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Anthony O'Sullivan
Chief Executive
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Date 28 November 2012

Dear Anthony

Annual Audit Letter - DRAFT

This letter summarises the key messages arising from my statutory responsibilities under the Public Audit (Wales) Act 2004 as the Appointed Auditor and my 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 I 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 28 September 2012 I issued an unqualified audit opinion on the accounting statements stating that they present a true and fair view of the Council's financial position and transactions. My 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 my Audit of Financial Statements report on the 19 September 2012, and a more detailed report will follow in due course. A final version of the Audit of Financial Statements report containing updates on matters that were outstanding on the day of the Audit Committee was issued on 28 September 2012.

The key matters in relation to my audit of the accounts that were identified in that report are as follows:

Valuations of fixed assets

Current year valuations

The valuation of fixed assets is the most judgemental area in the accounts, primarily due to the large asset base. The approach adopted by the Council to value its property has been evolving since the introduction of IFRS. A number of meetings took place with the Council prior to the year end and completion of the draft accounts to discuss its approach.

The Council values its property by undertaking a rolling programme of revaluations over a period of five years. In addition to this, the 20 assets with the highest value as at the prior year end have been valued during the year providing coverage of approximately 25% of the net book value ("NBV") of its property in the accounts.

An approach to assessing whether the value of the property not formally valued in the year remained appropriate was agreed with us. However this approach had not been adopted by the time the draft accounts were prepared. This exercise was undertaken during the course of our audit and we received the results from the Council on 10 September. The outcome was that an adjustment of £12.9m was made to the accounts to increase the value of school properties. There was a further amount of £3.0m which remained unadjusted. This adjustment would not have affected the general fund.

The Council's fixed asset register was reviewed to identify assets which were duplicated on the register as these assets do not have a separate functionality. An adjustment of £23.6m was made to write off these assets. This adjustment did not affect the general fund.

We identified number of assets that had not been valued in the last 5 years and an adjustment was made for revaluation movements in relation to these assets amounting to a decrease in value of £0.9m. This adjustment did not affect the general fund.

Depreciation is charged on acquisitions in the year following the acquisition. Accounting standards require that depreciation be charged when the asset is brought into use. We are satisfied that the approach adopted by the Council in the current year's accounts does not give rise to a material error. The Authority is to amend its approach in future years.

Prior year valuations

Following a review of the fixed asset register, the finance team identified required amendments to valuations in the prior year accounts totalling £75.4m. This was due to inconsistencies between the valuation information, fixed asset register and the accounts. This adjustment did not affect the general fund.

Recommendations in relation to fixed assets

There should be better liaison between the finance and valuations teams, given the importance of the relationship between the two departments. It is suggested that each should also obtain a better understanding of the work undertaken by the other. Regular discussions should take place and clear objectives set with an agreed output and responsibilities for action identified.

The finance team should ensure that they reconcile fully amounts provided by valuers, the fixed asset register and the accounts.

The Council should amend its approach to determining the date of commencement of depreciation on acquisitions.

Equal pay

Independent legal advice obtained by the Appointed Auditor stated that authorities should provide for pensions contributions on the back pay element of equal pay settlements and that, on balance, authorities should provide for contributions on all but "pure" compensation (e.g. compensation for hurt feelings).

During the year the Welsh Local Government Association (WLGA) obtained legal advice on behalf of the local authorities in Wales which states that authorities are not required to provide for pension contributions on the back pay element of equal pay settlements.

There is uncertainty regarding this issue, however the Council did not provide for pension contributions based on the legal advice obtained by the WLGA and considered by it. The potential liability is £3.1m and therefore not material. The Council has disclosed the uncertainty surrounding the legal position in respect of this matter and the potential liability.

The existing provision included in the accounts was £0.9m higher than the estimated liability. No adjustment was made to reduce the provision.

Icelandic banks

Early in October 2008, the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander went into administration. The Council had £15.0 million invested in two of these institutions (Heritable and Landsbanki) with varying maturity dates and interest rates. As a result the Council assessed the recoverability of these balances making reference to existing CIPFA guidance and impaired the value of these investments.

A CIPFA LAAP Bulletin was issued during 2011/12 and the Council revised the impairment level of these investments, which was more prudent than the previous LAAP Bulletin. As there is now more certainty regarding the repayment of these investments, with confirmation that 100% of the Landsbanki investment is to be repaid, an adjustment has been made of £0.6m to increase the carrying value of these investments in line with the LAAP Bulletin.

Uncorrected misstatements

We set out below the misstatements we identified in the financial statements, which were discussed with management but were not corrected in the financial statements.

- Inclusion of a provision for the aftercare of the Trehir landfill site. The estimated cost of the aftercare is £2.7m. This item would lead to a charge against general fund, which would be offset against the release of certain earmarked reserves totalling £1.1m, giving a net charge to the general fund of £1.6m.
- The Council's share of the assets and liabilities and the financial results in joint committees has not been recognised within the Council's own Balance Sheet and Income and Expenditure Statement. The Council's share of the joint committees' aggregate assets and liabilities is a net liability of £1.7m and the impact of including the share of assets and liabilities would be to increase usable reserves by £1.1m. However as many of these arrangements are ongoing the Council does not have access to these reserves in the short term.
- The Council has included a provision for equal pay costs in its accounts. The potential future costs of equal pay claims are overprovided by £0.9m.
- There is a potential undervaluation of property of £3.0m.
- The net impact of the unadjusted items on usable reserves would therefore have been a £0.4m increase.

Other significant issues arising from the audit

We encountered significant difficulties during the audit of property, plant and equipment. Working papers in relation to valuations were not made available at the start of the audit. An agreed exercise to consider the movement in the valuation of assets that had not been formally valued in the year had not been undertaken prior to the audit. The output from this exercise was received from the Council on 6 September 2012, however errors were noted and a further review by the Council was necessary. A final analysis was received on 10 September. A reconciliation of the fixed asset register to the accounts was not received until 6 September 2012.

My 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 as part of the Improvement Assessment under the Local Government (Wales) Measure 2009. Overall, I am satisfied that the Council has appropriate arrangements in place. The Auditor General will highlight areas where the effectiveness of these arrangements has yet to be demonstrated or where improvements could be made when he publishes his Annual Improvement Report.

I issued a certificate confirming that the audit of the accounts has been completed on 28 September 2012.

The financial audit fee for 2011-12 is currently expected to be higher than the agreed fee set out in the Annual Audit Outline, due to the additional work required in respect of asset valuations.

Yours sincerely

Lynn Pamment (PricewaterhouseCoopers LLP)
For and on behalf of the Appointed Auditor

28 November 2012

cc. Nicole Scammell, Head of Corporate Finance (s151 Officer)