

Audit of Accounts Report – Caerphilly County Borough Council

Audit year: 2021-22

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We currently intend to issue an unqualified audit report on your 2021-22 Statement of Accounts. There are some issues to report to you prior to their approval.

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Audit of accounts report

Introduction

- 1 This report summarises the main findings from our audit of your 2021-22 Statement of Accounts (the accounts). We have discussed the findings with the relevant officers.
- 2 Auditors can never give complete assurance that accounts are correctly stated. Instead, we work to a level of materiality. The level of materiality is set to try to identify and correct misstatements that might otherwise cause a user of the accounts into being misled. We have set the level at £7.2 million for this year's audit.
- 3 Further to the above materiality, there are some areas of the accounts that we judge to be of more importance to the reader, for which we have set a lower materiality level. This year our lower materiality levels are as follows:
 - £1,000 for senior officers' remuneration, pension and any exit packages; and
 - £5,000 for related party transactions and balances relating to senior officers and councillors, and their close family.
- 4 We have substantially completed our audit work, although an important matter to draw to your attention is that we continue.
- 5 In our professional view we have complied with the ethical standards that apply to our work. We remain independent of yourselves, and our objectivity has not been compromised in any way. There are no known relationships between us and yourselves that we believe could undermine our objectivity and independence.

Impact of COVID-19 on this year's audit

- 6 The COVID-19 pandemic has had a continuing impact on how we conduct our audit. **Exhibit 1** is provided for information purposes only, to help you understand key aspects of this year's audit process.

Exhibit 1 – impact of COVID-19 on this year's audit

Timetable	<ul style="list-style-type: none">• The statutory deadline for the preparation of the draft 2021-22 accounts (signed by the responsible finance officer) was 31 May 2022; and the statutory deadline for their audit certification by the Auditor General was 31 July 2022¹.• The draft accounts were signed and submitted to us for audit on 19 July 2022. As statutorily required, the Council published a signed statement on its website. The statement explains that
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¹ These earlier statutory dates became effective from 2020-21.

	<p>there was a delay (for a third year) beyond the statutory deadline because of ongoing consequences of COVID-19.</p> <ul style="list-style-type: none"> • However, it is important to note that for a third year the Welsh Government wrote to all councils advising them that, due to the impact of COVID-19, they could submit signed draft accounts by 31 August and have them audited and certified by 30 November. The Council therefore produced its 2021-22 accounts six weeks ahead of the Welsh Government’s deadline of 31 August. • Further to the COVID-19 extension, the Welsh Government recently moved the 2021-22 deadline for councils further back, to 31 January 2023. This extension was put in place to enable all councils to consider their adoption of new temporary accounting arrangements for infrastructure (road) assets. This arrangement is explained at paragraphs 12 to 15. • The audited accounts are scheduled to be considered for approval by the Governance and Audit Committee on 10 January 2023 and full Council on 17 January. They are scheduled to be certified by the Auditor General on 18 January.
<p>Audit evidence</p>	<p>As in recent years, we received most of the audit evidence in electronic format. Where we have been unable to use our usual audit methodology, such as our physical inspection of your property, plant and equipment, we have applied alternative audit means where necessary to obtain sufficient audit evidence.</p>

Proposed audit opinion

- 7 We intend to issue an unqualified audit opinion on this year’s accounts once you have provided us with a Letter of Representation based on that set out in **Appendix 1**. We issue a ‘qualified’ audit opinion where we have material concerns about some aspects of your accounts; otherwise, we issue an unqualified opinion.
- 8 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards. Our proposed audit report is set out in **Appendix 2**.

Significant issues arising from the audit

Uncorrected misstatements

- 9 We can confirm that there is one uncorrected non-trivial misstatement. Officers have corrected all other non-trivial misstatements that we found. The misstatement relates to expenditure of £178,000 that had been incorrectly classified as revenue expenditure. The amount related to the purchase of a front-wheeled loader vehicle, which should have been capitalised.
- 10 Officers undertook extended work to establish whether similar misclassifications existed. This work, which we reviewed, established that capital expenditure totalling £997,409 had been incorrectly disclosed as revenue expenditure. Officers decided not to correct the £997,409 misstatement because it is not material, and its correction would affect numerous notes within the accounts.

