

## Audit of Accounts Report Addendum - Caerphilly County Borough Council

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# Audit of accounts report addendum

## Introduction

- 1 This report is an addendum to our Audit of the Accounts Report that we presented to you on 12 October 2021. It sets out the recommendations arising from our audit of the 2020-21 accounts; and provides an update on the progress you have made against last year's recommendations.
- 2 We should like to take this opportunity to once again thank all your staff who helped us throughout the audit.

## Recommendations from this year's audit

- 3 Our Audit of Accounts Report highlighted that we would present a separate report to you, containing our key findings, audit recommendations, and the Council's management's responses. They are set out at **Exhibits 1 to 11**.

### Exhibit 1

#### Matter arising 1 – Some related party declarations did not include all relationships

##### Findings

As reported in our 2021 Audit Plan, we audit related party transactions and balances to a far lower level of materiality, of £5,000.

A key risk is that material disclosures are overlooked and omitted from the accounts. We therefore test that all councillors and the relevant senior officers have submitted their year-end declarations. We then test the declarations, and in doing so we check the Council's register of interests and we run searches of Companies House records.

We found that:

- ten councillors and one senior officer had omitted a relevant position/interest in their declaration, albeit we noted that seven of them related to positions held on behalf of the Council; and
- several cases where a related-party relationship had not been disclosed on the Council's register of interest.

In terms of the draft accounts submitted for audit, we found a significant level of omission, with most of omissions being material. They included transactions and year-end balances in respect of:

**Matter arising 1 – Some related party declarations did not include all relationships**

	<ul style="list-style-type: none"><li>• the Welsh Government;</li><li>• Members (seven separate disclosures); and</li><li>• two entities controlled or significantly influenced by the Council.</li></ul>
<b>Recommendation</b>	<p>The Council should strengthen its accounting process for the identification and full disclosure of related party transactions and balances.</p> <p>At the start of next year's related party process, the Council should formally remind all members, and all relevant senior officers, of the importance of declaring all influential positions and interests required per the guidance.</p> <p>The Council should strengthen the working papers submitted to support the draft related parties' note within the accounts.</p>
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	Current processes will be further reviewed to ensure that all related party disclosures are made and that the relevant note in the accounts is supported by robust working papers.
<b>Implementation date</b>	31 March 2022

## Exhibit 2

<b>Matter arising 2 – weaknesses in the quality and timeliness of the working papers supporting the draft accounts</b>	
<b>Findings</b>	<p>We agreed a 'Schedule of Deliverables' with finance officers, to ensure that all the necessary working papers were to be available to us at the start of our audit. However, despite having the agreed schedule in place, numerous papers were provided to us late. One document that supported the accounts and was particularly key to our work, was provided to us towards the end of the audit process.</p> <p>As well as some working papers being late, we found that:</p> <ul style="list-style-type: none"><li>• some working papers were poor quality;</li><li>• some did not agree to the accounts; and</li><li>• many spreadsheet-based working papers had figures typed into cells rather than formula and automated links.</li></ul> <p>These issues increased the risk of error and it made the audit more difficult and time consuming.</p>
<b>Recommendation</b>	<p>The Council should provide all working papers to a high standard and in accordance with the agreed dates.</p> <p>We will continue to work with finance officers to improve the process and documentation for 2021-22.</p>
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	<p>The audit of accounts for the last five years has been undertaken by Grant Thornton. Following the handover to Audit Wales it is inevitable that there will be initial learning from the audit process that can be bedded in for future years. Caerphilly CBC finance staff will work closely with Audit Wales to identify where improvements in the quality and timeliness of working papers can be made.</p>
<b>Implementation date</b>	31 March 2022

### Exhibit 3

<b>Matter arising 3 – Internal Audit work and the consideration of applying a limitation of scope</b>	
<b>Findings</b>	<p>Due to the impact of the COVID-19 pandemic, for 2020-21 the level of internal audit (IA) work was significantly lower than planned.</p> <p>The IA work programme was suspended for the first six months of the financial year to allow staff to assist with other COVID-19 related priorities; and it was then significantly reduced for the next six months.</p> <p>Despite the extent of the shortfall of IA work, the Head of Internal Audit did not apply a limitation of scope for 2020-21, under the provisions of Chartered Institute of Public Finance and Accountancy's (CIPFA's) Bulletin 6.</p> <p>In not applying a limitation of scope, the Head of Internal Audit took assurance from the previous year's audits. However, Bulletin 6 and its associated guidance does not set out the option of relying on previous work. The guidance centres on the internal auditor considering whether there are other potential forms of assurance undertaken by third parties, in respect of the financial year under consideration.</p>
<b>Recommendation</b>	<p>If similar circumstances arise for 2021-22 and beyond, the Council should avoid taking assurance from past audit work and focus on areas of assurance that relate to the financial year under consideration.</p> <p>If sufficient assurance of this nature cannot be gained, in accordance with the guidance, the Council should consider whether a limitation of scope is needed.</p>
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	A limitation of scope will be considered in future years if considered necessary.

