

# Pecyn Dogfennau Cyhoeddus

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Am bob ymholiad ynglŷn â'r agenda hwn cysylltwch â Emma Sullivan  
(Rhif Ffôn: 01443 864420 E-bost: [sullie@caerphilly.gov.uk](mailto:sullie@caerphilly.gov.uk))

**Dyddiad: 31 Gorffennaf 2019**

Annwyl Syr/Fadam,

Gweler y wybodaeth wedi'i diweddarau sydd ynghlwm mewn perthynas ag Eitem 4 ar yr Agenda a gyflwynwyd yng nghyfarfod y **Cyngor Arbennig** a gynhaliwyd yn **Siambwr y Cyngor - Tŷ Penallta, Tredomen, Ystrad Mynach ddydd Mawrth, 30 Gorffennaf, 2019** am **5.00pm**.

Yr eiddoch yn gywir,

**Christina Harrhy**  
PRIF WEITHREDWR DROS DRO

## AGENDA

4 Datganiadau Ariannol 2018/2019.

### Cylchrediad:

Holl Aelodau a Swyddogion Priodol

A greener place Man gwyrddach

Correspondence may be in any language or format | Gallwch ohebu mewn unrhyw iaith neu fformat



Gadewir y dudalen hon yn wag yn fwriadol



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

## Audit of Financial Statements Report – **Caerphilly County Borough Council**

Audit year: 2018-19

Date issued: 30 July 2019

Document reference: 1400A2018-19

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[infoofficer@audit.wales](mailto:infoofficer@audit.wales).

We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

Mae'r ddogfen hon hefyd ar gael yn Gymraeg. This document is also available in Welsh.

This document was produced by Barrie Morris and Grace Hawkins of Grant Thornton UK LLP.

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The Auditor General intends to issue an unqualified audit report on your financial statements. There are some issues to report to you prior to their approval.

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## Introduction

- 1 The Auditor General is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of Caerphilly County Borough Council at 31 March 2019 and its income and expenditure for the year then ended.
- 2 We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might result in a reader of the accounts being misled.
- 3 The quantitative levels at which we judge such misstatements to be material for Caerphilly County Borough Council are £6.5 million generally. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity.
- 4 International Standard on Auditing (ISA) 260 requires us to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
- 5 This report sets out for consideration the matters arising from the audit of the financial statements of Caerphilly County Borough Council, for 2018-19, that require reporting under ISA 260.

## Status of the audit

- 6 We received the draft financial statements for the year ended 31 March 2019 on 7 June 2019, in line with the agreed deadline. As at 30 July 2019, our audit work is partially complete, and we are completing our final testing in several areas. Other than as outlined in this report, we have not identified any issues in those areas tested and we aim to complete this work to enable the Council to approve the final version of the accounts at the special council meeting on 30 July 2019. The areas that are still outstanding as at 30 July 2019 are:

- ~~Payroll testing (not including senior officer remuneration)~~
- ~~Welfare Expenditure testing~~
- ~~Review of Pension Fund Auditor assurances and the resolution of discussions on the accounting implications of the McCloud Judgement and the subsequent completion of our review of the actuary's work and assumptions;~~
- Transactional testing of income, grants, disposals and PPE additions, and creditors (subject to final review)
- ~~Testing of journal entries~~
- Review of revaluations of property, plant and equipment
- Review of the disclosure of financial instruments

- Receipt and review of the final financial statements
- Completion of our Whole of Government Accounts audit work (September 2019 deadline. This is not covered by the audit opinion).

7 We are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. We will provide a further update on any matters arising and the current status of the outstanding issues at the Council meeting on 30 July 2019. The audit team has already discussed these issues with officers.

## Proposed audit report

- 8 Based on the audit work completed to date it is the Auditor General's intention to issue an unqualified audit report on the financial statements once you have provided us with a Letter of Representation based on that set out in [Appendix 1](#).
- 9 The proposed audit report is set out in [Appendix 2](#).

