



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# Audit of Financial Statements Report – **Bridgend County Borough Council**

Audit year: 2016-17

Date issued: September 2017

Document reference: **481A2017**



This document has been prepared as part of work performed in accordance with statutory functions.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000.

The section 45 code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales and the Wales Audit Office are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at

[infoofficer@audit.wales](mailto:infoofficer@audit.wales).

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.

# Contents

The Auditor General intends to issue an unqualified audit report on your financial statements. There are some issues to report to you prior to their approval.

## Summary report

Introduction	4
Status of the audit	4
Proposed audit report	4
Significant issues arising from the audit	5
Recommendations arising from our 2016-17 financial audit work	6
Independence and objectivity	7

## Appendices

Appendix 1 – Final Letter of Representation	8
Appendix 2 – Proposed audit report of the Auditor General to the Council	11
Appendix 3 – Summary of corrections made to the draft financial statements which should be drawn to the attention of Members of the Audit Committee	13
Appendix 4 – recommendations arising from our 2016-17 financial audit work	16

# 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 Bridgend County Borough Council (the Council) at 31 March 2017 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 are £4.5 million. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements, or areas of the financial statements that we consider to be of particular interest to the reader that we therefore judge to be sensitive. Examples of such areas are the remuneration report and related party disclosures, which we consider to be material by nature and hence set lower levels of materiality.
- 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. To meet this requirement this report sets out for your consideration the matters arising from the audit of the Council's 2016-17 financial statements.

## Status of the audit

- 5 We received the draft financial statements for the year ended 31 March 2017 on 20 June 2017, and have now substantially completed the audit work.
- 6 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 officers.

## Proposed audit report

- 7 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](#).
- 8 The proposed audit report is set out in [Appendix 2](#).

## Significant issues arising from the audit

### Uncorrected misstatements

- 9 The Council's finance officers corrected all of the misstatements identified in the draft financial statements. Therefore, there are no uncorrected misstatements to report.

### Corrected misstatements

- 10 The more important misstatements that were corrected are set out with brief explanations in [Appendix 3](#). We consider that these reported corrections should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

### Other significant issues arising from the audit

- 11 In the course of the audit we consider a number of matters both qualitative and quantitative relating to the financial statements and we report any significant issues to you. We comment below on significant matters that arose, and also on aspects of our audit that we are required to report to you:

- **While the Council has generally sound accounting and financial reporting practices, there are some areas that need to be strengthened.** We found that the overall quality of the draft financial statements presented to us for audit had improved on the previous year. Generally, we found the information provided to be relevant, reliable, comparable, material and easy to understand. We concluded that the majority of the accounting policies, and the accounting estimates, are appropriate and financial statement disclosures unbiased, fair and clear. We have however made some important observations and recommendations in [Appendix 4](#), some of which are in respect of accounting and reporting practices.

We will continue to work closely with officers over the coming months to agree the information that is required earlier to streamline the closure process and move to the faster closing of both the preparation and audit of the annual financial statements.

- **With the exception of the audit of related party disclosures, we did not encounter any significant difficulties during the audit.** We are grateful for the help and assistance provided to us by the staff of the finance and other departments throughout the audit. We generally received information in a timely and helpful manner and were not restricted in our work. We did experience difficulty and delay with the audit of related party disclosures, due to the relatively high number of councillors who had not provided their

related party returns, as required. We comment further on this difficulty within [Appendix 4](#).

- **There were no significant matters discussed and corresponded upon with management which we currently 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.**
- **While we did not identify any material weaknesses in your internal controls, we did identify a high proportion of errors in the processing of housing benefit claims.** Of the 45 claims tested, 11 had been incorrectly processed and paid, with errors totalling £3,087.06 over the 45 claims (in absolute terms). The nature of the errors was primarily attributable to human error rather than any fundamental control failure or process weakness. We extrapolated the errors across the total value of housing benefit expenditure for 2016-17. Our calculation of the extrapolated error (being a hypothetical audit estimate of the potential error, based on the errors within our sample) resulted in an extrapolated error of £1.9 million. The purpose of this extrapolation was to determine whether the errors were material to the audit of the financial statements. We concluded that the level of extrapolated error was significant, but did not exceed our materiality of £4.5 million. We comment further on these errors within [Appendix 4](#).
- **There are no other matters specifically required by auditing standards to be communicated to those charged with governance.** While there are no other such matters to report, we would like to take this opportunity to comment on the Council's 2016-17 Governance Statement. We worked closely with officers to improve the draft 2016-17 Governance Statements and the revised audited Statement now accords more closely with the new guidance in place. The revised Statement is a shorter and more meaningful read, and officers intend to make further improvement to the 2017-18 Governance Statement.

