



WALES **AUDIT** OFFICE
SWYDDFA **ARCHWILIO** CYMRU

2015-16 Audit of Accounts Report

Vale of Glamorgan Council

Audit year: 2015-16

Issued: November 2016

Status of report

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Summary

Introduction

1. Our *2015-16 - Audit of Financial Statements report* summarised the key matters arising from the audit including the corrected and uncorrected misstatements together with other issues for the Council's attention. None of the issues in that report prevented the Auditor General from issuing an unqualified opinion on the financial statements, but action is required by the Council to address some of these issues when preparing the 2016-17 financial statements. These are summarised in Exhibit 1.
2. We also identified other matters during our audit that were not reported to the Audit Committee within our *2015-16 Audit of Financial Statements report*. These issues are summarised in Exhibit 2 for the Council's attention.
3. In addition, in completing our audit, we reviewed the progress made by management in implementing the issues reported by Grant Thornton within their *2014-15 Audit of Financial Statements report*. We are pleased to report that we found that the Council had successfully implemented the agreed actions and all recommendations had been satisfactorily addressed. We have summarised the position for each issue within Exhibit 3.
4. The Council needs to consider each of issues raised within this report in preparing the 2016-17 Financial Statements and we shall monitor progress, and continue to consult with officers, during our 2016-17 audit. It is also recommended that management provide an update to the Audit Committee of the progress made in resolving these issues when presenting the draft 2016-17 Financial Statements to the Audit Committee. These issues have already been discussed with the Head of Finance and her team.

Exhibit 1 – Summary of issues raised in the Audit of Financial Statements report (presented to the September 2016 Audit Committee)

Issue/Recommendation	Response & Agreed Actions	Implementation Date
<p><u>Quality Control of the Statement of Accounts</u></p> <p>There were some inaccuracies in the draft Financial Statements that could have been mitigated if a more robust quality assurance review was completed prior to their presentation for audit. For example we identified:</p> <ul style="list-style-type: none"> • Greater than expected volume of arithmetical and narrative errors; • Instances where the accounting disclosures (e.g. the Senior Officer Remuneration note, Council Tax note and the Narrative Report) were not compliant with the requirements of the Code or were omitted altogether (lease commitments and post balance sheet events disclosures); and • The buy-out of the Housing Revenue Account (HRA) subsidy buy-out of some £63m was not treated as an exceptional item within the Financial Statements. <p>Recommendation</p> <p>The Council should complete a robust review of the draft accounts to ensure they are of good quality and free of simple and avoidable error.</p>	<p>It is agreed that there is room for improvement in the Quality Control process.</p>	<p>Closure of 2016/2017 accounts</p>

Exhibit 1 – Summary of issues raised in the Audit of Financial Statements report (presented to the September 2016 Audit Committee)

Issue/Recommendation	Response & Agreed Actions	Implementation Date
<p><u>Timing of provision of working papers to support the draft accounts</u></p> <p>It is pleasing to report that officers were fully engaged with the audit process and also addressed audit queries promptly in facilitating our audit. However, a delay was experienced in providing us with a full schedule of working papers and they were not all available to us at the start of our audit.</p> <p>The working papers and supporting documentation are integral to the completion of our audit and given their importance we will continue to work with officers to agree a list of required documentation to support the 2016-17 draft accounts.</p> <p>Recommendation</p> <p>The Council should provide a complete set of working papers to accompany the draft accounts at the start of the audit.</p>	<p>Agree that a discussion will take place with the WAO to agree a list of required working papers ahead of the audit of the 2016/2017 accounts</p>	<p>31st March 2017</p>