## Response to financial audit risks

- 10 Our Audit Plan, which was presented to the Audit Committee in April 2019, set out the risks relating to the Council's financial statements. As part of our interim audit, we completed work in a number of areas to consider the risks and provided an update to the Council's finance team on our work on these risks.
- 11 As part of our final accounts audit, we have reviewed the remaining areas and have set out below our final conclusions on the work completed. Our review of the current issues facing the Council has not identified any additional audit risks that we need to bring to your attention.

### Exhibit 1: response to financial audit risks

Financial audit risk – Significant Risk	Response
<p>The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• tested the appropriateness of a sample of journal entries, based on our risk assessment, and other adjustments made in preparing the financial statements;</li> <li>• reviewed accounting estimates for bias; and</li> <li>• evaluated the rationale for any significant transactions outside the normal course of business.</li> </ul> <p><del>Two</del><b>One</b> recommendations <del>have</del><b>has</b> been raised in appendix 4 as a result of <del>our</del><b>the</b> work <del>completed to date</del><b>completed to date</b>. <del>Our work in this area is still ongoing</del>.</p>

Financial audit risk – Significant Risk	Response
Valuation of property, plant and equipment (Gross)	<p>We have:</p> <ul style="list-style-type: none"> <li>• reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;</li> <li>• considered the competence, expertise and objectivity of any management experts used;</li> <li>• discussed with the valuer the basis on which the valuation is carried out and challenged the key assumptions where appropriate;</li> <li>• reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding; and</li> <li>• tested revaluations made during the year to ensure they are input correctly into the asset register and correctly reflected in the financial statements.</li> </ul> <p>Our work to date has identified <u>two</u> amendments and <u>one recommendation</u> in relation to the valuation of <u>property, plant and equipment</u>. <u>Council Dwellings that was highlighted by management. These have</u> been reported in <u>appendices 3 &amp; 4</u>. Our work is still ongoing in this area.</p>



Financial audit risk – Significant Risk	Response
<p>Valuation of Pension Fund Net Liability</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls have been implemented and operated as expected and whether they are sufficient to mitigate the risk of material misstatement.</li> <li>• evaluated the competence, expertise and objectivity of the actuaries who carried out your pension fund valuations. We gained an understanding of the basis on which the valuations were carried out.</li> <li>• undertook procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>• checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial reports from your actuaries.</li> </ul> <p><b>Our audit work to date has <u>identified one amendment in relation to the McCloud/ Sergeant judgement. This has been outlined in paragraph 14 and appendix 3.</u> <del>not identified any issues in respect of the valuation of the net defined benefit pension liability. However, discussions are ongoing with officers and the wider sector about the potential impact of legal proceedings in respect of the McCloud Judgement on the valuation of the net defined benefit pension liability. We are also awaiting a letter of assurance from the Pension Fund auditor in respect of the process and data supplied by the pension fund to the actuary.</del></b></p>
<p><b><u>Other Audit Matters</u></b></p>	
<p><b>New accounting standards</b> IFRS 9 financial instruments applies from 1 April 2018 and brings in a new principles-based approach for the classification and measurement of financial assets. It also introduces a new impairment methodology for financial assets based on expected losses rather than incurred losses. This will result in earlier recognition of expected credit losses and will impact on how the bad debt provision is calculated.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• reviewed the Council's assessment of the impact of the introduction of the new standards.</li> <li>• reviewed the disclosures in the accounts to determine if they are sufficient and reasonable against the Code of Practice on Local Authority Accounting in the United Kingdom</li> </ul>

Financial audit risk – Significant Risk	Response
IFRS 15 revenue from contracts with customers introduces a principles-based five-step model for recognising revenue arising from contracts with customers. It is based on a core principle requiring revenue recognition to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration a body expects to be entitled to, in exchange for those goods or services. It will also require more extensive disclosures than are currently required.	<b>Our work in this area is still ongoing.</b>

## Significant issues arising from the audit

### Uncorrected misstatements

- 12 There ~~is one~~~~are no~~ misstatements identified in the financial statements from our testing ~~to date~~~~so far~~, which remains uncorrected. [This is in relation to the error outlined in recommendation 6 in appendix 4.](#)

### Corrected misstatements

- 13 There are misstatements that will be 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. They are set out with explanations in [Appendix 3](#).

