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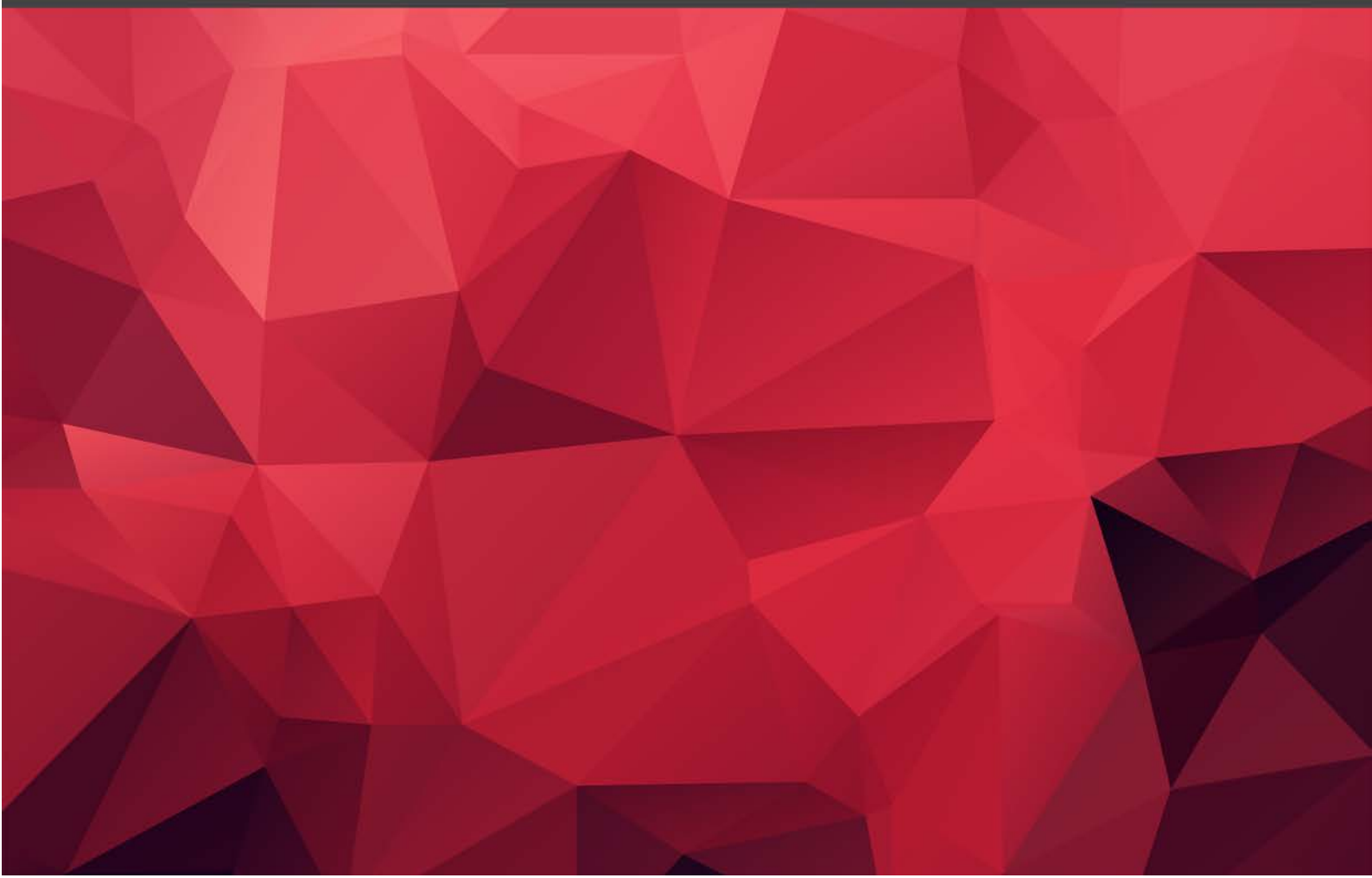
Archwilydd Cyffredinol Cymru  
Auditor General for Wales

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

Audit year: 2017-18

Date issued: 12 July 2018

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

This document was produced by Barrie Morris, Gail Turner-Radcliffe 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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# Summary report

## 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 2018 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 £6.133 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, for example, the senior officer remuneration disclosures.
- 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 2017-18, that require reporting under ISA 260.

