



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# 2019 Audit Plan – **Bridgend County Borough Council**

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Further information on this is provided in [Appendix 1](#).

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# 2019 Audit Plan

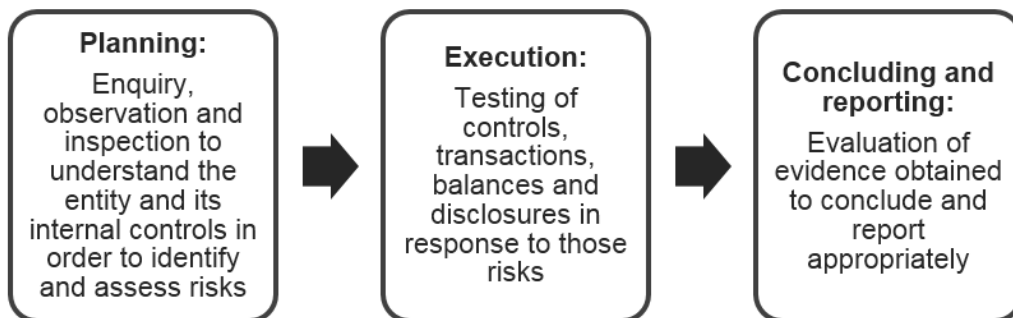
## Summary

- 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, the Local Government (Wales) Measure 2009 (the Measure), Wellbeing of Future Generations (Wales) Act 2015, the Local Government Act 1999, and the Code of Audit Practice, namely to:
  - examine and certify whether your financial statements are 'true and fair';
  - assess whether you have made proper arrangements for securing economy, efficiency and effectiveness in the use of resources;
  - audit and assess whether you have discharged the duties and met requirements of the Measure; and
  - undertake studies to enable me to make recommendations for improving economy, efficiency and effectiveness or for improving financial or other management arrangements.
- 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. I can confirm that there have been no limitations imposed on me in planning the scope of this audit. My responsibilities, along with those of management and those charged with governance, are set out in [Appendix 1](#).

## Audit of the financial statements

- 3 It is my responsibility to issue a certificate and report on the financial statements which includes an opinion on their 'truth and fairness'. This provides assurance that the financial statements:
  - 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.
- 4 I also consider whether Bridgend County Borough Council (the Council) has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and report by exception if the Annual Governance Statement does not comply with requirements.
- 5 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



6 The risks of material misstatement which I consider to be significant and which therefore require special audit consideration, are set out in [Exhibit 2](#) along with the work I intend to undertake to address them. It also includes other key areas of audit attention on which my team will be focusing.

Exhibit 2: financial audit risks and other key areas of audit attention

Financial audit risk	Proposed audit response
<b>Significant risks</b>	
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].	My audit team will: <ul style="list-style-type: none"> <li>• test the appropriateness of journal entries and other adjustments made in preparing the financial statements;</li> <li>• review accounting estimates for biases;</li> <li>• evaluate the rationale for any significant transactions outside the normal course of business; and</li> <li>• any additional procedures to address any specific risks of management override which are not addressed by the mandatory work above.</li> </ul>

Financial audit risk	Proposed audit response
<p>We have identified certain disclosures within the financial statements as being 'material by nature' given the sensitivities around their disclosure.</p> <p>Specific risk areas include, by way of example, the accuracy and completeness of:</p> <ul style="list-style-type: none"> <li>• certain transactions with related parties; and</li> <li>• the disclosure of senior officers' remuneration, pension, and any exit packages.</li> </ul> <p>With regard to the Council's senior officers, there have been a number of changes during 2018-19 and there is a risk that the Council does not disclose them accurately in the financial statements.</p>	<p>My audit team will undertake detailed testing in the areas that I consider to be material by nature.</p> <p>For 2018-19 my testing of senior officers' remuneration, and their disclosure in the financial statements, will include the verification of leavers, starters, and movements.</p>
Other areas of audit attention	
<p>IFRS 9 financial instruments applies from 1 April 2018 and brings in a new principles-based approach for the classification and measurement of financial assets. It also introduces a new impairment methodology for financial assets based on expected losses rather than incurred losses. This will result in earlier recognition of expected credit losses and will impact on how the bad debt provision is calculated.</p> <p>IFRS 15 revenue from contracts with customers introduces a principles-based five-step model for recognising revenue arising from contracts with customers. It is based on a core principle requiring revenue recognition to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration a body expects to be entitled to, in exchange for those goods or services. It will also require more extensive disclosures than are currently required.</p>	<p>My audit team is assessing, with the Council's finance officers, the likely impacts of the new IFRSs and undertake work to respond to any identified risks of material misstatement.</p>

