officer and the Assistant Chief Officer - Resources.
- 26 Further information on my [fee scales and fee setting](#) can be found on our website.

### Audit team

- 27 The main members of my team, together with their contact details, are summarised in [Exhibit 4](#).

### Exhibit 4: My team

Name	Role	Contact number	E-mail address
Ann-Marie Harkin	Engagement Director	029 20 320 573	<a href="mailto:ann-marie.harkin@audit.wales">ann-marie.harkin@audit.wales</a>
Tracy Veale	Audit Manager	029 20 320 596	<a href="mailto:tracy.veale@audit.wales">tracy.veale@audit.wales</a>
Non Jenkins	Audit Manager	029 20 320 500	<a href="mailto:non.jenkins@audit.wales">non.jenkins@audit.wales</a>
Helen Williams	Audit Lead	029 20 320 500	<a href="mailto:helen.williams@audit.wales">helen.williams@audit.wales</a>

- 28 I can confirm that my team members are all independent of the Commissioner, the Chief Constable and your officers. In addition, I am not aware of any potential conflicts of interest that I need to bring to your attention.

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<sup>2</sup> The fees shown in this document are exclusive of VAT, which is not charged to you.

## Staff secondment

- 29 A trainee accountant employed by the Wales Audit Office has been seconded to Gwent Police for the period 1 January 2020 to 31 May 2020. This secondment is part of an initiative funded by the Welsh Consolidated Fund designed to allow trainee accountants to broaden their skills and to gain experience of working across different parts of the Welsh public sector.
- 30 In order to safeguard against any potential threats to auditor independence and objectivity, the following restrictions apply in line with the FRC's Revised Ethical Standard 2019:
- the secondee will not undertake any line management or management responsibilities; and
  - the secondment will be for a maximum of six-months.
- 31 A Financial Audit Manager employed by the Wales Audit Office was seconded to Police and Crime Commissioner for Gwent and Chief Constable of Gwent Police for the period 1 September 2018 to 29 November 2019. This secondment was designed to allow Wales Audit Office staff to broaden their skills and to gain experience of working across different parts of the Welsh public sector.
- 32 In order to safeguard against any potential threats to auditor independence and objectivity, the Wales Audit Office and the Police and Crime Commissioner for Gwent and Chief Constable of Gwent Police agreed the following safeguards:
- the secondee would not perform duties prohibited by the FRC's Revised Ethical Standard 2016 and would not be able to exercise discretionary authority to commit the Police and Crime Commissioner for Gwent and Chief Constable of Gwent Police to a particular position or accounting treatment;
  - the secondee would not undertake a management role or be involved in the decision taking of the Police and Crime Commissioner for Gwent and Chief Constable of Gwent Police; and
  - the secondment would be for a short period of time within the meaning of the FRC's Revised Ethical Standard 2016.
- 33 The secondee took up the post of Senior Accountancy Professional, reporting to the Joint Heads of Finance and ultimately the Assistant Chief Officer - Resources (ACOR). It is the ACOR which has the role of making independent management judgements and decisions in relation to the finance function and the statutory accounts.
- 34 Following the completion of the secondment, the secondee has taken up a permanent position with Gwent Police, as the Head of Finance.

## Timetable

35 I will provide reports, or other outputs as agreed, to the Commissioner and Chief Constable covering the areas of work identified in this document. My key milestones are set out in [Exhibit 5](#).

### Exhibit 5: timetable

Planned output	Work undertaken	Report finalised
2020 Audit Plan	January to February 2020	March 2020
<ul style="list-style-type: none"><li>• Audit of Financial Statements Report</li><li>• Opinion on Financial Statements</li><li>• Financial Accounts Management Letter</li></ul>	January – September 2020	July 2020 July 2020 September 2020
Review of SRS	January to March 2020	Autumn 2020 (estimated)
Annual Audit Letter for 2020	October – November 2020	November 2020
2021 Audit Plan	November – December 2020	January 2021

## Future developments to my audit work

36 Details of other future developments including forthcoming changes to key International Financial Reporting Standards, the Wales Audit Office's Good Practice Exchange (GPX) seminars and my planned work on the readiness of the Welsh public sector for Brexit, are set out in [Appendix 3](#).