**Matter arising 3 – Internal Audit work and the consideration of applying a limitation of scope**

**Implementation date**

Only relevant in the event of a limitation of scope being required.



**Exhibit 4**

<b>Matter arising 4 – numerous classification and presentational errors within the draft accounts</b>	
<b>Findings</b>	<p>As set out in October in our Audit of Accounts Report, there were a number of misstatements due to classification and presentational errors. To recap, they included:</p> <ul style="list-style-type: none"> <li>• £61.476 million adjustment between ‘Income from Council Tax, Non-domestic rates’ and ‘Government grant and contributions’.</li> <li>• £8.104 million adjustment between ‘Interest payable and similar charges’ and ‘Capital grant and contributions’.</li> <li>• £2.079 million adjustment between short-term and long-term investments.</li> <li>• £0.563 million adjustment between borrowings ‘Public Works Loan Board’ and ‘Bank Loans’.</li> </ul> <p>We also found several misstatements within the analysis of the Council’s debt maturity (when debt is due). They corrections required:</p> <ul style="list-style-type: none"> <li>• £21.47 million adjustment between 5-10 years and 15-20 years.</li> <li>• £2.279 million adjustment between 1-2 years and 2-5 years; and</li> <li>• £0.344 million adjustment between over 50 years to 45-50 years.</li> </ul>
<b>Recommendation</b>	<p>The Council should strengthen its accounts-preparation process to prevent classification and presentational errors arising in its draft accounts submitted for audit.</p>
<b>Accepted in full by management</b>	<p>Yes</p>
<b>Management response</b>	<p>Current processes will be reviewed to identify where improvements can be made to prevent classification and presentational errors arising.</p>

**Matter arising 4 – numerous classification and presentational errors within the draft accounts**

**Implementation date**

31 March 2022

**Exhibit 5**

<b>Matter arising 5 – incorrect calculation of the remuneration ratio</b>	
<b>Findings</b>	<p>We found that the calculation of the Council's median salary and remuneration ratio had excluded all school employees.</p> <p>While officers told us that the omission had been in accordance with the Council's pay policy, we explained that the Accounts and Audit (Wales) Regulations stipulate that the calculation must be based on all employees of a local government body. Officers recalculated the figures and corrected the accounts.</p>
<b>Recommendation</b>	<p>The Council should base its median salary and remuneration ratio on all its employees.</p>
<b>Accepted in full by management</b>	<p>Yes</p>
<b>Management response</b>	<p>The calculation of the median salary and remuneration ratio will include school employees for future financial years.</p>
<b>Implementation date</b>	<p>31 March 2022</p>

**Exhibit 6**

<b>Matter arising 6 – transposition error relating to the valuation of land and buildings</b>	
<b>Findings</b>	Our testing of the revaluation of the Council's property, plant and equipment found errors in respect of four properties. The errors arose because the valuer's figures did not agree to the value disclosed in the accounts. The value of land and buildings in the draft accounts was understated by £1.321 million.
<b>Recommendation</b>	The Council should strengthen its accounting process, and checks, to ensure that basic errors of this nature are avoided.
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	Significant improvements were made during the 2020/21 financial year to improve the accuracy of the fixed asset register. However, processes will continue to be reviewed to ensure that further improvements can be made to limit the potential for errors.
<b>Implementation date</b>	31 March 2022

## Exhibit 7

<b>Matter arising 7 – invalid capital commitment</b>	
<b>Findings</b>	We found an invalid capital commitment of £2.829 million, in respect of 'Hafodyrynys Air Pollution'. The commitment was invalid because it did not meet the criteria defined by the CIPFA Code. The disclosure was therefore removed from the draft accounts, as well as the prior year's disclosed commitment of £4.113 million.
<b>Recommendation</b>	The Council should strengthen its accounting process for the assessment of capital commitments, by requiring officers to verify that each commitment meets the criteria set out by the CIPFA Code.
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	Processes will be reviewed to ensure that all disclosures in the capital commitment note satisfy the requirements of the CIPFA Code.
<b>Implementation date</b>	31 March 2022

**Exhibit 8**

<b>Matter arising 8 – overstatement of the future minimum lease lessor-income</b>	
<b>Findings</b>	Our testing of the Council's minimum lease income identified a lease (Oakdale Business Park) that should not have been disclosed in the draft accounts. It should not have been disclosed because the contractual minimum rent payable to the Council is nil. The audit correction reduced the Council's future income, as a lessor, by £1.001 million.
<b>Recommendation</b>	The Council should strengthen its accounting process to ensure that it correctly identifies and quantifies minimum future receipts due to the Council as a lessor.
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	All lease arrangements will be reviewed prior to the closure of the 2021/22 accounts.
<b>Implementation date</b>	31 March 2022

**Exhibit 9**

<b>Matter arising 9 – valuation instructions were not sent to the external valuer</b>	
<b>Findings</b>	We found that the Council had not provided a formal instruction to its external valuers, the Valuation Office Agency. An instruction is an important communication that conveys a clear understanding of the Council's valuation requirements, so that the valuer understands and adheres to them.
<b>Recommendation</b>	The Council should issue a formal and timely instruction to its valuers each year.
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	<p>The Authority has a long-standing arrangement with the VOA and an email instruction was issued for 2020/21 requesting a full valuation using the Beacon approach.</p> <p>A formal instruction letter will be issued to the VOA for the 2021/22 valuation.</p>
<b>Implementation date</b>	February 2022