Financial audit risk	Proposed audit response
<p>City deals are arrangements negotiated with government that give greater accountability for actions in return for new powers to help encourage growth and jobs. The Cardiff Capital Region City Deal (the City Deal) involves ten local authorities. All participating authorities ratified the City Deal on 1 March 2017.</p> <p>The authorities have established Cardiff Capital Region, which is a joint committee (the Regional Cabinet) to oversee delivery of a range of programmes designed to increase connectivity and to improve physical and digital infrastructure over the course of 20 years. The City Deal includes funding of £734 million for the South Wales Metro, of which over £500 million is provided by the Welsh Government and £125 million from the UK Government. This scheme is the responsibility of Welsh Government.</p> <p>In addition, the UK Government has provided a £375 million contribution, and the ten local authorities have agreed a commitment to fund a combined total of £120 million as part of the Wider Investment Fund. This significant programme will have financial, governance and delivery risks that need to be managed. There will be a number of accounting issues to address including the potential consolidation of the Regional Cabinet Joint Committee's financial statements.</p> <p>Thus far, one city deal project has been approved. This project involves a special purpose vehicle, CSC Foundry Ltd, to acquire and develop the former LG factory site in Newport. CSC Foundry Ltd is a wholly owned subsidiary that is consolidated into the Regional Cabinet Joint Committee's financial statements.</p>	<p>My audit team will liaise with the Council, and the auditors of the Regional Cabinet Joint Committee's financial statements, to confirm that the accounting treatment in the Council's 2018-10 financial statements is appropriate.</p>

- 7 I do not seek to obtain absolute assurance on the truth, fairness and regularity 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 financial statements being misled. The quantitative level at which I judge such misstatements to be material for the Council is calculated as 1% of gross expenditure. On this basis my current planning materiality is £4.5 million. I review my levels of materiality throughout the audit, for example when the Council presents me with its draft financial statements.
- 8 Whether I judged an item to be material can also be affected by certain qualitative issues such as legal and regulatory requirements, or areas of the financial statements that I consider to be of interest to the reader that I therefore judge to be sensitive. I set significantly lower levels of materiality for such areas, which include for example the remuneration<sup>1</sup> of senior officers, and certain related party disclosures.
- 9 For reporting purposes, I will treat any misstatements below a 'trivial' level (the lower of 5% of materiality or £100,000) as not requiring consideration by those charged with governance and therefore I will not report them.
- 10 My fees and planned timescales for completion of the audit are based on the following assumptions:
- information provided to support the financial statements is timely, to the quality expected and has been subject to quality assurance review;
  - 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 and will respond promptly to auditors' requests;
  - 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.
- 11 In addition to the audit of the financial statements, I have statutory responsibilities to receive questions and objections to the financial statements 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.
- 12 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. If I do receive questions or objections, I will discuss potential audit fees at that time.

<sup>1</sup> These disclosures typically include salary, pension benefits and any exit package costs.



## Other financial audit work

- 13 I am also responsible for the audit of the Coychurch Crematorium Joint Committee and Porthcawl Harbour. My audit fees for this work are set out in [Exhibit 4](#).