Corrected misstatements

- 11 There were misstatements in the draft accounts that management has corrected. We consider that the main corrections should be drawn to your attention, and we have therefore set them out in **Appendix 3**.

Accounting for infrastructure assets

- 12 In common with many other local authorities, the Council has taken advantage of a recent and temporary statutory relief for reduced disclosures relating to infrastructure (road) assets. This relief is permitted by an update to the Accounting Code and Specifications for Future Codes for Infrastructure Assets and the 2022 amendments to the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003.
- 13 In applying the relief the Council has not disclosed gross cost and accumulated depreciation for infrastructure assets, because historical reporting practices and resultant information deficits mean that gross cost and accumulated depreciation are not measured accurately, and, would not faithfully represent the asset position to the users of the financial statements.
- 14 The relief is a temporary expedient that are intended to allow authorities to address the information deficits and prepare robust information to support the carrying value of infrastructure assets. The temporary reliefs are only applicable for financial years up to and including 2024-25. Officers have indicated that the Council might rectify the issue ahead of 2024-25.
- 15 As the Council has applied the temporary relief, it has prepared its 2021-22 accounts in accordance with the relevant financial framework. Therefore, we do not need to amend our audit opinion.

Other matters

- 16 While our audit has progressed reasonably well, it has taken longer than planned and required additional audit resource. We will be meeting with the relevant officers to collectively agree actions for improvement, for the 2022-23 accounts.
- 17 Our 2022 Annual Audit Summary will, as usual, confirm the final audit-fee position across all our audit work².

Recommendations

- 18 After the certification of the accounts, scheduled for 18 January, we will issue a separate audit report, the Audit of Accounts Addendum Report. This report will set out our main findings and recommendations, as well as management's responses. The report will also provide an update on the Council's implementation of our previous recommendations³. The report will be considered by the Governance and Audit Committee.

² Financial and performance audits.

³ Last year we reported 12 recommendations, all of which management accepted and agreed actions and dates for implementation. We are also reviewing some of the ongoing recommendations from 2021.

Appendix 1

Letter of representation

[Required to be on the Council's letterhead]

Auditor General for Wales
Audit Wales
24 Cathedral Road
Cardiff
CF11 9LJ

24 November 2022

Representations regarding the 2021-22 financial statements

This letter is provided in connection with your audit of the financial statements of Caerphilly County Borough Council (the Council) for the year ended 31 March 2022. It is provided for the purpose of expressing an opinion on their truth and fairness and their proper preparation.

We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

Management representations

Responsibilities

We have fulfilled our responsibilities for:

- the preparation of the financial statements in accordance with legislative requirements and Code of Practice on Local Authority Accounting in the United Kingdom; in particular the financial statements give a true and fair view in accordance therewith; and
- the design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

Information provided

We have provided you with:

- Full access to:
 - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;

- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
- The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- Our knowledge of fraud or suspected fraud that we are aware of and that affects the Council and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements.
- Our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others.
- Our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
- The identity of all related parties and all the related party relationships and transactions of which we are aware.

Financial statement representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

The financial statements are free of material misstatements, including omissions. The effect of the one uncorrected misstatement of £997,409 identified during the audit is not material to the financial statements taken as a whole. We are satisfied that officers have not corrected the misstatement because it is not material, and its correction would affected numerous notes within the accounts. Officer will adjust the misstatement in the 2022-23 accounts.

19 This work, which we reviewed, established that capital expenditure totalling £997,409 had been incorrectly disclosed as revenue expenditure.

Representations by the Council

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by full Council on 24 November 2022.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Signed by:

Section 151 Officer

Date: 17 January 2023

Signed by:

Leader of the Council

Date: 17 January 2023

Appendix 2

Proposed audit report

The independent auditor's report of the Auditor General for Wales to the members of Caerphilly County Borough Council

Opinion on financial statements

I have audited the financial statements of Caerphilly County Borough Council for the year ended 31 March 2022 under the Public Audit (Wales) Act 2004.

