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Dear Darren and Nigel

### 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 5 March 2020

In light of the above, there are some aspects of the audit plan we issued to you on 5 March 2020 that need to be updated. We set out the key issues in the following paragraphs.

### 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 disappplied 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 Gwent Police 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 2** 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, audited bodies 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.
- 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.

However, we must continue to undertake our audit work in accordance with auditing standards. We will seek to obtain sufficient audit evidence required to form unqualified audit opinions on the financial statements.

### **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.

We will continue to liaise closely with you and your finance team regarding the timetable for the production and audit of the draft accounts. Based on recent discussions, we understand that the four police forces in Wales are working together to agree a date on which they will all publish their draft accounts. This is likely to be towards the end of June/July. However, we know that Gwent Police are keen to produce an auditable draft account as close as possible to the originally agreed date of 8 June and we will do our best to commence our work as soon after this date as we can.

In carrying out our work, we will be as flexible as we can against what will doubtless be a fast-changing backdrop. My assessment is that our ability to complete the audit effectively within a revised timetable 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.

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, eg public access to the authority's accounting records.

Over the coming weeks, we will agree with you an appropriate timetable for public inspection which takes account of the date on which the accounts will be available, when lockdown restrictions have been sufficiently relaxed and the practicalities of enabling public inspection of the published accounts.

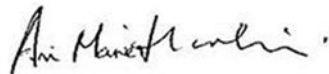
### **Programme of performance work**

Our annual audit plan also set out a programme of performance audit work at the Gwent Police. On 18 March 2020, the Auditor General wrote to the Police and Crime Commissioner for Gwent and the Chief Constable for Gwent Police 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 ongoing 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.

In the meantime, if you have any questions, please contact one of our audit team.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ann-Marie Harkin'.

Ann-Marie Harkin  
Engagement Director

## Annex A: Amended financial statement audit risks

The following exhibit replaces **Exhibit 2** in the audit plan issued on 5 March 2020.

### Financial statements audit risks

This table summarises the key financial audit risks identified at the planning stage of the audit

Audit risk	Proposed audit response
<b>Significant risks</b>	
<p><b>Impact of COVID-19 – general risks</b> The COVID-19 national emergency is likely to have a significant impact on Gwent Police and its accounts production process. Potential risks include:</p> <p><b>Subsequent events</b> Gwent Police are unlikely to prepare its accounts in accordance with the timetable laid down by the Accounts and Audit (Wales) Regulations 2014. The shifting reporting deadline 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. For example, significant movements to asset and pension balances.</p> <p><b>Use of estimates</b> The uncertainties and delays caused by the UK-wide lockdown may result in actual data being unavailable and greater use of estimates in preparing he accounts.</p>	<p>My audit team will continue to work closely with the Finance Team to address the risks identified. We will maintain ongoing dialogue with the Finance Team and work flexibly to ensure that the audit is conducted as smoothly and efficiently as possible. In particular:</p> <p><b>Subsequent events</b> 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 also consider if there are areas that may require management to provide further evidence due to the fast-changing nature of this issue.</p> <p><b>Use of estimates</b> We will ensure that appropriate changes been made to recognise any enhanced uncertainty in the calculation of accounting estimates (including impairment calculations). We will also consider whether assumptions are appropriate in the circumstances.</p>

Audit risk	Proposed audit response
<p><b>Delays in the production and audit of draft accounts</b></p> <p>There are a number of factors that may contribute to such delays, including:</p> <ul style="list-style-type: none"> <li>the extent to which remote working and auditing is possible if the current lockdown restrictions are not lifted;</li> <li>the continued availability of audited body staff to respond promptly to audit queries;</li> <li>the continued availability of Audit Wales staff to conduct the audit work; and</li> <li>the ability of those charged with governance to convene (potentially on a virtual basis) to approve accounts.</li> </ul>	<p><b>Delays in the production and audit of draft accounts</b></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>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>
<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</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>

Audit risk	Proposed audit response
<p>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><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. 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>
<b>Other audit risks</b>	
<p><b>IAS19 pension liabilities</b></p> <p>In many cases, actuaries use 31 December / 29 February investment values for the purpose of calculating 31 March net pension liabilities.</p> <p>The crisis in the financial markets may have had a significant impact upon Fund assets at the balance sheet date. Therefore, there is a risk that pension liabilities may be materially understated.</p>	<p>My audit work will consider:</p> <ul style="list-style-type: none"> <li>• the basis for the valuation of pension fund assets and liabilities; and</li> <li>• actuarial assumptions that underpin the IAS19 valuations.</li> </ul> <p>Our audit process includes the use of a consulting actuary to provide audit assurance over the methodology and assumptions used by actuaries in providing date for IAS19 disclosures. We will review your actuary’s IAS19 reports and our consulting actuary’s assessment and</p>



Audit risk	Proposed audit response
	discuss any concerns with you at an early stage.
<p><b>Langford judgement</b>  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>  The introduction of IFRS 16 Leases has been deferred until 2021-22.</p>	<p>My team will roll forward any knowledge gained through audit work already undertaken to assess Gwent Police's preparedness for the introduction of the new standard to our 2021-22 audit planning.</p>
<p><b>New Headquarters Capital Build</b>  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 August 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>

Audit risk	Proposed audit response
<p><b>Early repayment of the PFI scheme</b>  On 31 January 2020, Gwent Police paid £7.2 million to terminate the Ystrad Mynach Police station PFI scheme. 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>

## 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 [31 May/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 [31 May/15 June].”

The guidance also notes that the accounts should be published by 31 July/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 Police and Crime Commissioner for Gwent and Chief Constable of Gwent Police 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 31 May 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 Police and Crime Commissioner for Gwent and Chief Constable of Gwent Police 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 31 May 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, Police and Crime Commissioner for Gwent and Chief Constable of Gwent Police approve and publish the audited statement of accounts. The Regulations required that this be completed by 31 July 2020.

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

**OR**

Due to the COVID-19 outbreak, Police and Crime Commissioner for Gwent and Chief Constable of Gwent Police 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.