

Audit of Financial Statements Report

Vale of Glamorgan Council

Audit year: 2015-16

Issued: September 2016

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The team who delivered the work comprised Anthony Veale, Steve Wyndham, Gareth Rees, Alice Rushby, Alexis Smith, Diane Auton, Geoff Woolley, Jennie Morris and Simon Pippard.

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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 the Vale of Glamorgan Council (the Council) at 31 March 2016 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 the Council is £3.7m. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity.
4. International Standard on Auditing (ISA) 260 requires us to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
5. This report sets out for consideration the matters arising from the audit of the financial statements of the Council, for 2015-16, that require reporting under ISA 260.

Status of the audit

6. We received the draft financial statements for the year ended 31 March 2016 on 30 June 2016, at the agreed deadline, and although the majority of our audit work upon the statements is complete we are yet to finalise our audit testing in regard to the recognition of Income. Our management review of the audit work completed by the audit team is also incomplete and there remains therefore the possibility of additional issues emerging until this is finalised.
7. In addition there are a number of agreed audit adjustments that we are currently reviewing to ensure that the proposed adjustments are materially correct, in particular:
 - **IAS19 pension fund actuarial figures:** the IAS19 figures within the draft statements have been updated by the actuary to reflect the transfer of staff from the Council to the Adoption Services and Shared Regulatory Services Joint Committees, and as the revised figures have only very recently been provided by the pension fund actuary to the Council our audit review remains incomplete;
 - **Accounting treatment of non-enhancing capital expenditure:** our audit identified that the Council had not accounted for this expenditure in accordance with the Code. The Council has agreed to amend the 2015-16 financial statements in regard to this matter and we are currently reviewing the proposed adjustments. We are also reviewing the impact of this adjustment on the 2014-15 financial statements. Further reference to this issue has been drawn to the attention of the Audit Committee in paragraphs 15 to 18; and

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- **Reclassification of an asset from Surplus Assets to Assets Held for Sale:** we are currently reviewing the working papers to support a recently agreed reclassification adjustment.
8. 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 the Head of Finance.
 9. Following discussions at the Audit Committee meeting scheduled for the 21st September 2016, we will update this report in readiness for the Council meeting on the 28th September 2016.

Proposed audit report

10. 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](#).
11. The proposed audit report is set out in [Appendix 2](#).

Significant issues arising from the audit

Uncorrected misstatement

12. We set out below a non-material misstatement that we have identified in the financial statements, which has been discussed with management but remains uncorrected, and request that this is corrected. If you decide not to correct this misstatement, we ask that you provide us with the reasons for non-correction.

Contractor retentions have not been treated as Capital Creditors

- The financial statements do not recognise the contract retentions that the Council has withheld from paying to contractors. The aggregate value of these retentions as at 31 March amount to £718,000.
- In our opinion, it is likely that that these retentions will eventually be paid to the various contractors and therefore should be recognised in the financial statements as a Capital Creditor meaning that that the Property Plant and Equipment balance may be understated, subject to valuation. This misstatement however has no impact on the Council's Income and Expenditure position nor its usable reserves.

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. None of these misstatements have

had an impact on the Council's closing year end position or upon its Usable Reserves. 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 some concerns about the qualitative aspects of your accounting practices and financial reporting.** We received the draft Financial Statements within the agreed deadline however we believe there is scope to improve the quality of the draft statements, and they would, in our view, benefit from a more thorough quality assurance review in future years. In addition whilst the working papers provided to us, to support the Financial Statements, were generally of good quality they were not all made available to us at the outset of our audit. We will continue to work with officers regarding this going forward to include agreeing a list of required documentation prior to the audit process. In this respect, we will compile an additional report, setting out our recommendations arising from our final accounts audit.
 - **We did not encounter any significant difficulties during the audit.** Officers fully engaged with the audit process and resolved audit queries promptly. We received information in a timely and helpful manner and were not restricted in our work.
 - **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.**

Completion of the audit of the 2014-15 financial statements

15. On 30 September 2015, the Appointed Auditor provided an opinion on the 2014-15 financial statements. However, at the time of providing his opinion, he was unable to certify the completion of the audit due to a number of issues raised by electors that remained outstanding at that date. These matters have now been resolved and have no impact in respect of the financial statements or upon the wider responsibilities of the Auditor General. On the basis that these matters are now closed, we now intend to re-issue the audit opinion for the 2014-15 financial statements and certify the completion of the audit subject to their re-approval by Council and the conclusion of the issue detailed below.
16. As detailed in paragraph 7 of this report, we have identified a misstatement that has a material impact on the 2015-16 and 2014-15 financial statements. We are currently

assessing how this adjustment should be treated within the 2014-15 financial statements.

17. Notwithstanding the outcome of this advice, the Council has agreed to make the required adjustments to the 2015-16 financial statements and, if required, the 2014-15 financial statements.
18. The impact of the misstatement (which has no impact on the Council's Usable Reserves in respect of 2014-15 and 2015-16) is detailed in Appendix 3 entitled '*Accounting treatment of non-enhancing capital expenditure*'.
19. Following the conclusion of the above issue, the 2014-15 financial statements need to be re-approved by the Council alongside the approval of the 2015-16 financial statements. As soon as this is completed, we intend to re-issue our opinion on the 2014-15 financial statements and issue our opinion on the 2015-16 financial statements coupled with the certificate to close the audit in respect of both the 2014-15 and 2015-16 financial years.

Independence and objectivity

20. As part of the finalisation process, we are required to provide you with representations concerning our independence.
21. 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 Wales Audit Office and the Council that we consider to bear on our objectivity and independence.