Caerphilly County Borough Council's financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the related notes, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2021-22.

In my opinion the financial statements:

- give a true and fair view of the financial position of Caerphilly County Borough Council as at 31 March 2022 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with legislative requirements and international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2021-22.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of Caerphilly County Borough Council in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on Caerphilly County Borough Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the responsible financial officer with respect to going concern are described in the relevant sections of this report.

Other Information

The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. The Responsible Financial Officer is responsible for the other information contained within the annual report. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon. My responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Report on other requirements

Opinion on other matters

In my opinion, based on the work undertaken in the course of my audit:

- the information contained in the Narrative Report for the financial year for which the financial statements are prepared is consistent with the financial statements and the Narrative Report has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021-22;
- The information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and the Governance Statement has been prepared in accordance with guidance.

Matters on which I report by exception

In the light of the knowledge and understanding of Caerphilly County Borough Council and its environment obtained in the course of the audit, I have not identified material misstatements in the Narrative Report or the Governance Statement.

I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

- adequate accounting records have not been kept, or returns adequate for my audit have not been received from branches not visited by my team;
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit.

Responsibilities

Responsibilities of the responsible financial officer for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page xx, the responsible financial officer is responsible for the preparation of the statement of accounts, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of statements of accounts that are free from material misstatement, whether due to fraud or error.

In preparing the statement of accounts, the responsible financial officer is responsible for assessing Caerphilly County Borough Council's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

My procedures included the following:

- Enquiring of management and those charged with governance, including obtaining and reviewing supporting documentation relating to Caerphilly County Borough Council's policies and procedures concerned with:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- Considering as an audit team how and where fraud might occur in the financial statements and any potential indicators of fraud.
- Obtaining an understanding of Caerphilly County Borough Council's framework of authority as well as other legal and regulatory frameworks that Caerphilly County Borough Council operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of Caerphilly County Borough Council.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Governance and Audit Committee, and legal advisors about actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the Council;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments;
- assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and
- evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

I also communicated relevant identified laws and regulations and potential fraud risks to all audit team and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of Caerphilly County Borough Council's controls, and the nature, timing and extent of the audit procedures performed.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Certificate of completion of audit

I certify that I have completed the audit of the accounts of Caerphilly County Borough Council in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

Adrian Crompton
Auditor General for Wales
18 January 2023

24 Cathedral Road
Cardiff
CF11 9LJ

Appendix 3

Summary of corrections made

We identified the following misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

Exhibit 2: summary of corrections made

Value of correction	Nature of correction	Reason for correction
£150.243 million	<p><u>Note 24 - Property, Plant and Equipment</u></p> <ul style="list-style-type: none"> Decrease “Cost or valuation” and Accumulated Depreciation by £150.243 million. Additional narrative added. 	Adjustments required as the Council has taken advantage of a recent and temporary statutory relief for reduced disclosures relating to infrastructure (road) assets.
£32.119 million	<p><u>Note 33 – Revaluation Reserve</u> Increase ‘Revaluation Reserve’ by £32.119 million.</p> <p><u>Note 34 – Capital Adjustment Account</u> Decrease “Capital Adjustment Account” by £32.119 million.</p>	Adjustment needed after an exercise to align accounting and asset records.
£17.1 million	<p><u>Note 7 – Prior Period Adjustment (PPA)</u></p> <ul style="list-style-type: none"> Decrease Property, Plant and Equipment Cost by £17.1 million. Decrease Property, Plant and Equipment accumulated depreciation by £17.1 million. 	To remove obsolete assets from the fixed asset register and balance sheet.
£50.595 million	<p><u>Note 8 - Expenditure and Income Analysed by Nature</u></p>	A more appropriate classification to improve clarity for users of the