## Recommendations arising from our 2016-17 financial audit work

- 12 The recommendations arising from our financial audit work are set out in [Appendix 4](#). Management has responded to them and we will follow up progress on them during next year's audit. Where any actions are outstanding, we will continue to monitor progress and report it to you in next year's report.

## Independence and objectivity

- 13 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 14 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

[The Council's letterhead]

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

28 September 2017

### Representations regarding the 2016-17 financial statements

This letter is provided in connection with your audit of the financial statements of Bridgend County Borough Council (the Council) for the year ended 31 March 2017 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.
- 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.

## 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 the Council's Audit Committee on 28 September 2017.

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: 28 September 2017**

**Signed by:**

**Chair of the Audit Committee**

**Date: 28 September 2017**

# Appendix 2

## Proposed audit report of the Auditor General to the Council

### **Auditor General for Wales' report to the Members of Bridgend County Borough Council**

I have audited the accounting statements and related notes of Bridgend County Borough Council for the year ended 31 March 2017 under the Public Audit (Wales) Act 2004. Bridgend County Borough Council's accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet and the Cash Flow 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 2016-17 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 25, 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 Bridgend County Borough 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 Bridgend County Borough Council**

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Bridgend County Borough Council as at 31 March 2017 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 2016-17.

### **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 Bridgend 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.

For and on behalf of  
Huw Vaughan Thomas  
Auditor General for Wales  
29 September 2017

24 Cathedral Road  
Cardiff  
CF11 9LJ

# Appendix 3

## Summary of corrections made to the draft financial statements which should be drawn to the attention of Members of the Audit 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 matters below are set out in order of the Notes to the financial statements. None of the corrections impacted on the bottom line of the Comprehensive Income and Expenditure Account.

### Exhibit 1: summary of corrections made to the draft financial statements

	Value of correction	Nature of correction	Reason for correction
1	Various adjustments	<b>Note 7</b> Amendments to the analysis of 'specific grants credited to services'. Significant amendments included: <ul style="list-style-type: none"><li>• 'Housing benefit subsidy', with a decrease of £1,300,000; and</li><li>• 'Other social services and wellbeing', with an increase £1,350,000.</li></ul> There was no overall impact on the total value of the specific grants credited to services of £92,559,000.	To ensure that amounts disclosed in note 7 are accurately classified.
2	£199	<b>Note 13</b> Decrease in the median salary, changing from £20,138 to £19,939.	The working paper provided to support the calculations of the median salary had been based on salaries as at 1 April 2017 (ie for 2017-18). A revised working paper was provided showing the calculation for 2016-17 (as at 31 March 2017).

	Value of correction	Nature of correction	Reason for correction
3	£296,682	<p><b>Note 13</b></p> <p>Decrease of £296,682 in the total cost of exit packages within disclosure 4 of Note 13.</p> <p>Inclusion of a footnote to disclose the amount of £296,682, which relates to exit packages that were approved in 2015-16 but paid in 2016-17.</p>	To remove amounts included in the 2016-17 disclosure which related to exit packages approved during 2015-16, and to disclose these separately as a footnote.
4	£7,000	<p><b>Note 15</b></p> <p>Decrease in the figure for 'grant claims and returns' within the audit fees disclosed.</p>	To agree the amount disclosed to our 2017 Audit Plan.
5	£2,572,000	<p><b>Note 19</b></p> <p>An increase in 'fees, charges and other service income', and a corresponding decrease in 'government grants and contributions'.</p>	To correctly classify income across income categories
6	£935,000 (2016-17) £4,159,000 (2015-16 comparative)	<p><b>Note 19</b></p> <p>Adjustments:</p> <ul style="list-style-type: none"> <li>• 2016-17 – increase in employee expenses and decrease in other service expenses of £935,000; and</li> <li>• 2015-16 – increase in employee expenses and decrease in other service expenses of £4,159,000.</li> </ul>	To correctly classify expenditure across the expenditure categories.
7	£2,770,000	<p><b>Note 20c</b></p> <p>Adjustments:</p> <ul style="list-style-type: none"> <li>• increase in 'assets under construction' additions and decrease in 'land and buildings' additions; and</li> <li>• increase in 'other movements in cost and valuation' both within the headings of 'assets under construction' and 'land and buildings'.</li> </ul>	To correctly classify in-year additions on an asset under construction, and transfer the full asset value to land and buildings upon completion of the asset.