### Other significant issues arising from the audit

- 14 In the course of the audit, we consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you. There were some issues arising in these areas this year:
- **We have no concerns about the qualitative aspects of your accounting practices and financial reporting.**
  - **We did not encounter significant difficulties during the audit.**
  - **There was one significant matter discussed and corresponded upon with management, which we need to report to you.**
- Impact of the McCloud/Sergeant ruling re age discrimination on pension liabilities - The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where there were transitional protections given to scheme members (the McCloud and Sergeant cases respectively). The legal ruling around age also has implications for other pension schemes where transitional arrangements on changing benefits were implemented, and this includes the Local Government Pension

Scheme (LGPS). The Government had applied to the Supreme Court for permission to appeal but this was rejected in June 2019 which confirmed that there was a present obligation to pay additional benefits to scheme members affected, and that it is probable that there will be an outflow of cash as a result of this. We have been discussing the implications of this with management and more widely with the sector as a whole to ensure consistency. We have requested that management discuss the implications of the current situation with their actuary and obtain additional information from them in order to ascertain whether the net defined pension liability could be materially understated. This information was received by the Council on 12 July 2019 and a subsequent adjustment will be made to the accounts as per appendix 3.

- **There are no other matters significant to the oversight of the financial reporting process that we need to report to you.**
- **We did not identify any material weaknesses in your internal controls.**
- **There are not any other matters specifically required by auditing standards to be communicated to those charged with governance.**

## Recommendations arising from our 2018-19 financial audit work

- 15 The recommendations arising from our financial audit work are set out in [Appendix 4](#). Management has responded to them and we will follow up progress on them during next year's audit. Where any actions are outstanding, we will continue to monitor progress and report it to you in next year's report.

## Independence and objectivity

- 16 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 17 We have complied with ethical standards and in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between the Auditor General for Wales, the Wales Audit Office, Grant Thornton and Caerphilly County Borough Council that we consider to bear on our objectivity and independence.

# Appendix 1

## Final Letter of Representation

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

31 July 2019

### Representations regarding the 2018-19 financial statements

This letter is provided in connection with your audit of the financial statements of Caerphilly County Borough Council for the year ended 31 March 2019 for the purpose of expressing an opinion on their truth and fairness. 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; 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 Caerphilly County Borough 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. There ~~was one~~ ~~ere no~~ uncorrected misstatement identified as part of the audit in relation to the disclosure of the revaluation movements over the 5-year cycle. Officers will continue to review this disclosure and amend it as part of future account disclosures. ~~s-~~

### Representations by the Audit Committee

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 the Council on 30 July 2019.

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:

Signed by:

# Appendix 2

## Proposed audit report of the Auditor General to the Members of Caerphilly County Borough Council

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

#### Report on the audit of the financial statements

##### **Opinion**

I have audited the financial statements of Caerphilly County Borough Council for the year ended 31 March 2019 under the Public Audit (Wales) Act 2004.

Caerphilly County Borough Council's financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Movement on the Housing Revenue Account Statement and the Housing Revenue Account Income and Expenditure 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 the Code of Practice on Local Authority Accounting in the United Kingdom 2018-19 based on International Financial Reporting Standards (IFRSs).

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 2019 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2018-19.

##### **Basis for opinion**

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). 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 the 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**

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the responsible financial officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### **Other information**

The responsible financial officer is responsible for the other information in the annual report and accounts. The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated later in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **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 2018-19;
- The information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and the Annual 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 the council and its environment obtained in the course of the audit, I have not identified material misstatements in the Narrative Report or the Annual Governance Statement.

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

- proper accounting records have not been kept;
- 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.



## **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.

## **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 11, 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 the 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.

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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my auditor's report.

