



## **AUDIT COMMITTEE – 17TH OCTOBER 2017**

**SUBJECT: 2016/17 STATEMENT OF ACCOUNTS – UNCORRECTED  
MISSTATEMENT OF £629K**

**REPORT BY: ACTING DIRECTOR OF CORPORATE SERVICES & SECTION 151  
OFFICER**

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### **1. PURPOSE OF REPORT**

- 1.1 To present details of the action required to deal with the uncorrected misstatement of £629k highlighted in the External Auditor's 'Audit of Financial Statements Report' presented to the Audit Committee on the 25th July 2017.

### **2. SUMMARY**

- 2.1 The External Auditor's 'Audit of Financial Statements Report' was presented to the Audit Committee on the 25th July 2017.
- 2.2 The Auditor's Report provided details of an uncorrected misstatement that was being looked into further by Officers. This related to ongoing work on cash balances within the Accounts and a balance of £629k held as a reconciling item within the bank reconciliation. This arose in 2013/14 when the Council was in the process of transferring its banking activities from the Co-Operative Bank to Barclays Bank, with the temporary transfer of some cash and investment balances to the Bank of Scotland.
- 2.3 The 2016/17 Statement of Accounts was presented to and agreed by Council at its meeting on the 31st July 2017. At that time the uncorrected misstatement of £629k was still being looked into by Officers and consequently it was agreed with the External Auditor that once the appropriate accounting adjustments have been agreed they would be actioned in the 2017/18 financial year. Furthermore, it was agreed that a report on the outcome of the ongoing work and resulting adjustments would be presented to the Audit Committee at its next meeting.

### **3. LINKS TO STRATEGY**

- 3.1 The Financial Accounts deal with resources available to the Authority that influence the delivery of policies and strategies.
- 3.2 Effective financial planning and robust budget management support the following Well-being Goals within the Well-being of Future Generations Act (Wales) 2015: -
- A prosperous Wales.
  - A resilient Wales.
  - A healthier Wales.
  - A more equal Wales.
  - A Wales of cohesive communities.
  - A Wales of vibrant culture and thriving Welsh Language.
  - A globally responsible Wales.

## **4. THE REPORT**

### **4.1 Background**

- 4.1.1 During the 2013/14 financial year, the Authority utilised the services of the Co-Operative Bank (Co-Op) for its day-to-day banking activities. This contractual arrangement had been in place for many years but throughout 2013/14 the financial stability of the bank had deteriorated resulting in a number of credit rating downgrades by the three main credit rating agencies. The Authority's treasury management advisor, Arlingclose, recommended that balances at the Co-Op should be kept to a minimum and that a contingency plan should be put in place in the event that the Co-Op should cease to exist.
- 4.1.2 The Authority progressed with an emergency tender to appoint a new banker in December 2013 and Barclays Bank was awarded a short-term contract. Whilst the tender process was being undertaken a risk mitigation strategy was put in place that involved diverting the Authority's incoming cash receipts to bank accounts held outside of the Co-Op. One of these accounts was the Bank of Scotland Treasury Call Account.
- 4.1.3 Due to the events taking place at the Co-Op and the speed of the deterioration, the Authority had a duty of care to notify the Education Trust Fund and Caerphilly County Borough cheque book Schools that banked with the Co-Op, and bring to their attention the potential insolvency issue and the risk of loss to their cash balances. The cheque book Schools agreed to temporarily transfer over surplus balances to the Authority for safeguarding.
- 4.1.4 The Authority had successfully switched from the Co-Op to Barclays by early February 2014. Balances continued to be held in the Bank of Scotland account until new accounts were set up with Barclays. By June 2014, the Council was fully operational with Barclays and the remaining balances held at the Bank of Scotland account had been transferred to the new Schools and Trust Fund bank accounts held with Barclays.

### **4.2 2016/17 Statement of Accounts**

- 4.2.1 During the external audit of the Authority's 2016/17 Statement of Accounts a balance of £629k was identified as being held as a reconciling item in the main cash balances in the Balance Sheet.
- 4.2.2 The £629k balance represents the residual amount of cash that had not been returned to four cheque book Schools and the Education Trust Fund, and was held in the Bank of Scotland Call Account as at the 31st March 2014. The Schools balance totalled £464k with the Education Trust Fund balance being £165k.
- 4.2.3 The External Auditor's 'Audit of Financial Statements Report' presented to the Audit Committee on the 25<sup>th</sup> July 2017 identified the £629k as an uncorrected misstatement in the Statement of Accounts with a recommendation that Officers further investigate the issue with a view to removing this as an ongoing reconciling item.
- 4.2.4 The 2016/17 Statement of Accounts was presented to and agreed by Council at its meeting on the 31<sup>st</sup> July 2017. At that time the uncorrected misstatement of £629k was still being looked into by Officers and consequently it was agreed with the External Auditor that once the appropriate accounting adjustments have been agreed they would be actioned in the 2017/18 financial year.

### **4.3 Internal Officer Review**

- 4.3.1 In line with the recommendation in the External Auditor's 'Audit of Financial Statements Report', Officers have undertaken a review of the accounting entries leading to the balance of £629k.