	Value of correction	Nature of correction	Reason for correction
8	£4,375,000	<p><b>Note 20c</b></p> <p>Decrease in the following lines under the heading 'vehicles, plant and equipment':</p> <ul style="list-style-type: none"> <li>• cost or valuation at 1 April 2016 and at 31 March 2017 - £5,480,000;</li> <li>• accumulated depreciation and impairments at 1 April 2016 - £480,000;</li> <li>• depreciation charge for the year - £625,000;</li> <li>• accumulated depreciation and impairments at 31 March 2017 - £1,105,000;</li> <li>• net book value as at 1 April 2016 - £5,000,000; and</li> <li>• net book value as at 31 March 2017 - £4,375,000.</li> </ul> <p><b>Note 20d</b></p> <p>Inclusion of a new note (note 20d) for intangible assets disclosing the following amounts:</p> <ul style="list-style-type: none"> <li>• cost or valuation at 1 April 2016 and at 31 March 2017 - £5,480,000;</li> <li>• accumulated depreciation and impairments at 1 April 2016 - £480,000;</li> <li>• depreciation charge for the year - £625,000;</li> <li>• accumulated depreciation and impairments at 31 March 2017 - £1,105,000;</li> <li>• net book value as at 1 April 2016 - £5,000,000; and</li> <li>• net book value as at 31 March 2017 - £4,375,000.</li> </ul>	To correctly classify an intangible asset that had been incorrectly classified with 'vehicles, plant and equipment'.
9	Various adjustments to Note 25 provisions	<p><b>Note 25</b></p> <ul style="list-style-type: none"> <li>• £297,000 transferred from 'Insurance (BCBC)' to 'other provisions'; and</li> <li>• increase in 'expenditure' and decrease in 'increase/(decrease)' of £711,000 against the line for 'Insurance (BCBC)'.</li> </ul>	To correctly classify and analyse in-year provision movements.

# Appendix 4

## Recommendations arising from our 2016-17 financial audit work

We set out all the recommendations arising from our audit with management's response to them. We will follow up these next year and include any outstanding issues in next year's audit report:

### Exhibit 2: Matter arising 1

<b>Matter arising 1 – Processing of housing benefit claims</b>	
<b>Findings</b>	<p>We initially tested a sample of 20 housing benefit cases, of which eight cases contained error. As a result of this high error rate, we needed to extend our sample by a further 25 cases. Of these 25 additional cases, three contained error.</p> <p>Therefore, 11 of the 45 cases tested contained error, with individual errors ranging from 30 pence to £1,889. The value of the 11 errors totalled £3,087.06 (in absolute terms), with:</p> <ul style="list-style-type: none"> <li>• six of the errors being underpayments to claimants that totalled £2,682.75; and</li> <li>• five of the errors being overpayments to claimants that totalled £404.31.</li> </ul> <p>We did not identify any weaknesses in the processing controls over housing benefit claims, rather the errors had arisen due to processing errors by officers, mostly being in respect of the recording of earned income and associated deductions, and changes in rent and household occupancy.</p> <p>As reported in paragraph 11 of this report, we were able to conclude that the level of extrapolated error was significant, but did not exceed our materiality of £4.5 million.</p>
<b>Priority</b>	High
<b>Recommendation</b>	<p>The Council should strengthen the arrangements in place, which should include:</p> <ul style="list-style-type: none"> <li>• ensuring that adequate induction and ongoing training is provided to all housing benefit staff; and</li> <li>• ensuring that management review and oversight is satisfactory, with particular regard to the input of data into the housing benefit system.</li> </ul> <p>The Council should also seek to repay claimants who have been underpaid (for the whole period affected by processing errors); and determine whether to recover or write-off the overpayments.</p>