Appendix 1

Final Letter of Representation

Audited body's letterhead

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

28 September 2016

Representations regarding the 2015-16 financial statements

This letter is provided in connection with your audit of the financial statements (including that part of the Remuneration Report that is subject to audit) of Vale of Glamorgan Council for the year ended 31 March 2016 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 the Accounting Code of Practice; in particular the financial statements give a true and fair view in accordance therewith.
- 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;

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- 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 Vale of Glamorgan 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 effects of uncorrected misstatements identified during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of these items is set out below:

- *To be completed by the Council*

Representations by the Vale of Glamorgan 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 the Council on 28 September 2016.

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:

Officer who signs on behalf of management

Date:

Signed by:

Member who signs on behalf of those charged with governance

Date:

Appendix 2

Proposed audit report of the Auditor General to the Vale of Glamorgan Council

I have audited the accounting statements and related notes of Vale of Glamorgan Council for the year ended 31 March 2016 under the Public Audit (Wales) Act 2004.

Vale of Glamorgan Council's accounting 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.

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 2015-16 based on International Financial Reporting Standards (IFRSs).

Respective responsibilities of the responsible financial officer and the Auditor General for Wales

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 20, the responsible financial officer is responsible for the preparation of the statement of accounts, which gives a true and fair view.

My responsibility is to audit the accounting statements and related notes in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors.

Scope of the audit of the accounting statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements and related notes sufficient to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Vale of Glamorgan Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the responsible financial officer and the overall presentation of the accounting statements and related notes.

In addition, I read all the financial and non-financial information in the Narrative Report to identify material inconsistencies with the audited accounting statements and related notes 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.

Opinion on the accounting statements of Vale of Glamorgan Council

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Vale of Glamorgan Council as at 31 March 2016 and of its income and expenditure for the year then ended; and

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- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16.

Opinion on other matters

In my opinion, the information contained in the Narrative Report is consistent with the accounting statements and related notes.

Matters on which I report by exception

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 accounting 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;
- the Governance Statement does not reflect compliance with guidance.

Certificate of completion of audit

I certify that I have completed the audit of the accounts of Vale of Glamorgan Council in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

For and on behalf of
Huw Vaughan Thomas
Auditor General for Wales
30 September 2016

Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

Summary of corrections made to the draft financial statements which should be drawn to the attention of the Vale of Glamorgan Council

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. It should be noted that none of these misstatements have had an impact on the Council's consolidated income and expenditure position or upon its usable reserves.

Value of correction	Nature of correction
TBC	<p>IAS19 (Employee Benefits) pension fund actuarial adjustment</p> <p>The IAS19 figures within the draft statements have been updated by the actuary to reflect the transfer of staff from the Council to the Adoption Services and Shared Regularity Services Joint Committees.</p>
TBC	<p>Accounting treatment of non-enhancing capital expenditure</p> <p>Our audit identified that the Council had not accounted for non-enhancing capital expenditure in accordance with the Code. All such expenditure was written off to the CIES and HRA, however the accounts have been adjusted so that this expenditure is now treated as an impairment and therefore charged to the Revaluation Reserve (where a positive balance exists for the asset concerned) and any remaining amount to the CIES/HRA. Appropriate adjustments will be made to the 2015-16 financial statements and the 2014-15 financial statements (which will be re-approved by the Council on the 28th September 2016).</p>
N/A	<p>Note 31 – Employees Emoluments</p> <p>The Senior Officers Emoluments disclosure note has been revised to include additional senior staff to ensure compliance with the Code. In addition some minor changes have been made to the employee bandings table within Note 31.</p>
TBC	<p>Misclassification error between short term and long term debtors</p> <p>All residential care debts were treated within the draft accounts as short term debtors, however some £850,000 of these debts are likely to be collected in excess of 12 months and have therefore been reclassified as long term debtors.</p>
N/A	<p>Balance Sheet</p> <p>The draft Financial Statements included two balance sheets – one to show the closing prior year balances and another to show the restated balances as a result of consolidating the Council's share of the various assets and liabilities of the Joint Committees of which it is party to. These values have now been consolidated into a single Balance Sheet.</p>
TBC	<p>Reclassification of an asset from Surplus Assets to Assets held for</p>

Value of correction	Nature of correction
	<p>Sale</p> <p>Land at St Cyres comprehensive school which was previously treated as an Asset Held for Sale had been treated as a Surplus Asset within the draft accounts. In our view the asset still meets the definition, per the Code, of an Asset Held for Sale and it has therefore been restated as an Asset Held for Sale.</p>
N/A	<p>Exceptional Item – Housing Revenue Account subsidy buy-out reclassification</p> <p>During 2015/16 the Council bought itself out of the Housing Revenue Account Subsidy arrangements at a cost of £63.156m. Given the material and unusual nature of this transaction this has now been disclosed as a separate Exceptional Item within the Consolidated Income and Expenditure Account (CIES) and the Housing Revenue Account (HRA).</p>
N/A	<p>Council Tax arrears debtor</p> <p>As a result of the Council Tax debtor balance being shown in the draft financial statements net of prepayments, the debtors and the creditors balances were each understated by £377,000.</p>
N/A	<p>Omitted Disclosure Notes</p> <p>To ensure compliance with the Code the audited financial statements now include some additional disclosure notes that were excluded from the draft accounts. These include a Post Balance Sheet Events Note, a note upon the Council's lease commitments and expanded Related Party Transactions and Council Tax disclosures.</p>
N/A	<p>Typographical and narrative corrections</p> <p>A number of narrative changes have been made to the financial statements. The most significant of these relate to:</p> <ul style="list-style-type: none"> • Explanatory Foreword: additional narrative has been included to better inform users of the accounts of the Councils finances and financial position; and • Note 13: more detailed explanation has been included in regard to the correction of errors identified in the prior year's Property Plant and Equipment balance that have been corrected within the 15-16 financial statements.