Anthony J Barrett

For and on behalf of the Auditor General for Wales

[Date]

24 Cathedral Road

Cardiff

CF11 9LJ

### **Electronic publication of financial statements**

The maintenance and integrity of the Caerphilly County Borough Council website is the responsibility of the Council. The work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Statement of Accounts since they were initially presented on the web site.

# Appendix 3

## Summary of corrections to be made to the draft financial statements which should be drawn to the attention of the Audit Committee as those charged with governance

During our audit we identified the following misstatements that will be 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 to the draft financial statements

Value of correction	Nature of correction	Reason for correction
-2,373,360	HRA housing stock revaluation adjustment	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 will be amended, resulting in a decrease to the revaluation gain. This adjustment will not impact on cash balances.
-4,962,000	Impact of McCloud/Sergeant judgement on Council's total pension liabilities.	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 have been discussing 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 has resulted in an increase in the liability and a subsequent adjustment to the statement of accounts.
<u>£23,843,438</u>	<u>Accounting for accumulated depreciation write back</u>	<u>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. This write back in already accounted for in the accumulated depreciation and impairment section of the note. This has been corrected for the current and prior year period and has a net impact of zero on the property, plant and equipment balance.</u>

Value of correction	Nature of correction	Reason for correction
<u>£6,177,000</u>	<u>HRA income and expenditure adjustment on face of CIES</u>	<u>A manual adjustment is 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.</u>
<u>Various</u>	<u>A number of other minor disclosure issues were identified and have been processed by management.</u>	<u>To enhance the overall quality and presentation of the financial statements.</u>

# Appendix 4

## Recommendations arising from our 2018-19 financial audit work

We set out all the recommendations arising from our audit with management's response to them. We will follow up these next year and include any outstanding issues in next year's audit report:

### Exhibit 3: matter arising 1

Matter arising 1 - Internal Audit - tracking of recommendations	
<b>Findings</b>	Internal Audit - tracking of recommendations
<b>Priority</b>	Medium
<b>Recommendation</b>	<p>The Audit Committee does not have oversight of the recommendations made by Internal Audit. A tracking document should therefore be produced which shows the progress of these recommendations.</p> <p>This was raised in the prior year and ongoing discussion with management has confirmed that a new audit software is to be implemented in 2019/20 that will enable such information to be reported to those charge with governance.</p>
<b>Benefits of implementing the recommendation</b>	The Audit Committee have oversight over the recommendations made and progress in clearing these.
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	The setting up of the new software system parameters and the population of datasets is well underway. It is anticipated that full test usage will begin in September 2019 with ongoing development work running in parallel.
<b>Implementation date</b>	Full test usage from September 2019.

### Exhibit 4: matter arising 2

Matter arising 2 – Journals authorisation	
<b>Findings</b>	Journals authorisation
<b>Priority</b>	High
<b>Recommendation</b>	<p>Not all journals are authorised within the authority. This was raised in prior years and management have reviewed the process and lowered the authorisation threshold to £100k as reported to the Audit Committee. However, many journals still remain that are not reviewed and authorised before being posted to the general ledger.</p>

<b>Matter arising 2 – Journals authorisation</b>	
<b>Benefits of implementing the recommendation</b>	There is currently a risk that an inappropriate or erroneous journal could be processed and impact on the financial statements
<b>Accepted in full by management</b>	No
<b>Management response</b>	At its meeting on the 16 <sup>th</sup> October 2018 the Audit Committee endorsed a recommendation by Officers to implement an authorisation threshold of £100,000 to its journal transfer software. There are no plans to review this limit at the present time.
<b>Implementation Date</b>	N/A

Exhibit 5: matter arising 3

<b>Matter arising 3 – Journals users</b>	
<b>Findings</b>	Monitoring of Journals Users
<b>Priority</b>	High
<b>Recommendation</b>	During the course of audit, we were provided with the most recent schedule of council employees that were able to access the ledger and post journals. Our testing identified an employee who had two access logins active simultaneously due to a transfer to another team during the year. These accounts have different access rights within the system. We would recommend that the access to the general ledger system and the posting of journals is monitored and a central schedule is maintained and kept up to date to record who has access to process journals. Access rights for an employee should be disabled when a transfer between departments occurs
<b>Benefits of implementing the recommendation</b>	This will reduce the risk of unauthorised personnel posting journal entries to the general ledger that will impact the financial reporting.
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	We will undertake a further review of current procedures to ensure that user profiles are updated centrally when staff changes occur.
<b>Implementation Date</b>	Immediately.