## Status of the audit

- 6 We received the draft financial statements for the year ended 31 March 2018 on 15 June 2018, in line with the agreed deadline. As at 12 July 2018, our audit work is substantially complete, but we are completing our final testing in a small number of areas. Other than as reported in this report, we have not identified any issues in these areas 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 31 July 2018. The areas that are still outstanding are:
  - receipt and review of the final financial statements; and
  - completion of our Whole of Government Accounts audit work.
- 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. The audit team has already discussed these issues with officers.

## Proposed audit report

- 8 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 March 2018, 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>As a result of our audit work we have raised two recommendations that are detailed within <a href="#">Appendix 4</a>.</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.</li> </ul> <p>No issues were identified as part of the audit work performed.</p>
Valuation of property, plant and equipment (net)	<p>We have:</p> <ul style="list-style-type: none"> <li>• reviewed management's processes and assumptions for the calculation of the estimate;</li> <li>• reviewed the competence, expertise and objectivity of any management experts used;</li> <li>• reviewed the instructions issued to valuation experts and the scope of their work;</li> <li>• held discussions with the valuer about the basis on which valuations are 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, on a sample basis, to ensure they are input correctly into the Council's asset register and correctly reflected in the financial statements.</li> </ul> <p>Following our audit work, we have raised two recommendations and one adjustment as outlined in <a href="#">Appendices 3 &amp; 4</a>.</p>

Financial audit risk – Significant Risk	Response
Valuation of Pension Fund Net Liability	<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>As a result of the work performed, one disclosure amendment was proposed as outlined in <a href="#">Appendix 3</a>.</p>

Financial audit risk – Significant Risk	Response
<p><b>Accounting for the City Deal:</b>  City deals are arrangements negotiated with government that give greater accountability for actions in return for new powers to help encourage growth and jobs. The Cardiff Capital Region City Deal (the City Deal) involves ten local authorities.</p> <p>The authorities have established Cardiff Capital Region – a joint committee (the Regional Cabinet) to oversee delivery of a range of programmes designed to increase connectivity and to improve physical and digital infrastructure over the course of 20 years. The City Deal includes funding of £734 million for the South Wales Metro, of which over £500 million is provided by the Welsh Government and £125 million from the UK Government. In addition, the UK Government has provided a £375 million contribution, and the ten local authorities have agreed a commitment to borrow a combined total of £120 million as part of the Wider Investment Fund. This significant programme will have financial, governance and delivery risks that need to be managed. There will be a number of accounting issues to address, including potential consolidation of joint committee accounts.</p>	<p>We liaised with the external auditors of the other Local Authorities and monitored progress with the City Deal project.</p> <p>It was concluded that as the spend for 2017-18 was immaterial for Caerphilly County Borough Council, that consolidated group accounts incorporating the Joint Committee would not be required.</p> <p>One disclosure amendment was proposed in the significant judgement note as outlined in <a href="#">Appendix 3</a>.</p>



Financial audit risk – Significant Risk	Response
<p>Operating Expenses – Creditors related to core activities understated or not recorded in the correct period</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• documented our understanding of the controls operating in the creditors system;</li> <li>• performed a walk-through to confirm that the controls identified are in operation;</li> <li>• tested for completeness of operating expenses including agreeing to source documentation and reviewing invoices received after the year end, for a sample of payments;</li> <li>• obtained an understanding of the accruals process; and</li> <li>• tested for unrecorded liabilities, including review of payments made after the year-end, on a sample basis.</li> </ul> <p>No issues have been identified as a result of our audit work.</p>
<p>Employee Remuneration and benefit obligations and expenses understated</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• documented our understanding of the controls operating in the payroll system;</li> <li>• performed a walk-through to confirm that the controls identified are in operation;</li> <li>• undertaken analysis of trends and relationships to identify any anomalous areas for further investigation;</li> <li>• reviewed and tested the reconciliation of payroll system to the general ledger; and</li> <li>• reviewed a sample of payments made to former employees to ensure all costs are accurately reflected in the notes to the financial statements.</li> </ul> <p>No issues have been identified as a result of our audit work.</p>

## Significant issues arising from the audit

### Uncorrected misstatements

- 12 There are no misstatements identified in the financial statements, which remain uncorrected.

## Corrected misstatements

- 13 There are 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. 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 encounter significant difficulties during the audit.**

Debtors and Creditors – whilst the listings for debtors and creditors were provided in a timely manner, significant time was spent re-working these figures to arrive at a population from which we could select a sample. This is due to the listings provided containing vast quantities of historical data which is likely to no longer be payable or receivable by the Council. We also raised this issue last year. To assist in future years, the Council should review the historical data and remove those items which are no longer valid.