# Appendix 1

## Respective responsibilities

As amended by the Public Audit (Wales) Act 2013, the Public Audit (Wales) Act 2004 sets out my powers and duties to undertake your financial audit. It is my responsibility to issue a certificate and report on the financial statements which includes an opinion on:

- their 'truth and fairness', providing assurance that they:
  - are free from material misstatement, whether caused by fraud or error;
  - comply with the statutory and other applicable requirements; and
  - comply with all relevant requirements for accounting presentation and disclosure.
- the consistency of information in the Annual Report with the financial statements.

I must also state by exception if the Annual Governance Statement does not comply with requirements, if proper accounting records have not been kept, if disclosures required for remuneration and other transactions have not been made or if I have not received all the information and explanations I require.

The Public Audit (Wales) Act 2004 requires me to assess whether the Commissioner and the Chief Constable have made proper arrangements for securing economy, efficiency and effectiveness in the use of resources. To achieve this, I consider:

- the results of the audit work undertaken on the financial statements;
- the Commissioner and the Chief Constable systems of internal control, as reported in the Annual Governance Statement and my report thereon;
- the results of other work carried out including performance audit work 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.

The Public Audit (Wales) Act 2004 sets out the rights of the public and electors to inspect the Commissioner's and the Chief Constable's financial statements and related documents, to ask me, as the auditor questions about the accounts and, where appropriate, to challenge items in the accounts. I must also consider whether in the public interest, I should make a report on any matter which comes to my notice in the course of the audit.

My audit work does not relieve management and those charged with governance of their responsibilities which include:

- the preparation of the financial statements and Annual Report in accordance with applicable accounting standards and guidance;
- the keeping of proper accounting records;
- ensuring the regularity of financial transactions; and
- securing value for money in the use of resources.

Management agrees to provide me with:

- access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- additional information that I may request from management for the purpose of the audit; and
- unrestricted access to persons within the authority from whom I determine it necessary to obtain audit evidence.

Management will need to provide me with written representations to confirm:

- that it has fulfilled its responsibilities for the preparation of the financial statements;
- that all transactions have been recorded and are reflected in the financial statements;
- the completeness of the information provided to me for the purposes of the audit; and
- to support other audit evidence relevant to the financial statements or specific assertions in the financial statements if I deem it necessary or if required by ISAs.

## Appendix 2

### Criteria to assess arrangements for securing economy, efficiency and effectiveness in the use of resources

Exhibit 6: corporate arrangements

Corporate arrangements	Questions on arrangements
<b>Establishing objectives determining policy and decision making</b>	Has the Commissioner/Chief Constable put in place arrangements for setting, reviewing and implementing his strategic and operational objectives?
<b>Meeting the needs of users, stakeholders and the local population</b>	Has the Commissioner/Chief Constable put in place channels of communication with the local population, users of the service, and other stakeholders including partners, and are there monitoring arrangements to ensure that key messages about services are taken into account?
<b>Monitoring and reviewing performance</b>	Has the Commissioner/Chief Constable put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary and reporting to the Commissioner/Chief Constable?
<b>Compliance with established policies</b>	Has the Commissioner/Chief Constable put in place arrangements to maintain a sound system of internal control, including those for ensuring compliance with laws and regulations, and internal policies and procedures?
<b>Operational and financial risks</b>	Has the Commissioner/Chief Constable put in place arrangements to manage his significant business risks?
<b>Managing financial and other resources</b>	Has the Commissioner/Chief Constable put in place arrangements to evaluate and improve the value for money he achieves in his use of resources?
	Has the Commissioner/Chief Constable put in place arrangements to ensure that his spending matches his available resources?
	Has the Commissioner/Chief Constable put in place arrangements for managing and monitoring performance against budgets, taking corrective action where appropriate, and reporting the results to senior management and the Commissioner/Chief Constable?