**Exhibit 10**

<b>Matter arising 10 – the disclosure of financial instruments, investments and borrowings is unnecessarily complex and confusing</b>	
<b>Findings</b>	<p>We found the disclosures for the Council's financial instruments to be too complex and confusing. While the financial instruments' note supports the figures in the primary statements (such as the balance sheet), we found it very difficult to identify the breakdown of the total balance.</p> <p>We also found it difficult to identify the breakdown of the Council's investments and borrowings.</p>
<b>Recommendation</b>	<p>The Council should simplify its disclosure of financial instruments, and investments and borrowings, to ensure that there is a meaningful and easily identifiable link from the supporting notes to the primary statements.</p> <p>We will work with finance officers to improve the format and content of these areas for 2021-22.</p>
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	Finance staff welcome the opportunity to work with Audit Wales to simplify the disclosure of financial instruments and investments and borrowings.
<b>Implementation date</b>	31 March 2022



**Exhibit 11**

<b>Matter arising 11 — IT password controls are weak</b>	
<b>Findings</b>	<p>The password controls are weak on two of the Council's finance systems (the E5 Ledger, Cash Management). We established that in some cases, replacement passwords are provided to people over the telephone, with inadequate security checks. This practice is not in line with the UK's National Cyber Security Centre's current guidance on password controls. Weak password-controls expose the finance systems to unauthorised access.</p>
<b>Recommendation</b>	<p>The Council should never provide replacement passwords over the telephone, without rigorously confirming a user's identity.</p> <p>The Council should strengthen its password controls, in accordance with the National Cyber Security Centre's guidance.</p>
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	<p>The instances of passwords being provided over the telephone related to the Cash Management system and this practice has now been stopped.</p> <p>Existing conventions in relation to passwords will be reviewed to ensure that they comply with the National Cyber Security Centre's current guidance.</p>
<b>Implementation date</b>	31 March 2022

## Recommendations from last year's audit

- 4 We raised 22 recommendations last year, 20 of which were accepted by management. We can confirm that management has implemented 15 of the 20 accepted recommendations.
- 5 **Exhibit 12** sets out the five recommendations that management has not implemented by the dates that were agreed last year. We comment below on the progress that management has made thus far.

### Exhibit 12: progress against last year's recommendations

Audit Year	Recommendation	Progress
2019-20	<p><b>Matter arising 4 - accuracy and review of fixed asset register</b></p> <p>The audit identified differences between the classification of assets in the general ledger and the fixed asset register (FAR). We recommend that the Council periodically undertakes a full reconciliation between the fixed asset register and the general ledger to ensure that they are consistent with each other.</p>	Management has made significant improvements, but there remain trivial differences between the FAR and the ledger.
2019-20	<p><b>Matter arising 7 – bad debt provision</b></p> <p>The bad debt provision contained a significant amount of historical data that had been brought forward from previous years. £1.2 million of the £9.9 million balance (which has increased to £1.5 million at 31 March 2021), could not be evidenced. We recommend that a detailed review of historical debtor balances is undertaken each financial year, and that the bad debt provision is considered in line with an approved policy. This recommendation was also raised in prior years</p>	While management had accepted the recommendation for improvement, no progress has been made and we reported it again, in October 2021, in this year's Audit of Accounts Report.
2019-20	<p><b>Matter 15 - IT general controls</b></p>	Management has made some progress on last

A number of recommendations have been made following the review and have been shared with management. Given the sensitivities around IT, we do not report the specific details of these within our Audit Findings Report. However, a high-level summary of key issues identified has been included below:

- significant segregation of duties conflicts and lack of organisational structure charts;
- lack of controls around user access management and monitoring; and
- lack of controls for reconciling data transmissions between the core financial system and subsidiary systems.

year's recommendations, but parts of the first bullet point, and point 2, remain outstanding.

2019-20

**Matter arising 18 - Related Parties – Declaration of Interests**

Testing identified an instance where one senior officer (Monitoring Officer) of the Council had not made their declarations of interest as at 31 March 2020. We recommend that the declarations of interest are monitored and updated on a timely basis to ensure all related parties are captured in the financial statements.

This year we found a very high level of omission in the draft accounts submitted for audit, as set out in **Exhibit 1**.

2019-20

**Matter arising 22 – Statement of Cash Flows**

Testing of the restated Statement of Cash Flows and associated notes for 2018/19 identified a non-material balance of £1.9 million that officers were not able to evidence. We recommend that the Council ensure that the Statement of Cash Flows is complete and accurately evidenced in future years.

The Council has procured the CIPFA Cashflow Toolkit, but it was not possible to adopt this approach in time for the 2020/21 accounts. Management therefore completed the 2020-21 Cash Flow Statement using the existing methods, and we found no audit errors. Management intends to update the CIPFA Toolkit to feed into the accounts from 2021-22.







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