Appendix 1

Audit of Accounts Report Addendum – Caerphilly County Borough Council

Audit year: 2021-22

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Contents

Audit of accounts report addendum

Introduction

1 This report is an addendum to our Audit of the Accounts Report, which we presented to the Governance and Audit Committee and full Council in January 2023. The report sets out the recommendations arising from our audit of the 2021-22 accounts and provides an update on management's progress with implementing past recommendations.

Recommendations from this year's audit

2 The report sets out our recommendations for improvement and management's responses. The report should be considered by the Governance and Audit Committee, and wider within the Authority as deemed necessary by members or management.

3 **Exhibits 1 to 9** set out our audit findings and recommendations, together with management's responses.

Exhibit 1: matter arising 1

Matter arising 1 – extended valuations of the Council's buildings was necessary for 2021-22, and is likely to be necessary for 2022-23, due to the high level of inflation	
Findings	As a result of our audit considerations around the high inflation rates during 2021-22, the Council was required to extend its professional valuation of its buildings. This action was particularly relevant for the Council's buildings that are valued on a depreciated-replacement-cost (DRC) basis. This basis evaluates the current cost of constructing a building, to the same condition, at the financial year-end. As the DRC basis is centred on current costs of construction, the valuation can be significantly affected by high movements in inflation. High inflation has continued throughout 2022-23 and the accounting risk therefore remains relevant to the valuation of buildings as at 31 March 2023. This area will be a key part of our 2022-23 audit.
Recommendation	The Authority should review all its assets and their last valuations and ensure that their current value as at 31 March 2023 is appropriate.

Matter arising 1 – extended valuations of the Council’s buildings was necessary for 2021-22, and is likely to be necessary for 2022-23, due to the high level of inflation	
Accepted in full by management	The Authority accepts that a high inflation environment can impact upon the value of its assets.
Management response	The Authority will undertake a materiality review/assessment of its asset base in conjunction with its internal valuers and revalue any asset categories that are anticipated to have materially changed since the last valuation date.
Implementation date	2022-23 Financial Statements.

Exhibit 2: matter arising 2

Matter arising 2 – like many councils across the UK, remedial work is required to improve the financial records that underpin the accounting for road assets	
Findings	As reported to Members in January 2023 in our Audit of Accounts Report, the Council has taken advantage of a temporary statutory relief that permits reduced accounting disclosures for infrastructure (road) assets. The temporary relief is applicable for the financial years up to and including 2024-25. The relief is intended to give councils sufficient time to tackle their information deficits; and prepare robust financial information to support accurate accounting of the Council's roads.
Recommendation	The Council should prioritise the remedial work needed to obtain and construct robust underlying records for its road assets. As part of this process, when appropriate the Council should engage with us for an audit view on any key issues that arise.
Accepted in full by management	The Authority accepts that a review is required of its current infrastructure assets in its balance sheet and the underlying records supporting those balances.
Management response	The Authority will fully review its infrastructure assets carried in the balance sheet and implement appropriate robust financial records to support these balances going forward. The Authority will engage fully with Audit Wales throughout this process to ensure the records support the balance sheet.
Implementation date	2024-25 Financial Year.

Exhibit 3: matter arising 3

Matter arising 3 – the high level of nil net-book-value fixed assets	
Findings	We found that the Council's fixed-asset-register (FAR) held assets that had a gross value of £35 million, which had been fully depreciated and therefore had nil net-book-values (NBVs). The high level of nil NBV assets increased the risk of many assets being obsolete or disposed, but nonetheless incorrectly remaining in the FAR. Our audit testing, and extended work by the Council's finance officers, established that of the £35 million, assets totalling £17.1 million were no longer used or owned by the Council. The assets totalling £17.1 million were removed from the FAR and corrected on a prior-year basis within the 2021-22 financial statements, as reported to Members in January 2023 in our Audit of Accounts Report.
Recommendation	At the financial year-end the Council should thoroughly review all assets with nil net-book-values to identify those that are no longer used or have been disposed. The Council should also strengthen its in-year procedures and ensure that the notification process by all departments to the central finance team, for obsolete or disposed assets, is fit for purpose.
Accepted in full by management	Agreed.
Management response	The Authority will formally review all fully depreciated assets for continued existence and operational capacity.
Implementation date	2022-23 Financial Statements.