Value of correction	Nature of correction	Reason for correction
£25.739 million	<ul style="list-style-type: none"> • Increase 'IAS 19 Pension Costs' by £50.595 million. • Decrease "Other service expenses" by £50.595 million. <p><u>2020-21 Note 8 - Expenditure and Income Analysed by Nature</u></p> <ul style="list-style-type: none"> • Increase 'IAS 19 Pension Costs' by £25.739 million. • Decrease "Other service expenses" by £25.739 million. 	accounts. The same adjustment was required for the prior year's comparative figures.
£17,000	<p><u>Note 21 – Related Party Transactions</u></p> <ul style="list-style-type: none"> • Balance Outstanding for Homestart Caerphilly increased by £17,000. • Related Party, relationship and transaction details table - comparatives (2020/21 figures) added. 	To disclose a material related-party omission.
£4.632 million	<p><u>Note 11 - Other Operating Expenditure</u></p> <ul style="list-style-type: none"> • Increase 'Derecognition of capital expenditure' by £4.632 million. • Decrease "(Gains)/losses on the disposal of non-current assets" by £4.632 million. 	To ensure the correct classification.
£1.16 million	<p><u>Note 15 – Retirement Benefits</u></p> <ul style="list-style-type: none"> • Decrease pension liability by £1.16 million. <p><u>Note 8 - Expenditure and Income Analysed by Nature</u></p>	To correct the double counting of the pension liability.

Value of correction	Nature of correction	Reason for correction
	<ul style="list-style-type: none"> Decrease 'IAS 19 Pension Costs' by £1.16 million. 	
£1.868 million	<p><u>Note 17 - Operating Leases Authority as Lessee</u> Increase minimum lease payments due in future years by £1.868 million.</p>	Various adjustments to ensure the correct disclosure, per Accounting Code.
£75.199 million	<p><u>Analysis of liabilities by maturity</u></p> <ul style="list-style-type: none"> Increase maturing within 1-2 years by £3.026 million. Decrease 5-10 years by £75.199 million. Increase 10-15 years by £68.511 million Increase 15-20 years by £6.687 million. 	To disclose all loans in the correct maturity line.
£10.695 million	<p><u>Note 24 - Capital Commitments</u></p> <ul style="list-style-type: none"> Decrease Capital Commitments by £10.695 million. 	To correct the capital commitments disclosures. A capital commitment for 'Cwm Gwyddon' is not a capital commitment, as defined by the Accounting Code.
£1.753 million	<p><u>Note 35 – Capital Grants Unapplied</u> Increase Capital Grants Unapplied by £1.753 million.</p> <p><u>Note 34 – Capital Adjustment Account</u> Decrease "Capital Adjustment Account" by £1.753 million.</p>	To correct a number of capital grants that had been incorrectly classified as applied in year.

Value of correction	Nature of correction	Reason for correction
Various	<p>Cash Flow Statement (CFS) The following adjustments have been made to the CFS:</p> <ul style="list-style-type: none"> • Increase/(decrease) in creditors increased by £14.741 million. • Increase/(decrease) in debtors increased by £14.741 million. • Derecognition of Capital Expenditure increased by £24.516 million. • Net loss on sale of fixed assets decreased by £24.516 million. 	To correct disclosures and ensure compliance with the Accounting Code.
Various	<p><u>Note 19 - Officers' Emoluments</u> The following adjustments have been made to note 17:</p> <ul style="list-style-type: none"> • The remuneration of three officers added to the Senior Officers table. • Two employees within the £100,000-£104,999 band were removed. • Footnote added to disclose increased pay of Corporate Director for Social Services and Housing, and • Additional disclosure required for Voluntary Aided School employees. 	To correct disclosures and ensure compliance with the Accounting Code.
Additional disclosure notes required.	<p>The following notes were added:</p> <ul style="list-style-type: none"> • Agency Income and Expenditure. • Grant Income credited to the Comprehensive Income and Expenditure Statement. 	To ensure compliance with the Accounting Code.

Value of correction	Nature of correction	Reason for correction
	<ul style="list-style-type: none"> • Pooled Budgets for Health and Social Care. <p>Significant amendments we also required to Note 14 Financial Instruments.</p>	



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Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.