## Performance audit

- 14 I need to balance my existing, new and proposed statutory duties with the need to continue to undertake meaningful, risk-based and proportionate audits and assessments. In discharging my responsibilities, I will continue to seek to strike the most appropriate balance and add value by:
- providing assurance on the governance and stewardship of public money and assets;
  - offering insight on the extent to which resources are used wisely in meeting people's needs; and
  - identifying and promoting ways by which the provision of public services may be improved.
- 15 As it is likely that the anticipated Local Government Wales Bill will propose that the Local Government (Wales) Measure 2009 no longer applies to councils, I will continue to minimise work that focuses on the process of improvement planning.
- 16 In my audit plan for 2018 I explained that in previous years I had placed reliance on my work under the Measure to help discharge my duty under the Public Audit (Wales) Act 2004 to satisfy myself that councils have made proper arrangements to secure economy, efficiency and effectiveness (value for money) in the use of resources. Given that in the future it is likely that I will be unable to rely on my work under the Measure, in 2019-20, and subsequent years, the focus of my local performance audit programmes will continue to be more clearly aligned to discharging my Public Audit (Wales) Act 2004 duty.
- 17 In 2018-19 I undertook an examination of the extent to which you are acting in accordance with the sustainable development principle in taking steps to meet your well-being objectives. During 2019-20 I will undertake a further examination to assess the extent to which you are applying the sustainable development principle when taking steps towards meeting your well-being objectives. This will be the final piece of work I will undertake to discharge my duties under the Wellbeing of Future Generations Act at the Council prior to laying my first cyclical report with the National Assembly in 2020. During 2019-20 I will also be considering how to discharge my duties under the Act over the period 2020 to 2024 and I will seek to engage with local authorities as well as other stakeholders in developing my approach.
- 18 The Wales Audit Office also undertakes a programme of local government studies. This work is included within the Wales Audit Office estimates for funding from the Welsh Consolidated Fund and not local fees. These studies primarily lead to a national report augmented by good practice and shared learning outputs rather than by local reports. Local findings, where relevant, will be captured in improvement

assessment work and reported in annual improvement reports depending on the timing and the focus of conclusions.

- 19 Taking all these factors into consideration, my 2019-20 programme of work will comprise:

**Exhibit 3: performance audit programme**

<b>Performance audit programme</b>	<b>Brief description</b>
Improvement audit and assessment work including improvement planning and reporting audit	Audit of discharge of duty to publish an improvement plan, and to publish an assessment of performance.
Well-being of Future Generations Act (Wales) 2015 (WFG Act) examinations	Examination of the extent to which the Council has acted in accordance with the sustainable development principle when taking steps to meet its wellbeing objectives.
Assurance and Risk Assessment	Project to identify the level of audit assurance and/or where further audit work may be required in future years in relation to risks to the Council putting in place proper arrangements to secure value for money in the use of resources.
Financial Sustainability	A project common to all local councils that will assess financial sustainability in light of current and anticipated future challenges.
Transitioning to new Health Partnership	A project to assess the Council's progress in transitioning to a new Health Partnership.
Workforce Strategy	A project to review the Council's approach to workforce planning.
<b>2019-20 Local Government Studies</b>	(Funded by the Welsh Consolidated Fund) The Auditor General has recently completed his consultation on his forward work programme and new local government studies to commence in 2019-20 will be confirmed shortly.

- 20 The performance audit projects included in last year's Audit Plan, which are either still underway or which have been substituted for alternative projects in agreement with you, are set out in [Appendix 2](#).

## Certification of grant claims and returns

- 21 I have been requested to undertake certification work on the Council's grant claims and returns, which I anticipate being the claims and returns set out in [Appendix 3](#). My estimated audit fee for this work is set out in [Exhibit 3](#).
- 22 With regard to my audit of the Council's 2017-18 grant claims, I have reported the findings within my report entitled 'Audit Certification of Grants and Returns 2017-18 – Bridgend County Borough Council', which I issued in January 2019 and is due to be considered by the Council's Audit Committee on 18 April 2019.

## Fee, audit team and timetable

### Fee

- 23 Your estimated fee for 2019 is set out in [Exhibit 4](#). There have been some small changes to my fees rates for 2019. My audit teams will continue to drive efficiency in their audits to ensure any resulting increases will not be passed to you. This estimated total fee below represents a small reduction compared to your actual 2018 fee.

#### Exhibit 4: audit fee

Audit area	Proposed fee (£) <sup>2</sup>	Actual fee last year (£)
Audit of financial statement <sup>3</sup>	193,000	193,712 <sup>4</sup>
Performance audit work <sup>5</sup>	97,405	97,356
Grant certification work <sup>6</sup>	52,000	52,209
Other financial audit work <sup>7</sup>	1,900	1,913
<b>Total fee</b>	<b>344,305</b>	<b>345,190</b>

- 24 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 Council's Section 151 Officer.
- 25 Further information on my [fee scales and fee setting](#) can be found on our website.

