



24 Cathedral Road / Heol y Gadeiriau
Cardiff / Caerdydd
CF11 9LJ
Tel / Ffôn: 029 20 320500
Fax / Ffacs: 029 20 320600
Email / Epost: wales@wao.gov.uk
www.wao.gov.uk

Councillor Harry Andrews
Leader
Caerphilly County Borough Council
Penallta House
Tredomen Park
Ystrad Mynach
CF82 7PG

Date 29/11/2013
Pages 1 of 4

Dear Councillor Andrews

Annual Audit Letter

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, but there were weaknesses with regards to its 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 30 September 2013 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 17 September 2013, and an update letter on matters that were outstanding on the day of the Audit Committee issued on 25 September 2013.

The key matters in relation to my audit of the accounts that were identified in those reports are as follows;

Senior Officers' Pay

I issued a Public Interest Report on 6 March 2013 in respect of chief officer pay. The report concluded that the decision by the Senior Remuneration Committee (the Committee) on 5 September 2012 to approve the recommended pay structure set out in the Chief Executive's report to that Committee was unlawful. There were a number of matters that lead to this conclusion, which were set out in the report.

As a consequence, there is an amount included in expenditure in the 2012/13 accounts, which I considered to constitute unlawful expenditure. The Council undertook an additional review of payments to senior officers during the year. As a result of this review, further payments were identified which were considered unlawful as these decisions were made by person's without appropriate authority to do so under the Council's constitution and Scheme of Delegation.

I have concluded that the following payments were unlawful:

- Payments made to senior officers pursuant to the decision of the Senior Remuneration Committee on 6 September 2012 until the rescinding of that decision on 17 January 2013 by the Council (£188,757);
- Payments made to senior officers which were made in the period from the 17 January to 31 March which continued to be paid pursuant to the Senior Remuneration Committee decision (£81,607)
- Amounts paid to senior officers to buy-out certain allowances (£218,563)

The Council disclosed these amounts in its accounts and my audit opinion drew attention to this disclosure.

Valuation of Council Dwellings

Significant adjustments were made to the statement of accounts in respect of the valuation of council dwellings. The Council's valuers had not reviewed the suitability of the model for determining a valuation for accounting purposes prior to it being used for the draft financial statements. I have therefore recommended that the Council ensures that it appropriately utilises its internal expertise in producing accounting estimates, particularly where there is a significant level of judgement involved.

Other matters

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 not satisfied that the Council has appropriate arrangements in place. We have found significant weaknesses in the governance procedures and arrangements at the Council in the period. I issued a Report in the Public Interest on 6 March 2013 under section 22 of the Public Audit (Wales) Act 2004. I published this report to draw the public's attention to a failure in governance arrangements and inadequacies in the processes adopted by the Council to determine the pay of chief officers. The report stated:

- 'The decisions taken by the Senior Remuneration Committee were unlawful.
- There are weaknesses in the governance procedures at the Council:
 - the procedures for the first meeting of a new committee should have been more robust;
 - the report presented to the Committee lacked clarity in certain respects; and
 - the records of the meeting were inadequate.'

As a result of these failures, I concluded that the Council 'acted unlawfully with regards to this pay-setting process'. I made five recommendations around the following key areas: advertisement of meetings; conflicts of interest; procedures for new committees; records of meetings; and clarity and comprehensiveness of reports to committees. Avon and Somerset Police are currently investigating the issue.

The Auditor General has highlighted areas where the effectiveness of these arrangements has yet to be demonstrated and where improvements can be made in his Annual Improvement Report published in September 2013. The Auditor General is also currently undertaking a Special Inspection focusing on the Council's governance and decision-making arrangements.

I would like to highlight the following specific areas in this letter:

The financial outlook for the Council remains challenging and financial planning and monitoring arrangements are in place to identify the funding gap and facilitate the savings required.

The Council had generally good arrangements in place for the production and submission of its 2011/12 grant claims but there is some scope for improvement. 21% of the grant claims certified by PwC in respect of 2011/12 were subject to a qualification letter (18% in 2010/11) resulting in a net adjustment of £34.8k on the total grant claim of £175.3m. 82% of the grant claims were submitted by the Council on time. This is the same as in the previous year.

I have not yet issued a certificate confirming that the audit of the accounts has been completed as there are a number of matters raised by the public which I am currently investigating.

The financial audit fee for 2012-13 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 senior officers' pay and asset valuations.

Yours sincerely



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

29 November 2013

cc:
Stuart Rosser, Chief Executive