

Audit of Accounts Report – Caerphilly County Borough Council

Audit year: 2020-21

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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.

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We currently intend to issue an unqualified audit report on your 2020-21 Statement of Accounts. There are some issues to report to you prior to their approval.

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Audit of accounts report

Introduction

- 1 This report summarises the main findings from our audit of your 2020-21 Statement of Accounts (the accounts). We have discussed the findings with the relevant officers.
- 2 Auditors can never give complete assurance that accounts are correctly stated. Instead, we work to a level of materiality. The level of materiality is set to try to identify and correct misstatements that might otherwise cause a user of the accounts into being misled. We have set the level at £6.6 million for this year's audit.
- 3 Further to the above materiality, there are some areas of the accounts that we judge to be of more importance to the reader, for which we have set a lower materiality level. This year our lower materiality levels are as follows:
 - £1,000 for senior officers' remuneration, pension and any exit packages; and
 - £5,000 for related party transactions and balances relating to senior officers and councillors, and their close family.
- 4 We have substantially completed our audit work, although an important matter to draw to your attention is that we continue to review the current audits of the Council's 'Joint Agreement Not Entities' (JANEs). Cardiff Capital Region City Deal Joint Committee is by far the Council's largest JANE. Our ongoing review is required because the need for a material adjustment to the Council's accounts could arise.
- 5 In our professional view we have complied with the ethical standards that apply to our work. We remain independent of yourselves, and our objectivity has not been compromised in any way. There are no known relationships between us and yourselves that we believe could undermine our objectivity and independence.

Impact of COVID-19 on this year's audit

- 6 The COVID-19 pandemic has continued to have a significant impact on all aspects of our society. You have a statutory requirement to prepare annual accounts and it is testament to the commitment of your finance team that you have succeeded in doing so, for a second year, in the face of the challenges posed by COVID-19. We are grateful for the professionalism of the team in supporting us to complete our audit in such difficult circumstances
- 7 COVID-19 has continued to affect our audit and we summarise the main impacts in **Exhibit 1**. The exhibit is provided for information purposes only, to help you understand COVID-19's impact on this year's audit process.

Exhibit 1 – impact of COVID-19 on this year’s audit

Timetable	<ul style="list-style-type: none">• The statutory deadline for the preparation of the draft 2020-21 accounts (signed by the responsible finance officer) was 31 May 2021; and the statutory deadline for their audit certification by the Auditor General was 31 July 2021¹.• The draft accounts were signed and submitted for audit on 15 July 2021. As statutorily required, the Council published a signed statement on its website to explain the delay beyond the statutory deadline, explaining that it had arisen for a second year due to COVID-19.• The audited accounts are scheduled to be certified by the Auditor General on 18 October 2021, thereby being later than the statutory certification-deadline of 31 July.• However, it is important to note that for a second year the Welsh Government’s Finance Department wrote to all councils advising them that, due to the impact of COVID-19, they could submit signed draft accounts by 31 August and have them audited and certified by 30 November.• You have therefore produced your 2020-21 accounts some six weeks ahead of the Welsh Government’s permissible dates for 2020-21. The Council’s explanatory statement on its website advises that ‘The Authority intends to publish its final audited Accounts by 30 November 2021 in accordance with current Welsh Government guidance.’
Electronic signatures	<p>Once your accounts have been approved by the Council, which is scheduled for 14 October, this year we will again accept electronic signatures and the electronic transfer of the signed accounts to us. Officers have agreed to use this basis again. The Auditor General’s certification will also be by electronic signature for a second year.</p>
Audit evidence	<p>As in recent years, we received most of the audit evidence in electronic format. Importantly, this year you also provided us with enhanced remote read-only access to your ledger and shared folders. This access has enabled us to undertake the audit while not at your offices.</p> <p>Where we have been unable to use our usual audit methodology, such as our physical inspection of your property, plant and equipment, we have applied alternative audit means where necessary to obtain sufficient audit evidence.</p>

¹ These statutory dates changed from 2020-21. For 2019-20 the equivalent dates had been 15 June and 15 September for the signing and certification respectively

Proposed audit opinion

- 8 We intend to issue an unqualified audit opinion on this year's accounts once you have provided us with a Letter of Representation based on that set out in **Appendix 1**. We issue a 'qualified' audit opinion where we have material concerns about some aspects of your accounts; otherwise, we issue an unqualified opinion.
- 9 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards. Our proposed audit report is set out in **Appendix 2**.