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Issue/Recommendation	Response & Agreed Actions	Implementation Date
<p><u>Incorrect accounting treatment of non-enhancing capital expenditure</u></p> <p>During 2015-16 the Council incurred £42.4m of capital expenditure, of which £20.7m was treated as non-enhancing and therefore did not result in an increase in fixed asset values.</p> <p>We found that the accounting entries made within the draft accounts in regard to this non-enhancing expenditure were not compliant with the CIPFA Code. All such expenditure was written off directly to the CIES and HRA whereas it should have been taken initially to the Revaluation Reserve, where a balance for the particular asset exists, and any remaining amount then taken to the CIES and HRA. The 2015-16 and 2014-15 accounts were materially amended in regard to this matter.</p> <p>In addition, insufficient evidence (e.g. documentation from the valuer) was available at the outset of our audit to support and confirm the non-enhancing element of the capital expenditure incurred during 2015-16.</p> <p>Recommendation</p> <p>The Council needs to ensure that the correct accounting entries are made to record the non-enhancing expenditure per the requirements of the Code and that appropriate audit evidence is retained to support the basis of the non-enhancing expenditure.</p>	<p>Changes were made to the 2015/2016 accounts in line with the requirements of the auditors and this practice will be repeated when closing the 2016/2017 accounts</p>	<p>Completed</p>

Exhibit 1 – Summary of issues raised in the Audit of Financial Statements report (presented to the September 2016 Audit Committee)

Issue/Recommendation	Response & Agreed Actions	Implementation Date
<p><u>Contract retention liabilities not recognised in the Accounts</u></p> <p>The Financial Statements do not recognise contract retentions that the Council has withheld from paying to contractors. The aggregate value of these retentions as at 31 March totalled £718,000. We believe it is likely the majority of 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 the Property Plant and Equipment balance may be understated.</p> <p>Recommendation</p> <p>The Council should review it's rationale for not recognising these entries as creditors in the statement of accounts and in doing so evaluate the extent to which previous contract retentions have eventually been repaid to the contractors (or alternatively retained by the Council).</p>	<p>A review will be completed in time to inform practice for the closure of the 2016/2017 accounts</p>	<p>31st March 2017</p>

Exhibit 1 – Summary of issues raised in the Audit of Financial Statements report (presented to the September 2016 Audit Committee)

Issue/Recommendation	Response & Agreed Actions	Implementation Date
<p><u>Employee Emoluments disclosures</u></p> <p>The Employee Emoluments note, and in particular senior officer remuneration, is a key disclosure within the Financial Statements and are frequently of a sensitive nature. Detailed and prescribed disclosure requirements are therefore prescribed within the CIPFA Code. The draft accounts however did not fully comply with these Code requirements, and were therefore amended, as follows:</p> <ul style="list-style-type: none"> • The note did not disclose the full complement of senior managers employed by the Council; • The remuneration bandings table excluded compensation payments made to former employees; and • The draft accounts disclosed remuneration on an annualised salary basis rather than upon the actual amounts paid. <p>Recommendation</p> <p>The Council should undertake a detailed review of the Employee Emoluments note to ensure that it fully compliant with the requirements of the CIPFA code.</p>	<p>Amendments were required for the final version of the 2015/2016 accounts and this practice will be repeated for the 2016/2017 accounts</p>	<p>Completed</p>

Exhibit 1 – Summary of issues raised in the Audit of Financial Statements report (presented to the September 2016 Audit Committee)

Issue/Recommendation	Response & Agreed Actions	Implementation Date
<p><u>Netting off Council tax debtors and creditors</u></p> <p>We found that the Council Tax debtor balance was recorded net of prepayments totalling £377,000 (i.e. amounts paid in respect of 2016-17 council tax liabilities). As a result the Financial Statements were amended so that the gross debtor and creditor position in respect of Council Tax were recognised in the accounts.</p> <p>Recommendation</p> <p>The Council should ensure it presents the council tax debtors and creditors on a gross basis within the balance sheet.</p>	<p>Amendments were required for the final version of the 2015/2016 accounts and this practice will be repeated for the 2016/2017 accounts</p>	<p>Completed</p>

Exhibit 2 - Summary of other issues arising from the Audit not reported in the Audit of Financial Statements Report