Cash – as part of the working papers, we were provided with a year-end bank reconciliation. Upon review we had difficulty in agreeing this back to the financial statements. The bank reconciliation that had been provided to us was at the end of period 12; however, the Council have further periods open where adjustments are posted which impacted the bank reconciliation. To ensure that we are provided with appropriate audit evidence that support the figures in the financial statements, the Council should provide a bank reconciliation that is consistent with the final reporting period.

Grants – as part of the audit we were provided with a breakdown of income balances. Certain general ledger codes were identified as grant income funding by the finance team. When a sample was selected from these codes, the majority of the transactions related to other general income streams and hence were not coded correctly in the general ledger.

Management should review the coding arrangements throughout the devolved service lines to ensure grant and general income is properly classified in the future.

- **There were no significant matters discussed and corresponded upon with management, which we need to report to you.**
- 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 2017-18 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 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 2018

### Representations regarding the 2017-18 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 2018 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 were no uncorrected misstatements.

### 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 31 July 2018.

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 2018 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 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 2018 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.

##### **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 12 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; and
- 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 the 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;
- 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 pages ... to ...], 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 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 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 to the draft financial statements

Value of correction	Nature of correction	Reason for correction
£2,017,000	Note 13 – Retirement Benefits Benefits Paid Figure within ‘Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets’ table was incorrectly included as a positive figure.	Figure should be disclosed as a negative to be materially correct and agree with the actuary’s report.
N/A	Note 1 - Accounting Policies were added to disclose the following: <ul style="list-style-type: none"> <li>it is the Council’s policy to treat any HRA capital expenditure as non-enhancing; and</li> <li>there is no depreciation charge in-year of acquisition, revaluation or additions and a full charge in the year of disposal.</li> </ul>	Ensures policies are captured in the financial statements correctly.
N/A	Note 2 - Critical Judgement added to disclose the reasoning for not consolidating the City Deal Joint Committee accounts into the main statements.	Ensures critical judgements are captured in the financial statements correctly.
N/A	Prior Period Adjustment disclosure added to the financial statements. This identified a reclassification error. £375,000 of income was taken from Social Services and included in Corporate Services. Additionally, £1.4 million of expenditure has been taken from Social Services, with £513,000 added to Corporate Services and £916,000 to Environment.	The restatement of the CIES required a prior period adjustment note to outline the change made between the prior year and current year financial statements as required by the code.
N/A	The Cash Flow Statement disclosure is incorrect as the positive and negative signs in the opposite manner to the code.	Ensures disclosure is in line with the code.
Various	A number of other minor disclosure issues were identified and have been processed by management.	To enhance the overall quality and presentation of the financial statements.

# Appendix 4

## Recommendations arising from our 2017-18 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

<b>Matter arising 1 – Narrative Report</b>	
<b>Findings</b>	Narrative Report – Enhanced Reporting
<b>Priority</b>	Medium
<b>Recommendation</b>	The Code sets out the suggested content for inclusion in the Narrative Report, although there is a separate paragraph which states that this is not applicable to Wales. However, the Council should consider whether inclusion in future years would offer enhanced reporting for the reader. For example, greater detail around the organisational overview and external environment, as well as governance arrangements could be included to give greater insight into the Council.
<b>Benefits of implementing the recommendation</b>	The narrative report is a summary of the organisation and enhanced reporting would give greater benefit to the reader.
<b>Accepted in full by management</b>	Partially
<b>Management response</b>	The first priority for the Finance Team is to comply with the tighter deadlines in respect of the closure of the accounts and maintaining high quality financial data and information. Currently, a number of other documents that are available to the public give an insight into the type of Authority that Caerphilly CBC is, for example the Corporate Plan. Hence, in future the narrative in the Financial Statements will signpost the reader to more detailed documents, which will also avoid duplication.
<b>Implementation date</b>	Review for 2018/19

Exhibit 4: matter arising 2

<b>Matter arising 2 – Internal Audit – Audit Plan</b>	
<b>Findings</b>	Internal Audit – Audit Plan
<b>Priority</b>	High
<b>Recommendation</b>	The information provided to the Audit Committee within the plan is very high level and does not give the Audit Committee sufficient assurance around the risks associated with each audit. We recommend that the reporting is enhanced to show details around each audit which includes the risk.
<b>Benefits of implementing the recommendation</b>	The Audit Committee receives sufficient and appropriate assurance.
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	In future the Audit Plan will include details of all planned audits for the forthcoming year along with an assessment of risk.
<b>Implementation date</b>	2019/20 Internal Audit Plan.