Exhibit 6: matter arising 4

<b>Matter arising 4 – Provision for doubtful debts</b>	
<b>Findings</b>	The opening balance contained a significant amount of historical data that had been brought forward from previous years.
<b>Priority</b>	Medium
<b>Recommendation</b>	As a result of the audit work performed, we recommend that a detailed review of historical debtor balances is reviewed each financial year. This recommendation was also raised in the prior year.
<b>Benefits of implementing the recommendation</b>	Reviewing the balances regularly ensures that the doubtful debt provision is a true reflection of the position at the year-end.
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	A number of historic balances were cleared during 2018/19. A further review of balances will be undertaken during the current financial year.
<b>Implementation date</b>	31 <sup>st</sup> March 2020

Exhibit 7: matter arising 5

<b>Matter arising 5 – Capital Commitments (Note 23)</b>	
<b>Findings</b>	<u>A number of the capital commitments disclosed within note 23 could not be verified to supporting evidence at year end.</u>
<b>Priority</b>	<u>Medium</u>
<b>Recommendation</b>	<u>As a result of the audit work performed, we recommend that a detailed review of the capital commitment note is undertaken at each year end, to ensure that the note accurately reflects the financial commitments made to each project.</u>
<b>Benefits of implementing the recommendation</b>	<u>The note will accurately represent the capital commitments made as at the financial year end.</u>
<b>Accepted in full by management</b>	<u>Yes</u>
<b>Management response</b>	<u>A review of capital commitments will be undertaken on an annual basis.</u>

<u>Implementation date</u>	<u>2019/20 onwards</u>
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Exhibit 8: matter arising 6

<b><u>Matter arising 6 – Revaluation 5-year summary (note 23)</u></b>	
<b><u>Findings</u></b>	<u>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.</u>
<b><u>Priority</u></b>	<u>High</u>
<b><u>Recommendation</u></b>	<u>As a result of the audit work performed, we recommend that a detailed review of the revaluation 5-year summary is completed to ensure that it correctly reflect the assets that are held at historical cost and those that are held at current value and valued on a cyclical basis. Management have declined to amend this in the 2018-19 accounts.</u>
<b><u>Benefits of implementing the recommendation</u></b>	<u>The note will accurately represent the 5-year cyclical revaluation programme.</u>
<b><u>Accepted in full by management</u></b>	<u>Yes</u>
<b><u>Management response</u></b>	<u>The disclosure note will be reviewed and further discussions will be held with the External Auditor.</u>
<b><u>Implementation date</u></b>	<u>2019/20</u>

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## Caerphilly County Borough Council

### Comprehensive Income and Expenditure Statement

Restated 31 March 2018			31 March 2019				
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure	
£000	£000	£000		£000	£000	£000	Note
177,690	(38,158)	139,532	Education and Lifelong Learning	210,306	(41,283)	169,023	
144,567	(54,656)	89,911	Social Services and Housing	145,848	(49,902)	95,946	
102,008	(27,851)	74,157	Communities	103,083	(28,120)	74,963	
108,232	(63,908)	44,324	Corporate Services	109,265	(65,288)	43,977	
80,770	(51,885)	28,885	HRA	92,185	(55,533)	36,652	
<b>613,267</b>	<b>(236,458)</b>	<b>376,809</b>	<b>Cost of Services</b>	<b>660,687</b>	<b>(240,126)</b>	<b>420,561</b>	
24,328	(3,280)	21,048	Other Operating Expenditure	33,443	(4,752)	28,691	9
31,088	(1,030)	30,058	Financing and Investment Income and Expenditure	31,220	(863)	30,357	10
	(355,453)	(355,453)	Taxation and Non-Specific Grant Income		(370,305)	(370,305)	11
		<b>72,462</b>	<b>(Surplus)/Deficit on Provision of Services</b>			<b>109,304</b>	
		(52,185)	(Surplus)/deficit on revaluation of non-current assets			92,998	32
		906	(Surplus)/deficit on revaluation of available-for-sale financial assets			(2,685)	
		(33,073)	Actuarial (gains)/losses on pensions assets/liabilities			88,141	13
		<b>(84,352)</b>	<b>Other Comprehensive (Income) and Expenditure</b>			<b>178,454</b>	
		<b>(11,890)</b>	<b>Total Comprehensive (Income) and Expenditure</b>			<b>287,758</b>	