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

<sup>3</sup> Payable November 2018 to October 2019.

<sup>4</sup> The actual fee was lower than the fee estimate of £195,700 in the 2018 Audit Plan. The Council received a rebate.

<sup>5</sup> Payable April 2019 to March 2020.

<sup>6</sup> Payable as work is undertaken

<sup>7</sup> Payable once the audits have concluded.

## Audit team

26 The main members of my team, together with their contact details, are summarised in **Exhibit 5**.

### Exhibit 5: my audit team

Name	Role	Contact number	E-mail address
Derwyn Owen <sup>8</sup>	Financial Audit Engagement Lead	02920 320500	<a href="mailto:derwyn.owen@audit.wales">derwyn.owen@audit.wales</a>
Huw Rees	Performance Audit Engagement Lead	02920 320500	<a href="mailto:huw.rees@audit.wales">huw.rees@audit.wales</a>
Mark Jones	Financial Audit Manager	02920 320631	<a href="mailto:mark.jones@audit.wales">mark.jones@audit.wales</a>
John Llewellyn	Financial Audit Team Leader	07973 699076	<a href="mailto:john.llewellyn@audit.wales">john.llewellyn@audit.wales</a>
Sara-Jane Byrne	Performance Audit Manager	07786 111385	<a href="mailto:sara-jane.byrne@audit.wales">sara-jane.byrne@audit.wales</a>
Samantha Clements	Performance Audit Lead	02920 320163	<a href="mailto:samantha.clements@audit.wales">samantha.clements@audit.wales</a>

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

## Timetable

28 I will provide reports, or other outputs as agreed, to the Council covering the areas of work identified in this document. My key milestones are set out in **Exhibit 6**.

<sup>8</sup> Engagement Director for the Council

Exhibit 6: timetable

Planned output	Work undertaken	Report finalised
<b>2019 Audit Plan</b>	December 2018 to February 2019	March 2019
<b>Financial statements work:</b> <ul style="list-style-type: none"> <li>• Audit of Financial Statements Report</li> <li>• Opinion on Financial Statements</li> </ul>	February to August 2019 See my comment to the right.	August 2019  I expect to provide my audit opinion on the financial statements soon after the Audit Committee meeting that is due to be held on 8 August 2019.
<b>Performance work:</b> <ul style="list-style-type: none"> <li>• Improvement Plan Audit</li> <li>• Assessment of Performance Audit</li> <li>• Assurance and Risk Assessment</li> <li>• WFG Act Examinations</li> <li>• Financial Sustainability</li> <li>• Transitioning to new Health Partnership</li> <li>• Workforce Strategy</li> </ul>	June 2019 November 2019 April to December 2019 April to November 2019  May to November 2019 To be agreed  To be agreed	June 2019 November 2019 February 2020 November to December 2019 December 2019 To be agreed  To be agreed
Annual Improvement Report	April 2020 to May 2020	July 2020
2020 Audit Plan	October to December 2019	January 2020

\* subject to timely clearance of draft findings with the Council.

## Future developments to my audit work

- 29 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 4](#).

# Appendix 1

## Respective responsibilities

### Audit of the financial statements

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 Council has 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 Council's system of internal control, as reported in the Annual Governance Statement and my report thereon;
- the results of other work carried out including work carried out under the Local Government (Wales) Measure 2009 (the Measure), certification of claims and returns, 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 Council's financial statements and related documents, and to ask me questions about the financial statements and, where appropriate, to challenge items in the financial statements. 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 Council 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.

## Performance audit

The Public Audit (Wales) Act 2004 requires me, by examination of the financial statements or otherwise, to satisfy myself that the body has made proper arrangements for:

- securing economy, efficiency and effectiveness in its use of resources; and
- that the body, if required to publish information in pursuance of a direction under section 47 (performance information) has made such arrangements for collecting and recording the information and for publishing it as are required for the performance of its duties under that section.

The Measure places a general duty on improvement authorities to 'make arrangements to secure continuous improvement in the exercise of [their] functions'. It also places specific requirements on authorities to set improvement objectives, and to publish annual improvement plans and assessments of performance. Improvement authorities are defined as county and county borough councils, national park authorities, and fire and rescue authorities.