Exhibit 5: matter arising 3

<b>Matter arising 3 – Internal Audit – Out-turn report and Mid-Year progress report</b>	
<b>Findings</b>	Internal Audit – Out-turn report and Mid-Year progress report
<b>Priority</b>	Medium
<b>Recommendation</b>	The information included within the out-turn and mid-year progress report is more around the activity of the Internal Audit department rather than their findings. Findings are presented at a high level and are in a narrative format. We recommend that a table of audit findings is included showing the number of audits completed, the ratings, number of recommendations made and any other data which may be relevant.  We also recommend that the mid-year progress report is taken to the mid-year Audit Committee.
<b>Benefits of implementing the recommendation</b>	The Audit Committee receives sufficient and appropriate assurance
<b>Accepted in full by management</b>	Yes

<b>Matter arising 3 – Internal Audit – Out-turn report and Mid-Year progress report</b>	
<b>Management response</b>	The Internal Audit Services Annual Out-turn Report for 2016/17 included a table of issues identified for those audits ranked as in need of improvement during the year. This table will be enhanced for future mid-year and out-turn reports to provide details of all audits completed. Future mid-year progress reports will be scheduled for the next available Audit Committee meeting following 30 September each year.
<b>Implementation date</b>	October 2018

Exhibit 6: matter arising 4

<b>Matter arising 4 - Internal Audit - Audit Reports</b>	
<b>Findings</b>	Internal Audit - Audit Reports
<b>Priority</b>	Medium
<b>Recommendation</b>	<p>The Audit Committee has not received any Internal Audit reports for the year and therefore has no information around performance and issues within these reports. There is a three tier assessment consisting of:</p> <ul style="list-style-type: none"> <li>• 1 – good;</li> <li>• 2 – satisfactory; and</li> <li>• 3 – in need of improvement.</li> </ul> <p>We recommend that at least those reports with a satisfactory and those assessed as in need of improvement are provided to the Audit Committee on a quarterly basis.</p>
<b>Benefits of implementing the recommendation</b>	The Audit Committee are aware of any ongoing issues on a timely basis.
<b>Accepted in full by management</b>	Partially
<b>Management response</b>	In future, reports that identify areas in need of improvement will be presented to the Audit Committee on a quarterly basis. However, those initially assessed as satisfactory will only be presented to the Audit Committee if no improvement is evidenced in follow-up reviews or action plan reviews.
<b>Implementation date</b>	October 2018.

Exhibit 7: matter arising 5

<b>Matter arising 5 - Internal Audit - tracking of recommendations</b>	
<b>Findings</b>	Internal Audit - tracking of recommendations
<b>Priority</b>	Medium
<b>Recommendation</b>	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.
<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>	Partially
<b>Management response</b>	A process will be established to present a periodic report to the Audit Committee detailing progress against those recommendations that are material or high risk and where insufficient progress has been made after follow-up audits. This exception type of reporting will allow the Audit Committee to focus on more significant issues to allow for appropriate scrutiny.
<b>Implementation date</b>	January 2019

Exhibit 8: matter arising 6

<b>Matter arising 6 - Internal Audit – overall opinion</b>	
<b>Findings</b>	Internal Audit – overall opinion
<b>Priority</b>	High
<b>Recommendation</b>	The annual governance statement must contain an overall internal audit opinion for the financial year covered by the statement. This recommendation was also included within the 2016/17 Audit of Financial Statements Report.
<b>Benefits of implementing the recommendation</b>	<p>The Public Sector Internal Audits Standards require that ‘the Chief Internal Auditor must deliver an annual internal audit opinion that can be used by the organisation to inform its Annual Governance Statement. The annual Head of Internal Audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control. The annual report must incorporate the opinion, a summary of the work that supports the opinion, a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.’ – PSIA Standards Overall Opinions 2450.</p> <p>The Council’s Annual Governance Statement included within the 2017-18 accounts does not report an overall internal audit opinion for the 2017-18 financial year. The Corporate Governance Panel meet to discuss the AGS and each member gives their view on governance arrangements including the Internal Audit departments, which will be reflected in their annual out-turn report. This report is due to go to the Audit Committee in October. Internal Audit’s opinion is a key area of assurance gained to support the Annual Governance Statement. Whilst the Council have procedures in place to ensure the opinion feeds into the AGS, a formal opinion should be produced. This provides clarity to Members that there are no issues identified that are not included in the AGS.</p> <p>A further review of the Internal Audit Out-turn report for previous years (2014/15, 2015/16 and 2016/17) confirmed that an overall opinion was not given within either of these documents but referred to the Out-turn Document that was not presented to the Audit Committee until later in the calendar year.</p>
<b>Accepted in full by management</b>	Yes