See note 47 for details of the prior year restatement

Notes to the Core Financial Statements (continued)

**1. Accounting Policies**

**i. General Principles**

The Statement of Accounts summarises the Authority's transactions for the 2018/2019 financial year and its position at the year-end of 31 March 2019. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (Wales) Regulations 2014 in accordance with proper practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/2019 (the Code) supported by International Financial Reporting Standards (IFRS). The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. Accounting policies have been consistently applied from one year to the next, unless stated otherwise. The financial statements are prepared on a going concern basis.

**ii. Accruals of Income and Expenditure**

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses relating to services received (including those provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Revenue from grants is recognised in accordance with accounting policy note x.

**iii. Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

**iv. Exceptional Items**

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Authority's financial performance.

**Notes to the Core Financial Statements (continued)**

**Termination Benefits**

Termination benefits are amounts payable as result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis in the **Comprehensive Income and Expenditure Statement** at the earlier of when the Authority can no longer withdraw the offer of those benefits or when the Authority recognises costs for a restructuring.

When termination benefits involve the enhancement of pensions, statutory provisions require the Council Fund balance to be charged with an amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

**Post-Employment Benefits**

Employees of the Authority are members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The Local Government Pension Scheme, administered by Torfaen County Borough Council.

Both schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees working for the Authority.

However, the arrangements for the Teachers' Scheme mean that liabilities for these benefits cannot be identified specifically to the Authority. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet and the Education and Children's Service line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

**The Local Government Pension Scheme**

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Greater Gwent (Torfaen) Pension Scheme attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 2.4% (2.7% in 2017/2018) based on indicative returns of the iBoxx Sterling AA Rated Corporate Bond.
- The assets of the Greater Gwent (Torfaen) Pension Scheme attributable to the Authority are included in the Balance Sheet at their fair value:
  - Quoted securities – current bid price
  - Unquoted securities – professional estimate
  - Unitised securities – current bid price
  - Property – market value.

**Notes to the Core Financial Statements (continued)**

**6. Expenditure and Income Analysed By Nature**

*The Authority's expenditure and income is analysed as follows:*

	<u>2017-2018</u>	<u>2018-2019</u>
	<u>£000</u>	<u>£000</u>
<b>Expenditure:</b>		
Employee benefits expenses	230,133	233,485
Other service expenses	315,181	325,877
Depreciation, amortisation, impairment	90,021	124,062
Interest payments	17,816	17,416
Precepts and levies	14,352	15,046
Loss on disposal of assets	1,180	9,464
<b>Total expenditure</b>	<b>668,683</b>	<b>725,350</b>
<b>Income:</b>		
Fees, charges and other service income	(124,921)	(127,641)
Gain on disposal of assets	(3,280)	(4,752)
interest and investment income	(1,030)	(863)
Income from council tax, non-domestic rates	(76,376)	(79,861)
Government grants and contributions	(390,614)	(402,929)
<b>Total income</b>	<b>(596,221)</b>	<b>(616,046)</b>
<b>(Surplus)/Deficit on the Provision of Services</b>	<b>72,462</b>	<b>109,304</b>

Notes to the Core Financial Statements (continued)

