



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Audit 2010-11

28 September 2011

Author: Anthony Barrett/ KPMG LLP

# Audit of Financial Statements Report 2010/11

## **Catalogue Supplies Service Joint Committee**

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Anthony Barrett, as Appointed Auditor, 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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## **Status of this report**

This document has been prepared for the internal use of Catalogue Supplies Service Joint Committee as part of work performed in accordance with statutory functions, the Code of Audit Practice and the relevant statement of responsibilities issued by the Auditor General for Wales.

No responsibility is taken by the Wales Audit Office (the Auditor General and staff) and, where applicable, the appointed auditor in relation to any member, director, officer or other employee in their individual capacity, or to any third party.

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### Introduction

1. Anthony Barrett is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of Catalogue Supplies Service Joint Committee at 31 March 2011 and its income and expenditure for the year then ended. He has engaged KPMG LLP to carry out his detailed work on the audit.
2. We received the draft financial statements for the year ended 31 March 2011 on 28 June, prior to the agreed deadline of 30 June, and have now substantially completed the audit work. 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.
3. 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.
4. The quantitative level at which we judge such misstatements to be material for Catalogue Supplies Service Joint Committee is £58,000. 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.
5. As required by auditing standards, we report to you any issues we have identified with regard to:
  - Catalogue Supplies Service Joint Committee's accounting practices and financial reporting;
  - material internal control weaknesses;
  - matters of significant governance interest; and
  - any other relevant matters arising from our audit.
6. The issues that we wish to draw your attention are set out in the detailed report.

### Proposed audit report

7. It is the Appointed Auditor's intention to issue an unqualified audit report on the financial statements once you have provided us with Letters of Representation based on those set out in Appendices 1 and 2.
8. The proposed audit report is set out at Appendix 3.

### Significant issues arising from the audit

9. No significant issues arose from the audit. The rest of this document contains information that we believe should be brought to the attention of the audit committee.
10. 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 no issues arising in these areas this year:
  - **we have no significant concerns about the qualitative aspects of your accounting practices and financial reporting.** The transition from the SORP to the IFRS Code was on the whole handled well. We found the information provided to be relevant, reliable, comparable, material and easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear;
  - **we did not encounter any significant difficulties during the audit.** We received information in a timely and helpful manner and were not restricted in our work;
  - **significant matters discussed and corresponded upon with management which we need to report to you are detailed below;**

#### Going concern basis of preparation

The financial statements have been prepared under the going concern basis of preparation. In order for this to be appropriate, it must be the intention of those charged with governance, and the entity must be able, to continue trading for the foreseeable future, with this being at least 12 months from the date of signing the accounts.

It was identified in reports to the Joint Committee on 14 July 2011 that due to recent trading performance there was to be an options appraisal of the service. This would include, amongst other options, consideration of an exit strategy. We understand from management that an officers' report is due to be presented to the Joint Committee on 28 September 2011, which does not propose an exit strategy but recommends service modernisation as the most appropriate route forward. The service management therefore contends that it is the intention of the Joint Committee that County Borough Supplies should continue trading for the foreseeable

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future. Service management has concluded, on this basis, that it is appropriate to prepare the financial statements on a going concern basis. We have included a statement to this effect in the representation letters, and request that the Joint Committee considers and approves this statement prior to certifying the Statement of Accounts.

- **there are no other matters significant to the oversight of the financial reporting process that we need to report to you;**
- **no material control weaknesses have been identified.**

### **Uncorrected misstatements**

11. We set out below the misstatements we identified in the financial statements, which have been discussed with management but remain uncorrected. If you decide not to correct these misstatements, we ask that you provide us with the reasons for non-correction.

#### **Credit notes issued in 2011/12 relating to the year ending 31 March 2011**

During the audit it was identified that £5,000 of credit notes were issued after 31 March 2011, which related to the financial year 2010/11. These credit notes should be recognised in the 2010/11 financial statements. The impact of this on the Income and Expenditure account would be to decrease turnover (sales) by £5,000 and decrease cost of sales by £4,300, with a resulting overall increase in the deficit for the year of £700.

### **Corrected misstatements**

12. 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 4.

## Appendix 1

**Final Letter of Representation – Appointed Auditor**

(Audited Body's Letterhead)

Anthony Barrett  
Appointed Auditor  
Wales Audit Office  
24 Cathedral Road  
Cardiff  
CF11 9LJ

28 September 2011

Dear Sir

**Representations regarding the 2010-11 Financial Statements**

This letter is provided in connection with your audit of the financial statements of Catalogue Supplies Service Joint Committee for the year ended 31 March 2011.