The Measure also requires me to carry out an improvement assessment for each improvement authority every year, to determine whether the authority is likely to comply with its general duty and requirements of the Measure. I must also carry out an audit of whether the authority has discharged its improvement planning and reporting duties.

The Auditor General may also in some circumstances carry out special inspections (under section 21), in respect of which he will provide a report to the relevant authorities and Ministers, and which he may publish (under section 22). The Auditor General will summarise audit and assessment reports in his published Annual Improvement Report (under section 24). This will also summarise any reports of special inspections.

Section 15 of the Well-being of Future Generations Act (Wales) 2015 requires me to carry out examinations of public bodies for the purposes of assessing the extent to which it has acted in accordance with the sustainable development principle when:

- (a) setting well-being objectives; and
- (b) taking steps to meet those objectives.

I must carry out such an examination of each public body at least once during a five-year period. Before the end of the period I must report on the results of those examinations to the National Assembly.



## Appendix 2

### Performance work in last year's audit plan still in progress

Exhibit 7: performance work in last year's audit outline still in progress

Performance audit project	Status	Comment
WFG Act Examination (Regeneration in Porthcawl)	Drafting	Feedback workshop to be arranged with Council for April 2019
Financial Planning	Underway	May 2019
Corporate Safeguarding Arrangements	Planning	Postponed due to Estyn Inspection
Environmental Health	Planning	To be determined
Annual Improvement Report	Planning	July 2019

# Appendix 3

## Summary of grant claim certification work

Exhibit 8: summary of grant claim certification work

Name of scheme	Estimated expenditure
Housing Benefits (BEN01)	£48,500,000
21 <sup>st</sup> Century Schools (EDU18)	£12,000,000
Pooled Budgets - integrated family support service (HLG01)	£600,000
Pooled budgets - integrated community services (HLG01)	£4,750,000
Pooled budgets - assisted recovery in the community (HLG01)	£600,000
National Non-Domestic Rates (LA01)	£39,750,000
Summary schedule of certified Welsh Government grants (LA99)	£11,750,000
Teachers' Pension (PEN05)	£13,000,000
Social Care Workforce Development (SOC07)	£325,000
Local Transport Grant (TRA15)	£500,000

# Appendix 4

## Other future developments

### A. Forthcoming key IFRS changes

Exhibit 9: changes to IFRS standards

Standard	Effective date	Further details
IFRS 16 leases	Expected in 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.

### 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 on line. The main areas of work are regarding financial management, public-sector staff and governance.

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

In accordance with Article 50 of the Treaty of Rome, on 29 March 2019 the United Kingdom will cease to be a member of the European Union. Negotiations are continuing, and it currently remains unclear whether agreement will be reached on a transition period to 31 December 2020, or whether a 'no deal' immediate exit will take place next March.

The Auditor General has commenced a programme of work looking at the arrangements that the devolved public sector in Wales is putting in place to prepare for, and respond to, Britain's exit from the European Union. This will take the form of a high-level overview to establish what is being put in place across the Welsh public sector, and what the key issues are from the perspectives of different parts of the Welsh public service.

The Auditor General intends to carry out this initial work in two tranches. In autumn 2018, he issued a call for evidence to compile a baseline summary of arrangements being put in place. On 19 February, the Auditor General issued a report<sup>9</sup> on preparation in Wales for a 'no deal' Brexit. This will be followed up by further audit fieldwork during the rest of 2019.

<sup>9</sup> <http://www.audit.wales/publication/preparations-wales-no-deal-brexite>

Wales Audit Office  
24 Cathedral Road  
Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

E-mail: [info@audit.wales](mailto:info@audit.wales)

Website: [www.audit.wales](http://www.audit.wales)

Swyddfa Archwilio Cymru  
24 Heol y Gadeirlan  
Caerdydd CF11 9LJ

Ffôn: 029 2032 0500

Ffacs: 029 2032 0600

Ffôn testun: 029 2032 0660

E-bost: [post@archwilio.cymru](mailto:post@archwilio.cymru)

Gwefan: [www.archwilio.cymru](http://www.archwilio.cymru)