## Matter arising 6 - Internal Audit – overall opinion

### Management response

An internal audit opinion has always formed part of the annual out-turn report and the 2016/17 out-turn report presented to the Audit Committee on 17 October 2017 included the following:

*No fundamental issues have come to light as a result of audits carried out on both the major financial systems and other financial and administrative systems and procedures. Where issues have been identified and brought to the attention of management an action planning process is in place to drive through the necessary improvements. Overall it is considered that the Council continues to operate within a control environment that should minimise the risk of loss to the Authority.*

The 2017/18 Annual Governance Statement includes the following:

*Internal Audit is responsible for monitoring the quality and effectiveness of the system of governance and internal control. A risk-based Internal Audit Plan is produced each financial year. The reporting process for Internal Audit requires a report of each audit to be submitted to the relevant Directorate. Each report includes recommendations for improvements and an agreed management action plan. The process includes follow-up reviews of agreed recommendations to ensure that they are acted upon. Following the governance reviews undertaken by the WAO over recent years the role undertaken by Internal Audit and the contribution made towards the overall governance framework is being reassessed. This process will evolve and develop over time in line with the needs of the organisation and will embrace the principles promoted within the Public Sector Internal Auditing Standards. During 2017/18 the Internal Audit Section's conformance with the Public Sector Internal Audit Standards was subject to external review which determined that with the exception of a few minor issues the Section was compliant. A report and action plan outlining the actions required to achieve conformance was presented to the Audit Committee on 10 April 2018. Work is ongoing to achieve the actions outlined in the action plan and officers are confident that these will be achieved within the deadlines set.*

*The Internal Audit Manager is a key contributor to the annual review of the Authority's governance processes and has concluded for the year 2017/18 that no fundamental issues or concerns have been identified as a result of the audit work undertaken. This view will be restated within the annual report that will be presented to the Audit Committee as required by the Council's Financial Regulations.*

<b>Matter arising 6 - Internal Audit – overall opinion</b>	
<b>Management response</b>	It is accepted that the Internal audit opinion in both the out-turn report and Annual Governance Statement can be enhanced and this will be reviewed during the 2018/19 financial year.
<b>Implementation date</b>	October 2018.

Exhibit 9: matter arising 7

<b>Matter arising 7 - Internal Audit - coverage of financial systems</b>	
<b>Findings</b>	Internal Audit - coverage of financial systems
<b>Priority</b>	Medium
<b>Recommendation</b>	The audit plan has been prepared on a risk basis with some of the core financial systems being assessed as high risk. However, these have not been audited in this financial year, nor the previous financial year. We would therefore recommend that the criteria for assessing whether an audit should be due is reviewed and updated where necessary and audit work is undertaken in the year that an area is assessed as high risk.
<b>Benefits of implementing the recommendation</b>	The Internal Audit function provides assurance to the Audit Committee. Greater assurance will be provided to the Audit Committee if the high-risk audits are completed on a more frequent basis.
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	We will review the risk assessments undertaken for core financial systems as there are a number of controls already in place. Core financial systems will be reviewed by Internal Audit in line with the revised risk assessments.
<b>Implementation date</b>	2019/20 onwards.