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 Code of Practice on Local Authority Accounting in the United Kingdom 2010/11; in particular the financial statements give a true and fair view in accordance therewith.

We acknowledge our responsibility for 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

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- 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 Catalogue Supplies Service Joint Committee 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:**

The financial statements have been prepared on the going concern basis. This is considered appropriate by the Joint Committee, which has committed to the continuation of trading of County Borough Supplies for at least 12 months from the date of signing the financial statements.

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:

#### *Credit notes issued in 2011/12 relating to the year ending 31 March 2011*

£5,000 of credit notes were issued after 31 March 2011, which related to the financial year 2010/11. These credit notes should be recognised in the 2010/11 financial statements. The impact of this on the Income and Expenditure account would be to decrease turnover



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(sales) by £5,000 and decrease cost of sales by £4,300, with a resulting overall increase in the deficit for the year of £700.

### **Representations by the Catalogue Supplies Service Joint 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 Catalogue Supplies Service Joint Committee on [insert date].

Signed by:

[Officer who signs on behalf of management]

Date:

Signed by:

[Officer or Member who signs on behalf of those charged with governance]

Date:

## Appendix 2

**Final Letter of Representation – KPMG**

The letter of representation to the Appointed Auditor in Appendix 1 is to support the Appointed Auditor's opinion on the Joint Committee's financial statements. In addition to this letter of representation, Auditing Standards require us to obtain representations from those charged with governance to support our audit opinion which is addressed to the Appointed Auditor.

(Letterhead of Catalogue Supplies Service Joint Committee)

KPMG LLP  
3 Assembly Square  
Britannia Quay  
Cardiff Bay  
CF10 4AX

29 September 2011

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of Catalogue Supplies Service Joint Committee for the year ended 31 March 2011, for the purpose of expressing an opinion as to whether these:

- i. give a true and fair view of the financial position of Catalogue Supplies Service Joint Committee as at 31 March 2011 and of Catalogue Supplies Service Joint Committee's expenditure and income for the year then ended;
- ii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

These financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes.

The Catalogue Supplies Service Joint Committee (the "Joint Committee") confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Joint Committee confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

**Financial statements**

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1. The Joint Committee has fulfilled its responsibilities, as set out in Accounts and Audit (Wales) Regulations 2005 as amended by Accounts and Audit (Wales)(Amendment) Regulations 2010, for the preparation of financial statements that:

- give a true and fair view of the financial position of Catalogue Supplies Service Joint Committee as at 31 March 2011 and of Catalogue Supplies Service Joint Committee's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Joint Committee in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 require adjustment or disclosure have been adjusted or disclosed.
4. The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is shown below:

*Credit notes issued in 2011/12 relating to the year ending 31 March 2011*

£5,000 of credit notes were issued after 31 March 2011, which related to the financial year 2010/11. These credit notes should be recognised in the 2010/11 financial statements. The impact of this on the Income and Expenditure account would be to decrease turnover (sales) by £5,000 and decrease cost of sales by £4,300, with a resulting overall increase in the deficit for the year of £700.

**Information provided**

5. The Joint Committee has provided you with:
- access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
  - additional information that you have requested for the purpose of the audit; and
  - unrestricted access to persons within Catalogue Supplies Service Joint Committee from whom you determined it necessary to obtain audit evidence.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. The Joint Committee acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Joint Committee acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

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The Joint Committee has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud. Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

8. The Joint Committee has disclosed to you all information in relation to:
- (a) Fraud or suspected fraud that it is aware of and that affects the Joint Committee 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;
- and
- (b) allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
9. The Joint Committee has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements. Further, the Joint Committee has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
10. The Joint Committee has disclosed to you the identity of the Joint Committee's related parties and all the related party relationships and transactions of which it is aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as the Joint Committee understands them and as defined in IAS 24, except where interpretations or adaptations to fit the public sector are detailed in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

11. The financial statements have been prepared on the going concern basis. This is considered appropriate by the Joint Committee, which has committed to the continuation of trading of County Borough Supplies for at least 12 months from the date of signing the financial statements.

This letter was tabled and agreed at the meeting of the Joint Committee on 28 September 2011.