Issue/Recommendation	Response & Agreed Actions	Implementation Date
<p><u>Residential Care Debtor classification error</u></p> <p>The Council includes the residential care costs accrued on behalf of residents over a number of years as debtors due in one year. It is likely that most of these costs will not be recovered until later years, when for example a related property is sold or the client is deceased. We consider the entry is more appropriately classified as a long term debtor.</p> <p>Recommendation</p> <p>The Council should classify the unrecovered residential care costs as a long term debtor.</p>	<p>The treatment of this will be amended in line with the recommendation. No change was made in 2015/2016 as there was no impact on the balance sheet</p>	<p>30th June 2017</p>

Exhibit 2 - Summary of other issues arising from the Audit not reported in the Audit of Financial Statements Report

Issue/Recommendation	Response & Agreed Actions	Implementation Date
<p><u>Narrative Report</u></p> <p>The Narrative Report within the draft accounts did not provide all information required by the Code to explain the key events and significant transactions relating to the Council during the financial year including:</p> <ul style="list-style-type: none"> • Brief background to the Council and its responsibilities; • A review of expenditure during the year including reference to its priorities, challenges and the Corporate Plan; and • Commentary on its balances and reserves, the HRA and the capital programme. <p>The Report was amended during our audit to reflect these requirements.</p> <p>Recommendation</p> <p>The Council needs to compile a Narrative Report that meets the requirements of the CIPFA Code in order to provide sufficient information for the reader to gain an understanding of the achievements and background of the Council, and its activities, during the year.</p>	<p>Amendments were required for the final version of the 2015/2016 accounts and this practice will be repeated for the 2016/2017 accounts</p>	<p>Completed</p>

Exhibit 2 - Summary of other issues arising from the Audit not reported in the Audit of Financial Statements Report

Issue/Recommendation	Response & Agreed Actions	Implementation Date
<p><u>Whole of Government Accounts</u></p> <p>The Whole of Government Accounts return requires the Council to detail significant transactions with other government bodies. However we found that the draft submission for audit excluded the VAT debtor balance with the HMRC. This omission was subsequently corrected for.</p> <p>Recommendation</p> <p>The Council should ensure quality control review processes for producing the whole government accounts worksheet includes consideration of whether routine and significant balances have been included.</p>	<p>It is agreed that there is room for improvement in the Quality Control process.</p>	<p>30th June 2017</p>

Exhibit 3 Summary of progress against issues reported in the prior year ISA260 report

2014-15 Issue/Recommendation	2015-16 Audit Finding
<p><u>Debtors Evidence</u></p> <p>The Authority should retain sufficient evidence to support individual debtor balances disclosed in the Statement of Accounts.</p>	<p>We found sufficient evidence to support the debtor balance account entries.</p>
<p><u>Creditors Evidence</u></p> <p>Management should produce a report at year end showing all outstanding purchase orders. This should be retained for audit purposes.</p>	<p>We were able to complete our cut off tests from the information supplied by the Council</p>
<p><u>Bad debt provision</u></p> <p>Management should review the bad debt transactions, to identify how much they are likely to recover. The provision should then reflect his amount, and any old irrecoverable debts written off.</p>	<p>We noted that the basis for calculating bad debt provision had been amended for in respect of the 2015-16 accounts and we were satisfied that the basis was appropriate and reasonable.</p>
<p><u>Provisions</u></p> <p>Management should review the individual provisions on an annual basis, to ensure that items classified as provisions meet the definitions set out in IAS37</p>	<p>Our testing of provisions and reserves found no errors of classification between these two account areas.</p>
<p><u>Employee Emoluments</u></p> <p>Management should review the basis for the employee costs charged to both Vale of Glamorgan Council and the other local authorities, to assess the substance of the transaction.</p>	<p>Our testing of the allocation of employee costs between the Vale of Glamorgan and Joint Committee accounts identified no instances of inaccurate postings.</p>
<p><u>Journals</u></p> <p>Management should consider and implement a journal authorisation process, to enhance the financial control environment.</p>	<p>Whilst the journal authorisation arrangements remain unchanged from 2014-15 our testing of journals did not identify any anomalies or related issues.</p>

Exhibit 2 Summary of other issues arising from the Audit not reported in the Audit of Financial Statements Report