<b>Matter arising 1 – Processing of housing benefit claims</b>	
<b>Benefits of implementing the recommendation</b>	Payments of housing benefit to claimants are correct.
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	In addition to the routine claims checking, targeted checks will be undertaken as a project on specific Housing Benefit areas, eg earned income. The report to identify potential unprocessed rent increases will be re-run and examined; processing accuracy will become a standing item for discussion at team meetings and as part of the induction and training process. All identified errors have been corrected and payments made, overpayment recovery, or write-off where appropriate, has been actioned.
<b>Implementation date</b>	March 2018

**Exhibit 3: Matter arising 2**

<b>Matter arising 2 – Councillors' related party returns</b>	
<b>Findings</b>	<p>Our examination of the related party disclosures found 11 councillors (some 20% of councillors) had not submitted their related party return, as required. The returns are an essential part of the preparation of the financial statements submitted for audit.</p> <p>The 11 returns remained outstanding at the start of August, representing a material risk to the completeness of the related party disclosures within the financial statements.</p> <p>Due to the material risk to the financial statements, officers rigorously pursued all of the outstanding returns, and as at 19 September one return remained outstanding.</p>
<b>Priority</b>	High
<b>Recommendation</b>	<p>The Council should:</p> <ul style="list-style-type: none"> <li>formally remind all councillors of the importance of completing and submitting their annual related-party return by the deadline set by the Finance Department; and</li> <li>ensure that any outstanding related party returns are always pursued promptly.</li> </ul>
<b>Benefits of implementing the recommendation</b>	The timely receipt of related party returns from all councillors enables the related party disclosures within the financial statements to be materially accurate.
<b>Accepted in full by management</b>	Yes

<b>Matter arising 2 – Councillors’ related party returns</b>	
<b>Management response</b>	Management will present a report to Council in March of the relevant financial year which will explain the disclosure requirement and the importance of a timely return and at this meeting, the Related Party Return will be issued to Members. If necessary, a follow-up report will be presented to Audit Committee to highlight any Returns outstanding.
<b>Implementation date</b>	March 2018

Exhibit 4: Matter arising 3

<b>Matter arising 3 – Identifying and recording the disposal of capitalised plant and equipment</b>	
<b>Findings</b>	<p>Our review of fixed-asset disclosures noted that the gross book value of disposals of ‘Vehicles, Plant and Equipment’ is very low at £4,000, despite there being in-year additions of £832,000. Typically, many of the additions are likely to have been purchased to replace existing disposable assets.</p> <p>On further examination we established that the Council does not have a process in place to identify and notify the Finance Department of disposals of IT equipment and furniture.</p> <p>It is important that a process is in place that requires all departments to formally notify (at the time of disposal) the Finance Department of an asset disposal. This would enable the Finance department to update the Council’s fixed asset register, which supports the annual financial statements.</p> <p>While this is a significant control weakness, we were able to conclude that it does not represent a risk of material misstatement to the 2016-17 financial statements.</p>
<b>Priority</b>	High
<b>Recommendation</b>	<p>The Council should review its process for the recording and control of the disposals of its assets, which should include a review of:</p> <ul style="list-style-type: none"> <li>• the instructions sent to all departments; and</li> <li>• of the adequacy of the monitoring arrangements over departmental compliance.</li> </ul>
<b>Benefits of implementing the recommendation</b>	The asset register reflects only those assets which exist and disposed assets are correctly removed from the asset register.
<b>Accepted in full by management</b>	Yes

<b>Matter arising 3 – Identifying and recording the disposal of capitalised plant and equipment</b>	
<b>Management response</b>	A review of the disposal process for vehicles, plant and equipment will take place. The ICT asset management process has already been amended to include notification to Finance of additions, changes, and deletions.
<b>Implementation date</b>	March 2018