Yours faithfully,

[Officer or Member who signs on behalf of those charged with governance]

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## **Appendix A to the Management Representation Letter of Catalogue Supplies Service Joint Committee: Definitions**

### **Financial Statements**

A complete set of financial statements comprises:

- Movement in Reserves Statement for the period
- Comprehensive Income and Expenditure Statement for the period
- Balance Sheet as at the end of the period
- Cash Flow Statement for the period
- Notes, comprising a summary of significant accounting policies and other explanatory information, and
- Balance Sheet as at the beginning of the earliest comparative period (ie a third Balance Sheet) when an authority applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

A local authority/ joint committee is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

### **Material Matters**

Certain representations in this letter are described as being limited to matters that are material.

Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

### **Fraud**

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

### **Error**

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorised for issue, and
- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

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## **Management**

For the purposes of this letter, references to “management” should be read as “management and, where appropriate, those charged with governance”.

## **Related party**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Related parties include:

- a) entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the authority (ie subsidiaries);
- b) associates;
- c) joint ventures in which the authority is a venture;
- d) an entity that has an interest in the authority that gives it significant influence over the authority;
- e) key management personnel, and close members of the family of key management personnel; and
- f) post-employment benefit plan (pension fund) for the benefit of employees of the authority, or of any entity that is a related party of the authority.

Key management personnel are all chief officers (or equivalent), elected members, chief executive of the Joint Committee and other persons having the authority and responsibility for planning, directing and controlling the activities of the Joint Committee, including the oversight of these activities.

The following are deemed not to be related parties by the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11:

- a) providers of finance in the course of their business in that regard and trade unions in the course of their normal dealings with a Joint Committee by virtue only of those dealings; and
- b) an entity with which the relationship is solely that of an agency.

## **Related party transaction**

Related party transaction is a transfer of resources or obligations between related parties, regardless of whether a price is charged. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the authority or the government of which it forms part.

## Appendix 3

### **Independent auditor's report to Catalogue Supplies Service Joint Committee**

I have audited the accounting statements and related notes of Catalogue Supplies Service Joint Committee for the year ended 31 March 2011 under the Public Audit (Wales) Act 2004.

Catalogue Supplies Service Joint Committee's accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and the related notes.

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 2010/11 based on International Financial Reporting Standards (IFRSs).

#### **Respective responsibilities of the responsible financial officer and the independent auditor**

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 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 Auditing Practices Board'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 Catalogue Supplies Service Joint Committee'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 Explanatory Foreword to identify material inconsistencies with the audited accounting statements and related notes. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

#### **Opinion on the accounting statements of Catalogue Supplies Service Joint Committee**

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Catalogue Supplies Service Joint Committee as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

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### **Opinion on other matters**

In my opinion, the information contained in the Explanatory Foreword for the financial year for which the accounting statements and related notes are prepared 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 Governance Statement on which I report to you if, in my opinion, it does not reflect compliance with 'Delivering Good Governance in Local Government: Framework' published by CIPFA/SOLACE in June 2007, or if the statement is misleading or inconsistent with other information I am aware of from my audit.

### **Certificate of completion of audit**

I certify that I have completed the audit of the accounts of Catalogue Supplies Service Joint Committee in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Code of Audit Practice issued by the Auditor General for Wales.

Anthony Barrett

**Appointed Auditor**

**Wales audit Office,**

**24 Cathedral Road,**

**Cardiff,**

**CF11 9LJ**

**September 2011**



## Appendix 4

## Summary of corrections made to the draft financial statements which should be drawn to the attention of the Joint Committee

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.

The corrections made to the 2010-11 figures were:

No	Value of correction	Nature of correction	Reason for correction
1	Dr Cash £7,000 Cr Debtors £7,000	This entry corrects the cash and debtors balance at the year end. There is no impact on overall reserves as this is a balance sheet only adjustment	To correct a journal originally posted in error
2	Dr Bad debt provision (income statement) £5,000 Cr Provisions (balance sheet) £5,000	Increase in bad debt provision to cover all balances > 1 year old	Most debts more than 1 year old are not recovered and therefore should be provided for in full
3	Dr Short term creditors £18,000 Cr Other income £18,000	To recognise £18,000 of credit balances that are > 1 year old and that management have confirmed are not required to be repaid to customers or suppliers	£18,000 of credit balances were identified as no longer requiring repayment: customers have been contacted and have not taken the notified credit
4	Dr Stock obsolescence provision (income statement) £12,000 Cr Provisions (balance sheet) £12,000	To increase the inventory provision to cover all old and slow moving/ obsolete stock	Additional items of stock were identified that were old or slow moving and therefore should be provided for as their full value cannot be recovered

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