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Councillor Barbara Jones
Interim Leader
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CC: Christina Harrhy

Dear Councillor,

Annual Audit Letter – Caerphilly County Borough Council 2018-19

This letter summarises the key messages arising from our statutory responsibilities under the Public Audit (Wales) Act 2004 and our reporting responsibilities under the Code of Audit Practice.

The Council complied with its responsibilities relating to financial reporting and use of resources

It is the Council's responsibility to:

- put systems of internal control in place to ensure the regularity and lawfulness of transactions and to ensure that its assets are secure;
- maintain proper accounting records;
- prepare a Statement of Accounts in accordance with relevant requirements; and
- establish and keep under review appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Public Audit (Wales) Act 2004 requires me to:

- provide an audit opinion on the accounting statements;
- review the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources; and
- issue a certificate confirming that we have completed the audit of the accounts.

Local authorities in Wales prepare their accounting statements in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. This Code is based on International Financial Reporting Standards. On 11 September 2019 we issued an unqualified audit opinion on the accounting statements confirming that they present a true and fair view of the Council's financial position and transactions. Our report is contained within the Statement of Accounts. The key matters arising from the accounts audit were reported to members of the Audit Committee in our Audit of Financial Statements report on the 23 July 2019 and an update subsequently to full Council on 30 July 2019.

- The Council continues to demonstrate effective arrangements in the preparation of its financial statements, enabling us to conclude our audit on 11 September 2019, ahead of the statutory deadline of 15 September. The Council has continued to provide good quality draft financial statements and accompanying working papers for audit. These were available for us to commence our audit fieldwork on 7 June 2019.
- There are two misstatements identified in the financial statements, which remain uncorrected:
 - The revaluation 5-year summary in note 23 was found to be incorrectly stated from testing performed. Assets that are held at current value were included in the 'Carried at historical cost' line. Also, the valuation movements for each year were included in the 'Valued at current value' lines when the actual balance at the 31 March should be included.
 - Our audit identified that not all assets are revalued in the 5-year cycle contrary to the Code of Practice. We reviewed all assets not captured and applied indices as provided by our auditors' expert (Gerald Eve LLP) against the last valuation date. This indicates that the value of these assets may be understated by approximately £2.8m. We consider that this represents a control weakness as well as being a potential understatement in the accounts.

Management's view was that the impact of the above was not material to the Council and will be considered for future years' property, plant and equipment valuations.

- In addition, we identified a number of other findings during the course of the financial statements audit:
 - An error on the original valuation report from the VOA was identified by management due to the Council Dwelling stock numbers used. The report has now been updated and the accounts were amended, resulting in a decrease to the revaluation gain of £2,373,360.
 - The impact of the McCloud/Sergeant ruling regarding age discrimination on pension liabilities. The legal ruling around age has implications for pension schemes where transitional arrangements on changing benefits were implemented, and this includes the Local Government Pension Scheme (LGPS). We discussed the implications of this with management and more widely with the sector as a whole to ensure consistency. Management obtained updated figures from the Pension Fund Actuary which resulted in an increase in the liability of £4,962,000 and a subsequent adjustment to the statement of accounts.
 - From testing performed it was identified that accumulated depreciation written back had been accounted for twice in the Property, Plant and

Equipment note (23). This inflated the 'revaluation to revaluation reserve' line and 'other movements in cost or valuation' line by an equal amount of £23,843,438.

- A manual adjustment of £6,177,000 was made to the face of the Comprehensive Income and Expenditure Accounts to reflect the income and expenditure split disclosed in the Housing Revenue Account. The manual adjustment had not been made during the accounts preparation to reflect the split disclosed in the Housing Revenue Account on the face of the CIES. This has no impact on the Net Expenditure or cash balances of the HRA.
- A number of other minor disclosure issues were identified and have been processed by management. To enhance the overall quality and presentation of the financial statements.
- We identified seven recommendations around Internal Audit, Provision for Doubtful Debts, Journals, Capital Commitments and Asset Revaluations.

Based on our audit work to date, we are satisfied that the Council has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources

Our consideration of the Council's arrangements to secure economy, efficiency and effectiveness has been based on the audit work undertaken on the accounts as well as placing reliance on the work completed under the Local Government (Wales) Measure 2009. Notwithstanding the above conclusion, the Auditor General is undertaking a review of Financial Sustainability that is due to report in December of this year. In addition, the WAO recently wrote to the Council expressing concern in relation to a breach of the Members' Code of Conduct and are intending to conduct a corporate governance review during the 2019-20 audit year. Any improvements required in arrangements will be contained in specific reports. More generally, the Auditor General will highlight areas where the effectiveness of arrangements to secure economy, efficiency and effectiveness in the use of resources has yet to be demonstrated or where improvements could be made when he publishes his Annual Improvement Report.

We issued a certificate confirming that the audit of the accounts has been completed on 11 September 2019.

Our work to date on certification of grant claims and returns has not identified significant issues that would impact on the accounts or key financial systems.

A more detailed report on our grant certification work will follow in January 2020 once this year's programme of certification work is complete.

The financial audit fee for 2018-19 is currently expected to be in line with the agreed fee set out in the Annual Audit Plan.

Yours sincerely



**Grant Thornton UK LLP
For and on behalf of the Auditor General for Wales**