### Schools Balances

- 4.3.2 The year-end procedures and the Balance Sheet position of the Schools balances included within the Balance Sheet have been reviewed as at the 31<sup>st</sup> March 2014.
- 4.3.3 At 2013/14 year-end the cheque book Schools financial systems were fully reconciled to the Authority's General Ledger and cumulative carry-forward balances were agreed with the Schools. In all instances the monies held in the Bank of Scotland account were included by the Schools and consequently form part of their carry-forwards into the 2014/15 financial year.
- 4.3.4 This procedure is consistent with all years (relating to the cheque book Schools); the £464k was part of the Schools balances as at the 31<sup>st</sup> March 2014 and would ordinarily have been held within the Co-Op account at year end with no impact on the corporate position (as it was reconciled by the Education Finance Team).
- 4.3.5 Consequently, the Schools have correctly accounted for the £464k in the year-end closure for 2013/14. However, the issue has arisen because the Schools cash balance was also treated as a corporate investment balance due to the £464k being held in the Bank of Scotland Investment Account. In effect the Schools have accrued for the income which is physically being held in the Authority's Bank account, hence a double count.

### Trust Fund Balances

- 4.3.6 The year-end procedures and the Balance Sheet position of the Education Trust Fund balances included within the Balance sheet have been reviewed as at the 31<sup>st</sup> March 2014. The procedure is consistent with previous years.
- 4.3.7 The Education Trust Fund Balance Sheet position as at the 31<sup>st</sup> March 2014 was found to be correct and inclusive of the £165k balance held within the Bank of Scotland Call account. The Trust Fund had accrued for the income which was physically being held in the Authority's Bank account as at the 31<sup>st</sup> March 2014. However, Corporate Finance simultaneously treated the £165k as a corporate investment balance, hence a double count.

### Investments

- 4.3.8 Officers have reviewed investment balances held as at the 31<sup>st</sup> March 2014. The review has identified that the £629k balance held upon the Bank of Scotland call account had been included within investment balances at this date.
- 4.3.9 The review also established that the balance held within the cash balance arose in 2014/15 when the investment balance was corrected by transferring the balance to cash.

### Conclusion of Internal Review

- 4.3.10 The Schools cash balances and Education Trust Fund cash balance are outside the General Fund so the balances should not have been included within the Authority's main bank reconciliation account. This cash is accounted for in the Schools Balance Sheet and Trust Fund Balance Sheet and there has therefore been a double count of the cash. The balance of £629k held corporately does not therefore support General Fund working balances.
- 4.3.11 Given that the Balance Sheet position for the Schools and the Education Trust Fund accurately reflect the bank position as at the 31<sup>st</sup> March 2017, it is necessary to clear the duplicate entry of £629k currently held in error as a cash balance to working balances. This is on the basis that this cash balance is not available to support the current General Fund balance of £13.910m. This will reduce the General Fund balance by £629k to £13.281m.

#### **4.4 External Auditor Comments**

- 4.4.1 As a result of the audit work performed on the 2016/17 Financial Statements a £629k difference was identified as a reconciling item within the bank reconciliation. In our view, this did not represent a cash balance and we recommended that this should be removed from Cash within the Balance Sheet. This remained as an uncorrected misstatement when the accounts were signed by the Assistant Auditor General for Wales on the 3<sup>rd</sup> August 2017. We recommended that Officers investigate this difference and correct it in year.
- 4.4.2 Subsequently, Officers have reviewed this issue further and concluded that the cash balance was double counted in error in the accounts year ending the 31<sup>st</sup> March 2014. We have verified that the Trust and Schools' balances included their proportion of this fund in the Bank of Scotland Call Account as at the 31<sup>st</sup> March 2014 and all bank reconciliations are inclusive of this amount subsequent to this date. However, at this time the cash was being held by the Authority and was included within the investment balance at the 31<sup>st</sup> March 2014. This is where the double count occurred. Within the 2014/15 financial year, the £629k was incorrectly transferred to the cash and cash equivalents line in the Balance Sheet. Subsequently, this has resulted in a reconciling item within this line.
- 4.4.3 We are satisfied with the proposed adjustment based on the evidence reviewed as this cash does not support the main Authority's General Fund balances.

#### **5. WELL-BEING OF FUTURE GENERATIONS**

- 5.1 Effective financial planning and robust budget management are key elements in ensuring that the Well-being Goals within the Well-being of Future Generations Act (Wales) 2015 are met.

#### **6. EQUALITIES IMPLICATIONS**

- 6.1 There are no equalities implications arising from this report.

#### **7. FINANCIAL IMPLICATIONS**

- 7.1 The double count of the £629k cash balance means that the current General Fund balance of £13.910m has been incorrectly overstated. The proposed adjustment of £629k will ensure that the General Fund balance is corrected to £13.281m.
- 7.2 At its meeting on the 28th February 2018 Council will be presented with a report providing details of the 2018/19 budget and an updated Medium-Term Financial Plan covering the period 2018/19 to 2022/23. This report will include details of movements on the General Fund and an explanation will be provided of the adjustment that is required to correct the £629k misstatement identified as part of the audit of the 2016/17 Accounts.

#### **8. PERSONNEL IMPLICATIONS**

- 8.1 There are no direct personnel implications arising from this report.

#### **9. CONSULTATIONS**

- 9.1 There are no consultation responses that have not been reflected in this report.

## **10. RECOMMENDATIONS**

10.1 The Audit Committee is asked: -

10.1.1 To note the action required to deal with the uncorrected misstatement of £629k highlighted in the External Auditor's 'Audit of Financial Statements Report'.

10.1.2 To note that details of movements on the General Fund and an explanation of the adjustment that is required to correct the £629k misstatement will be incorporated into the 2018/19 budget report that will be presented to Council on the 28<sup>th</sup> February 2018.

## **11. REASONS FOR THE RECOMMENDATIONS**

11.1 To ensure that the uncorrected misstatement of £629k is rectified and that the current General Fund balance is correctly stated at £13.281m.

## **12. STATUTORY POWER**

12.1 Accounts and Audit (Wales) Regulations 2014.

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Background Papers:

Audit Committee 25/07/17 – Financial Statements for 2016/17.

Council 31/07/17 – Financial Statements for 2016/17.