Significant issues arising from the audit

Uncorrected misstatements

- 10 We can confirm that there are two uncorrected non-trivial misstatements. Officers have corrected all other non-trivial misstatements that we found.
- 11 One of the uncorrected misstatements relates to one of last year's audit findings. Last year we reported that 'Our testing identified a provision against the debtor balance of £1.2 million that could not be identified or evidenced by the Council. This amount is immaterial to the financial statements and officers have declined to correct this in year. This is on the basis that a more detailed review of this balance will be undertaken in the 2020-21 financial year and adjustments will be actioned as appropriate.'
- 12 While officers had accepted our recommendation for improvement, and set a completion date of 31 March 2021, the remedial work remains ongoing, and the misstatement has increased to £1.5 million as at 31 March 2021.
- 13 The other uncorrected misstatement relates to financial differences between the valuation reports and accounting records, for both Tredomen Innovation Park and Business Park. The accounting records and the accounts are incorrect and understated by £1.321 million.
- 14 We can confirm that the two misstatements are not material, individually or collectively.

Corrected misstatements

- 15 There were misstatements in the draft accounts that management has corrected. However, we consider that they should be drawn to your attention and they are therefore set out with explanations in **Appendix 3**.

Other matters

- 16 While some significant matters have arisen this year, our audit has progressed reasonably well. It has however taken longer than planned and required some additional audit resource. Our upcoming audit report (mentioned at paragraph 17) will explain certain audit findings and set out recommendations for improvement.

Recommendations

- 17 After the certification of the accounts, we will issue a separate audit report² setting out our main findings and recommendations, supplemented by management's responses. The report will also provide an update on the Council's implementation of last year's recommendations³. The report will be considered at the next meeting of the Governance and Audit Committee.

² The Audit of Accounts Addendum Report.

³ There were 22 recommendations, 20 of which management accepted and agreed actions.

Appendix 1

Letter of representation

[Required to be on the Council's letterhead]

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

14 October 2021

Representations regarding the 2020-21 financial statements

This letter is provided in connection with your audit of the financial statements of Caerphilly County Borough Council (the Council) for the year ended 31 March 2021. It is provided for the purpose of expressing an opinion on their truth and fairness and their proper preparation.

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 on Local Authority Accounting in the United Kingdom; 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 the 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. The effect of the two uncorrected misstatements identified during the audit is immaterial to the financial statements taken as a whole. We have chosen not to amend these misstatements because one requires further work to be undertaken to confirm the nature of the balance and the appropriate accounting treatment, and the other misstatement was identified late in the audit process and will therefore be adjusted in the 2021/22 financial year.

Representations by the Council

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 full Council on 14 October 2021.

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:

Section 151 Officer

Date: 14 October 2021

Signed by:

Leader of the Council

Date: 14 October 2021

Appendix 2

Proposed audit report

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

Opinion on financial statements

I have audited the financial statements of Caerphilly County Borough Council for the year ended 31 March 2021 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 international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21.

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 2021 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with legislative requirements and international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. 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 Caerphilly County Borough 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

In auditing the financial statements, I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on Caerphilly County Borough Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the responsible financial officer with respect to going concern are described in the relevant sections of this report.

Other Information

The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. The Responsible Financial Officer is responsible for the other information contained within the annual report. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon. My responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

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 2020-21;
- 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 Caerphilly County Borough 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, or returns adequate for my audit have not been received from branches not visited by my team;
- 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.

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 xx, 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 Caerphilly County Borough 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

My procedures included the following:

- Enquiring of management and those charged with governance, including obtaining and reviewing supporting documentation relating to Caerphilly County Borough Council's policies and procedures concerned with:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- Considering as an audit team how and where fraud might occur in the financial statements and any potential indicators of fraud.
- Obtaining an understanding of Caerphilly County Borough Council's framework of authority as well as other legal and regulatory frameworks that Caerphilly County Borough Council operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of Caerphilly County Borough Council.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Governance and Audit Committee, and legal advisors about actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the Council;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; and

I also communicated relevant identified laws and regulations and potential fraud risks to all audit team and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of Caerphilly County Borough Council's controls, and the nature, timing and extent of the audit procedures performed.