Exhibit 4: matter arising 4

Matter arising 4 – lack of review and authorisation of journals, prior to posting	
Findings	As reported in some of the past audits, the Council permits no review of certain types of journals. For example, journals that have a value below £100,000 can be posted by the preparer, with no review. We had understood that corporate finance officers should not prepare and post their own journals, without prior review and authorisation. However, we found instances where material journals had been posted and authorised by the same corporate finance officer. Officers told us that certain users are considered to be 'authorising officers' who can self-review their journal postings if they exceed the £100,000 limit. Officers also told us that period 14 financial accounting journals are reviewed by the Finance Manager or Group Accountant, prior to posting to the ledger, but that the process is recorded via email and hence outside the financial ledger system.
Recommendation	The Council should review its process for the authorisation of journals and make changes to strengthen the controls, including the level of review prior to posting to the financial ledger. The Council should also introduce and distribute clear guidance to all relevant officers.
Accepted in full by management	Not fully. We will retain and reinforce the £100,000 authorisation limit.
Management response	Moving forward arrangements will be put in place to ensure that all journals over the £100,000 authorisation limit will require two officers to process and authorise the journals. The self-review of journals processed by Authorising Officers will no longer be permitted in the processing of journals over £100,000. If a journal is processed by an Authorising Officer, it will be reviewed and approved by another Authorising Officer in that authorisation group.

Matter arising 4 – lack of review and authorisation of journals, prior to posting	
	Revised guidance on the processing and authorisation of journals will be issued to relevant staff.
Implementation date	2023-24 Financial Year.

Exhibit 5: matter arising 5

Matter arising 5 – the Council has not reconciled its revaluation reserve to its fixed asset register	
Findings	We review the Council's reconciliation of its revaluation reserve to its fixed asset register (Logotech). The reconciliation is required to verify that the revaluation reserve equals the difference between historic cost and current value of fixed assets, as at 31 March 2022. However, we found that the Council does not routinely reconcile the two sources of accounting data; and we established that there was a difference of £32.119 million as at 31 March 2022. This finding resulted in a correcting audit adjustment between the revaluation reserve and the capital adjustment account, which we reported to Members in January 2023 in our Audit of Accounts Report.
Recommendation	The Council should undertake and document a reconciliation of its revaluation reserve to its Logotech fixed asset register at least annually, at the financial year-end.
Accepted in full by management	Agreed.
Management response	The Authority will review and document its reconciliation between the revaluation figures in its Fixed Asset Register and the balance on the Revaluation Reserve carried in its balance sheet.
Implementation date	2022-23 Statement of Accounts.

Exhibit 6: matter arising 6

Matter arising 6 – aspects of Internal Audit's high-level reporting to the Governance and Audit Committee are weak	
Findings	We noted that Internal Audit does not provide the Governance and Audit Committee (GAC) with a detailed Audit Plan that sets out the intended audits for the financial year ahead. Such a plan is important for the GAC Members to consider and question in committee. Due to the lack of a detailed Audit Plan (set out by audit), Internal Audit is unable to provide progress reports to GAC Members throughout the financial year, which set out the progress with, or changes to, each planned piece of audit work.
Recommendation	The Council should strengthen the reporting to the Governance and Audit Committee in respect of Internal Audit's planned audits, and progress with them during the financial year.
Accepted in full by management	Agreed.
Management response	A more detailed plan will be provided to the Committee showing planned audits and allocated resources together with allocations for other audit work such as advice and guidance, overheads and a contingency for unforeseen/unplanned work.
Implementation date	2023-24 Financial Year.

Exhibit 7: matter arising 7

Matter arising 7 – the Council stopped its monthly reconciliation of control account ‘9060 External Investments’	
Findings	We found that the Council had not reconciled control account ‘9060 External Investments’ during most of 2021-22, which we understand has continued into 2022-23 as well. Officers told us that they had temporarily stopped the reconciliations due to staff shortages.
Recommendation	The Council should recommence the monthly reconciliation of control account 9060. Where significant staff shortages are expected to affect the operation of key controls, any temporary arrangements should be assessed by officers, approved by the Section 151 Officer, and notified to auditors so that they can consider the impact of the changes on their audits.
Accepted in full by management	The holding account reconciliation was completed at year end rather than monthly.
Management response	The Authority will review the continued requirement for this holding account in 2023-24. As part of this review, the posting of investments directly to the balance sheet will be considered. If following the review it is concluded that the holding account is still required, then steps will be taken to reinstate monthly reconciliations.
Implementation date	2023-24 Financial Year.

Exhibit 8: matter arising 8

Matter arising 8 – inaccurate disclosure of the maturity analysis of the Council's borrowings	
Findings	We found that the Council's disclosed maturity-analysis of its borrowings was incorrect. We had a similar finding the previous year, for 2020-21. The total value of the corrections for 2021-22 totalled £75.2 million, as reported to Members in January 2023 in our Audit of Accounts Report.
Recommendation	The Council should strengthen its arrangements so that its maturity-analysis of borrowings is correct each year.
Accepted in full by management	Agreed.
Management response	All working papers in respect of the Authority's maturity-analysis of borrowings will be reviewed prior to the information being disclosed.
Implementation date	2022-23 Statement of Accounts.