Exhibit 10: matter arising 8

<b>Matter arising 8 – Annual Governance Statement</b>	
<b>Findings</b>	Clarity of Annual Governance Statement (AGS) Disclosures
<b>Priority</b>	Medium
<b>Recommendation</b>	We recommended that the Council should re-visit its disclosure of governance issues to reflect the comments and recommendations made by regulators that the Council had agreed and were taking action to address. In addition, we recommend that an overall conclusion is added to the Annual Governance Statement to summarise the Council's governance arrangements and assess their effectiveness against the CIPFA/SOLACE framework.
<b>Benefits of implementing the recommendation</b>	An effective summary increased the accountability and review of the governance arrangements and brings the reporting in line with the relevant framework.
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	There are regular reports presented to the Audit Committee that provide updates in respect of progress made against regulator proposals. In the future, these reports will be presented to the Corporate Management Team prior to Audit Committee consideration. In addition, there will also be a half-yearly report to Cabinet detailing the progress made.  An overall conclusion in the Annual Governance Statement to summarise the Council's governance arrangements and assess their effectiveness against the CIPFA/SOLACE framework will be considered by the Corporate Governance Panel for 2018/19 onwards.
<b>Implementation date</b>	2018/19.

Exhibit 11: matter arising 9

<b>Matter arising 9 – Journals authorisation</b>	
<b>Findings</b>	Journals authorisation
<b>Priority</b>	High
<b>Recommendation</b>	Although journal authorisation is possible within the system and is implemented by some directorates, it is not implemented across the whole Council. We recommend that all journals are reviewed and authorised by appropriate personnel before being posted to the ledger. This recommendation was raised in 2016-17. A review was completed within the Council with the decision to keep the process unchanged. Therefore, re-raised in-year.

<b>Matter arising 9 – 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>	Due to the controlled number of finance staff with access to process journals into the ledger, this risk is considered to be limited.
<b>Management response</b>	The ability to process journals is only available to certain finance staff in the Authority. It is the consensus that the staff processing the journals in the devolved finance functions are of sufficient grade and experience to process the journals without the need for them to be authorised by a more senior officer.
<b>Implementation Date</b>	N/A

Exhibit 12: matter arising 10

<b>Matter arising 10 – 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 processed journals that had not been included within the schedule provided, meaning that there is a deficiency in the control. 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.
<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>	The employee in question moved between a number of posts during the financial year. We will update the user schedule for the individual identified and maintain and review the user schedule going forward to ensure that all staff changes are captured in a timely manner.
<b>Implementation Date</b>	Immediately

Exhibit 13: matter arising 11

<b>Matter arising 11 – Calculation of depreciation</b>	
<b>Findings</b>	Calculation of depreciation
<b>Priority</b>	High
<b>Recommendation</b>	<p>As a result of our audit findings, we recommend that management review how the Logotech Asset System calculates depreciation for revalued assets.</p> <p>As reported last year, we identified that revalued assets are being depreciated one year too quickly due to the incorrect 'Useful Economic Life' being used post revaluation, ie it takes one year off the life of the asset upon revaluation.</p> <p>Work has been completed by officers to correct this issue, with a manual adjustment correcting the majority of the asset values. However, this adjustment was not made to assets revalued in the financial year.</p>
<b>Benefits of implementing the recommendation</b>	The error was not material in-year. However, assets revalued in-year are being depreciated one year too quickly and as a result the depreciation figure charged each year is higher than expected. This has no impact on the general fund balance.
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	In accordance with the 2016/17 audit findings, work was undertaken to ensure depreciation was calculated correctly and this was achieved by way of manual adjustments to the asset register. A further review of the depreciation calculation, on revalued assets, will be undertaken in 2018/19 in conjunction with the software provider Logotech.
<b>Implementation date</b>	31 March 2019.

Exhibit 14: matter arising 12

<b>Matter arising 12 – Calculation of depreciation</b>	
<b>Findings</b>	Calculation of depreciation
<b>Priority</b>	High
<b>Recommendation</b>	One asset sampled as part of our audit work was found to have the land value included in the value used to calculate depreciation. Land is considered to have an infinite life so does not attract a depreciation charge. Therefore, its inclusion in the asset value resulted in a higher depreciation charge than expected.

<b>Matter arising 12 – Calculation of depreciation</b>	
<b>Benefits of implementing the recommendation</b>	The error was not material in-year so no adjustments were required. However, the depreciation charge is being inflated by the inclusion of the land values.
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	The asset in question is valued on an annual basis. The land and building elements of the asset have now been separated out on the asset management system; therefore the issue in relation to this asset should not arise in 2018/19. We will continue to review all asset valuations going forward to ensure that all land is classified separately.
<b>Implementation date</b>	Immediately

Exhibit 15: matter arising 13

<b>Matter arising 13 – 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.
<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>	We will undertake a review of all bad debt provisions as part of the 2018/19 accounts closure preparation in readiness for the implementation of IFRS9.
<b>Implementation date</b>	31 March 2019



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