23. Property, Plant and Equipment

	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation:											
At 1 April 2018	339,854	768,698	43,805	315,684	3,072	7,175	1,478,288	84,761			
Additions	51,674	13,734	1,840	8,624	0	43	75,915	8			
Revaluation Increases/(decreases) to Revaluation Reserve	7,787	(123,767)	0	0	0	0	(115,980)	(13,881)			
Revaluation Increases/(decreases) to Surplus/Deficit on Provision of Services	0	(25,291)	(21)	0	200	0	(25,112)	0			
Derecognitions - Disposals	0	(10,650)	0	0	0	0	(10,650)	0			
Other movements in cost or valuations	(51,675)	(5)	(123)	0	0	(7,218)	(59,021)	0			
<b>At 31 March 2019</b>	<b>347,640</b>	<b>622,719</b>	<b>45,501</b>	<b>324,308</b>	<b>3,272</b>	<b>0</b>	<b>1,343,440</b>	<b>70,888</b>			
<b>Accumulated Depreciation and impairment:</b>											
At 1 April 2018	0	(23,407)	(33,043)	(116,815)	(81)	0	(173,346)	(16,947)			
Depreciation Charge	(12,588)	(13,805)	(3,492)	(10,557)	(15)	0	(40,457)	(919)			
Other movements in Depreciation	12,588	12,442	123	0	0	0	25,153	0			
<b>At 31 March 2019</b>	<b>0</b>	<b>(24,770)</b>	<b>(36,412)</b>	<b>(127,372)</b>	<b>(96)</b>	<b>0</b>	<b>(188,650)</b>	<b>(17,866)</b>			
<b>Net Book Value at 31 March 2019</b>	<b>347,640</b>	<b>597,949</b>	<b>9,089</b>	<b>196,936</b>	<b>3,176</b>	<b>0</b>	<b>1,154,790</b>	<b>53,022</b>			
Net Book Value at 31 March 2018	339,854	745,291	10,762	198,869	2,991	7,175	1,304,942	67,814			

Notes to the Core Financial Statements (continued)

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Assets under Construction	Total Property, Plant & Equipment	PFI Assets Included in Property, Plant & Equipment
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Restated</b>								
<b>Cost or valuation:</b>								
At 1 April 2017	327,530	725,335	42,711	310,984	3,079	20,689	1,430,328	83,428
Additions	42,209	14,734	1,094	4,700	0	4,894	67,631	35
Revaluation Increases/(decreases) to Revaluation Reserve	12,324	19,896	0	0	0	0	32,220	1,298
Revaluation Increases/(decreases) to Surplus/Deficit on Provision of Services	0	596	0	0	(7)	0	589	0
Derecognitions - Disposals	0	(590)	0	0	0	0	(590)	0
Other movements in cost or valuations	(42,209)	8,727	0	0	0	(18,408)	(51,890)	0
<b>At 31 March 2018</b>	<b>339,854</b>	<b>768,698</b>	<b>43,805</b>	<b>315,684</b>	<b>3,072</b>	<b>7,175</b>	<b>1,478,288</b>	<b>84,761</b>
<b>Accumulated Depreciation and impairment:</b>								
At 1 April 2017	0	(18,693)	(29,850)	(106,472)	(70)	0	(155,085)	(16,028)
Depreciation Charge	(11,699)	(13,899)	(3,193)	(10,343)	(11)	0	(39,145)	(919)
Other movements in Depreciation	11,699	9,185	0	0	0	0	20,884	0
<b>At 31 March 2018</b>	<b>0</b>	<b>(23,407)</b>	<b>(33,043)</b>	<b>(116,815)</b>	<b>(81)</b>	<b>0</b>	<b>(173,346)</b>	<b>(16,947)</b>
<b>Net Book Value at 31 March 2018</b>	<b>339,854</b>	<b>745,291</b>	<b>10,762</b>	<b>198,869</b>	<b>2,991</b>	<b>7,175</b>	<b>1,304,942</b>	<b>67,814</b>
Net Book Value at 31 March 2017	327,530	706,642	12,861	204,512	3,009	20,689	1,275,243	67,400