Corporate arrangements	Questions on arrangements
<b>Proper standards of conduct etc</b>	Has the Commissioner/Chief Constable put in place arrangements for monitoring and scrutinising performance, to identify potential variances against strategic objectives, standards and targets for taking action?
	Has the Commissioner/Chief Constable put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of his business?

# Appendix 3

## Other future developments

### A. Forthcoming key IFRS changes

Exhibit 7: changes to IFRS standards

Standard	Effective date	Further details
IFRS 16 leases	2020-21	IFRS 16 will replace the current leases standard IAS 17. The key change is that it largely removes the distinction between operating and finance leases for lessees by introducing a single lessee accounting model that requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. It will lead to all leases being recognised on balance sheet as an asset based on a right of use principle with a corresponding liability for future rentals. This is a significant change in lessee accounting.
IFRS 17 Insurance Contracts	2021-22 at earliest	IFRS 17 replaces IFRS 4 Insurance Contracts, which permitted a variety of accounting practices resulting in accounting diversity and a lack of transparency about the generation and recognition of profits. IFRS 17 addresses such issues by requiring a current measurement model, using updated information on obligations and risks, and requiring service results to be presented separately from finance income or expense.  It applies to all insurance contracts issued, irrespective of the type of entity issuing the contracts, so not relevant only for insurance companies. Entities will need to consider carefully whether any contractual obligations entered into meet the definition of an insurance contract. If that is the case, entities will need to determine whether they are covered by any of IFRS 17's specific scope exclusions.

### B. Good Practice Exchange

The Wales Audit Office's GPX helps public services improve by sharing knowledge and practices that work. Events are held where knowledge can be exchanged face to face and resources shared online. The main areas of work are regarding financial management, public-sector staff and governance.

[Further information, including details of forthcoming GPX events and outputs from past seminars.](#)

## C. Brexit: preparations for the United Kingdom's departure from membership of the European Union

The Auditor General has reported on preparations in Wales for a 'no-deal Brexit', publishing a report in February 2019 and a follow-up letter to the External Affairs and Additional Legislation Committee in September 2019. At the time of reporting, there was a possibility that the UK would leave the EU without a Withdrawal Agreement in place (the no-deal scenario), which would potentially have had significant consequences for Welsh public services and the wider economy and society.

On 31 January 2020, the United Kingdom left the European Union on 31 January 2020 under the terms of the Withdrawal Agreement concluded between the EU and UK in October 2019. The next phase will involve negotiating and agreeing the future relationship between the UK and EU.

There will be a transition period to 31 December 2020, during which the UK will continue to participate in EU programmes and follow EU regulations. The Withdrawal Agreement provides for the transition period to be extended by up to two years, with the agreement of the UK and EU. The deadline for agreeing to extend the transition period is 30 June 2020. The UK Government has said that it does not intend to extend the transition period.

Despite there being an agreement on the terms of withdrawal, there remain some significant uncertainties:

- given the very tight timetable for reaching agreement, there is a possibility of the UK leaving the transition period at the end of 2020 without an agreement about the future relationship in place. In this scenario many of the issues previously identified around a 'no-deal Brexit', such as disruption to supply chains, would arise again.
- the UK Government's position of seeking a future relationship based on a free trade agreement (rather than a closer relationship aligned to the single market) has implications that are not yet clear but which create opportunities and risks for Wales' economy, society and environment.
- there are also significant unresolved constitutional questions around how powers in areas where devolved governments were directly applying EU law, such as regional development and agriculture, will be exercised across the UK after the transition period.

In light of these uncertainties, the Auditor General will continue to keep a watching brief over developments and will make a decision later in the year as to what, if any, further work is required to look at public bodies' preparations for either a new relationship or a no-trade deal exit from the transition period.

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