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. This description forms part of my auditor's report.

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.

Adrian Crompton
Auditor General for Wales
18 October 2021

24 Cathedral Road
Cardiff
CF11 9LJ

Appendix 3

Summary of corrections made

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.

Except for the first correction of £0.633 million, none of the corrections recorded below have impacted on the Council's net cost of services figure in the Comprehensive Income and Expenditure Statement for 2020-21 or the balances and usable reserves held at 31 March 2021.

Exhibit 2: summary of corrections made

Value of correction	Nature of correction	Reason for correction
£0.633 million	<p><u>CIES - Net Cost of Service</u> Increase the accumulated absence costs, across the relevant headings.</p> <p><u>Movement in Reserves Statement</u> Increase the 'Adjustment between the accounting basis and funding basis under regulations'.</p> <p><u>Balance Sheet Creditors, Note 27 -</u> Increase the 'Accumulated Absence Accrual'.</p> <p><u>Balance Sheet Unusable Reserves, Note 21</u> Increase the 'Accumulated Absence Account'.</p>	To correct the accumulated absence cost and year-end accrual.
Various	<p><u>Note 19 – Related Party Transactions</u> The draft accounts submitted for audit had omitted a significant number of material</p>	To ensure that the related party disclosures are complete and accurate.

Value of correction	Nature of correction	Reason for correction
£8.104 million	<p><u>Note 10 Financing and investment income and expenditure</u></p> <ul style="list-style-type: none"> Increase 'Interest payable and similar charges' by £8.104 million. <p><u>Note 11 Taxation and grant income</u></p> <ul style="list-style-type: none"> Increase "Capital grant and contributions" by £8.104 million. 	To ensure the correct classification of the financial benefit of the interest-free loan from Welsh Government. The Council had treated the interest as a negative payment, rather than a grant or financial assistance contribution, per para 2.3.2.16 of the CIPFA Code.
£26.171 million	<p><u>Note 9 Other Operating Expenditure</u></p> <ul style="list-style-type: none"> Decrease 'Losses on the disposal of non-current assets' by £26.171 million. Increase 'Derecognition of capital expenditure' by £26.171 million. 	To improve the clarity of the derecognition of non-enhancing expenditure. The same adjustment was required for the prior year's comparative figures.
£57.697 million	<p><u>2019-20 Note 9 Other Operating Expenditure</u></p> <ul style="list-style-type: none"> Decrease 'Losses on the disposal of non-current assets' by £57.697 million. Increase 'Derecognition of capital expenditure' by £57.697 million. 	
£2.079 million	<p><u>Balance sheet and Note 12 Financial Instruments</u></p> <ul style="list-style-type: none"> Increase 'Long Term Investments' by £2.079 million. Decrease 'Short Term Investments' by £2.079 million. 	To ensure that the classification of short and long-term investments is correct. It had been incorrect due to the misclassification of the premium paid on government gilts.

Value of correction	Nature of correction	Reason for correction
£2.829 million	<u>Note 22 Capital Commitments</u> <ul style="list-style-type: none"> Decrease Capital Commitments by £2.829 million. 	To ensure the correct disclosure of capital commitments. A capital commitment for 'Hafodyrynys Air Pollution' is not a capital commitment, as defined by the CIPFA Code, and had to be corrected. The same adjustment was required for the prior year's comparative figures.
£4.113 million	<u>2019-20 Note 22 Capital Commitments</u> <ul style="list-style-type: none"> Decrease Capital Commitments by £4.113 million. 	
£21.470 million	<u>Analysis of liabilities by maturity</u> <ul style="list-style-type: none"> Decrease 5-10 years by £21.470 million. Increase 15-20 years by £21.470 million 	To correct the misallocation of a PWLB loan between 5-10 years and 15-20 years.
£1.001 million	<u>Note 15 – Authority as Lessor</u> Decrease minimum lease payments receivable in future years by £1.001 million.	To reduce the Council's future income as a lessor. The minimum rent income for Oakdale Business Park is £nil and the future income was therefore removed.



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