Exhibit 9: matter arising 9

Matter arising 9 – the Council’s business continuity plans are overdue a thorough review and update	
Findings	We established that the Council has not updated its Corporate Business Continuity Plan (CBCP) since 2016 and it is therefore likely to be out of date. We also established that while the CBCP refers to underlying Service Area Continuity Plans (SACPs), such a plan does not exist for the Corporate Finance service area. We did not seek to establish whether the Council’s other service areas have SACPs. There is the risk that they do not exist, or they exist but their review is overdue.
Recommendation	The Council should review its Corporate Business Continuity Plan, and its underlying Service Area Continuity Plans, and strengthen them where required. The reviews and updates should include an assessment of the impact of losing key IT systems, and how essential services would continue to be delivered during an IT absence.
Accepted in full by management	Agreed.
Management response	The Authority’s Corporate Business Continuity arrangements have been strengthened considerably in recent years, most notably in relation to our agile working arrangements. Additional resources have been allocated and the intention is to review the Corporate Business Continuity Plan within the next year. The Council’s Digital Services team have put a number of arrangements in place to strengthen the resilience of our systems with measures to defend against evolving cyber threats, to respond effectively to incidents, and to ensure networks, data and systems are protected and resilient as set out in the Council’s adopted Cyber Security Strategy. In 2022 the Council also undertook a planning exercise for delivery of services in the event of a complete absence of IT.

Matter arising 9 – the Council's business continuity plans are overdue a thorough review and update	
	A service specific Business Continuity Plan will also be drafted for Corporate Finance, and this will reflect changes in working practices arising from key financial systems moving to the Cloud.
Implementation date	2023-24 Financial Year.

Recommendations from previous years' audits

4 We raised 11 recommendations last year, all of which were accepted by management. We can confirm that management has implemented 7 of the 11 accepted recommendations.

5 **Exhibit 14** sets out the 6 recommendations that management has not implemented by the dates that were agreed last year and in 2019-20. We comment below on the progress that management has made thus far.

Exhibit 14: progress against last year's recommendations

Audit Year	Recommendation	Progress
2019-20	**Matter 15 - IT general controls** A number of recommendations have been made following the review and have been shared with management. Given the sensitivities around IT, we do not report the specific details of these within our Audit Findings Report. However, a high-level summary of key issues identified has been included below: • significant segregation of duties conflicts and lack of organisational structure charts; • lack of controls around user access management and monitoring; and • lack of controls for reconciling data transmissions between the core financial system and subsidiary systems.	While management has made some progress with last year's recommendation, parts of the first bullet point and bullet point 2 remain outstanding. We understand that some of the finance systems will be replaced in the coming two years, which should take account of our recommendations in this area.
2019-20	**Matter arising 22 – Statement of Cash Flows** Due to some errors in the Statement of Cash Flows over the last few years it was recommended the Council use the CIPFA Cashflow Toolkit (which it	The Council did not use the CIPFA Cashflow Toolkit, to produce the 2021/22 draft accounts. However, there were a number of misstatements identified from audit testing, which meant the

	has already purchased) to produce the statement in future years.	Council did use the toolkit to re-draft the statement and subsequent notes. The toolkit is also to be used for the 2022-23 accounts.
2020-21	**Matter arising 2 – weaknesses in the quality and timeliness of the working papers supporting the draft accounts** The Council should provide all working papers to a high standard and in accordance with the agreed dates. We will continue to work with finance officers to improve the process and documentation for 2021-22.	The timeliness of the Council's accounts and working papers did not improve significantly for 2021-22. Only some of the working papers (as agreed in Audit Deliverables Document) were available at the start of the audit. Some of the areas that were not received included bank reconciliations, property, plant and equipment, investments and borrowings; and working papers to support debtors, creditors and income and expenditure, which we required to select our initial samples. In terms of the quality of the working papers, some areas had improved (for example the bank reconciliations), but we still had working papers that did not agree to the accounts; and many spreadsheet-based working papers had figures typed into cells rather than the user of formula and automated links.
2020-21	**Matter arising 8 – invalid capital commitment** The Council should strengthen its accounting process for the assessment of capital commitments, by requiring officers to verify that each commitment meets the criteria set out by the CIPFA Code.	The Council had not reviewed their capital commitment process for 2021-22. We again identified a disclosed commitment (for £10 million) that was invalid.

2020-21	**Matter arising 9 – overstatement of the future minimum lease lessor-income** The Council should strengthen its accounting process to ensure that it correctly identifies and quantifies minimum future receipts due to the Council as a lessor.	The Council had not reviewed their process to identify future minimum lease payments in 2021-22. We again identified a number of misstatements in the relevant note to the accounts.
2020-21	**Matter arising 11 – the disclosure of financial instruments, investments and borrowings is unnecessarily complex and confusing** The Council should simplify its disclosure of financial instruments, and investments and borrowings, to ensure that there is a meaningful and easily identifiable link from the supporting notes to the primary statements. We will work with finance officers to improve the format and content of these areas for 2021-22.	While the Council had made some improvements, the disclosures remain unnecessarily complex.

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We welcome correspondence and telephone calls in Welsh and English. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.