Exhibit 5: Matter arising 4

<b>Matter arising 4 - Infrastructure asset balances</b>	
<b>Findings</b>	<p>Our examination of the Council's infrastructure assets proved to be difficult in respect of the testing of their existence and ownership.</p> <p>These difficulties arose because many of the assets are old (as a guide, typically more than ten years old), for which detailed records are not easily accessible. For example, a number of the assets are recorded within the asset register as groupings, either by the year the expenditure was incurred or by the nature of the asset.</p> <p>We worked closely with officers to trace through the information available to us to support our testing of a sample of the infrastructure assets. This work enabled us to conclude that, despite the poor records for some of the assets, the asset classification is materially accurate.</p>
<b>Priority</b>	High
<b>Recommendation</b>	<p>The Council should ensure that going forward, infrastructure assets are recorded in the fixed asset register at an appropriate level, and with sufficient detail for each specific asset. The Council should avoid the use of general groupings.</p> <p>Looking back, the Council should review the infrastructure assets currently in the asset register to ensure that all of them are adequately supported by the relevant documentation, and thus valid. Historic balances that cannot be supported should be written out of the asset register, and thereby written off the Council's balance sheet. .</p>
<b>Benefits of implementing the recommendation</b>	Infrastructure assets recorded in the fixed asset register and disclosed in the financial statements are accurate.
<b>Accepted in full by management</b>	Yes

<b>Matter arising 4 - Infrastructure asset balances</b>	
<b>Management response</b>	There are general groupings of capital expenditure within the Capital Programme especially around the allocations for Directorates' Minor Works. Extra work will be undertaken during the capital closing process to more accurately break these down for the asset register. Also, there will be a review of historic assets up to six years old to try to allocate them and any unsupported assets will be written off as appropriate. However, there are two opening balances within Infrastructure from the former Mid Glamorgan County Council and Ogwr Borough Council that would be too large to write off.
<b>Implementation date</b>	May 2018

#### Exhibit 6 – Matter arising 5

<b>Matter arising 5- Generation of council-tax reports</b>	
<b>Findings</b>	<p>Some residents pay their council tax bill in advance of the year ahead, thus resulting in the Council receiving 'income in advance', and recognising a liability on its balance sheet.</p> <p>In line with this principle, the Council's creditors as at 31 March 2017 included advance council-tax payments of £1,530,476.</p> <p>While we were able to review the controls in place to gain some audit assurance, we were unable to substantively test the £1.5 million year-end balance, as the Council could not provide us with a breakdown of the year-end balance. We understand that this weakness arose because the council tax system is a 'live' system that is unable to generate a report of historic data.</p>
<b>Priority</b>	High
<b>Recommendation</b>	The Council should generate the necessary council-tax reports on the final day of each financial year, so that all year-end creditor and debtor balances are fully supported by all of the underlying transactions, for audit purposes.
<b>Benefits of implementing the recommendation</b>	Provide assurance to the auditors that council-tax transactions selected for testing are correctly included in year-end debtor and creditor balances and therefore recognised in the correct financial year.
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	The Report will be added to the suite of year-end reports going forward so that this will be available for testing by External Audit.

**Matter arising 5- Generation of council-tax reports**

<b>Implementation date</b>	March 2018
----------------------------	------------

**Exhibit 7: Matter arising 6****Matter arising 6 - Incorrect calculation of an exit package payment**

<b>Findings</b>	<p>We tested a sample of ten of the 52 exit packages paid to employees, and disclosed within the financial statements (Note 13). We found an error in the calculation of one of the exit packages tested, which had resulted in an overpayment of £2,454 to the employee.</p> <p>Officers reviewed the other 42 payments and shared their work with us, which indicated that the one error was an isolated case.</p> <p>We were able to conclude that the error identified does not represent a risk of material misstatement to the 2016-17 financial statements.</p>
-----------------	--

<b>Priority</b>	Medium
-----------------	--------

<b>Recommendation</b>	<p>The Council should review why the one error arose in order to determine whether any changes are necessary to strengthen controls.</p> <p>Also, the Council should look to either recover the money or seek approval to write it off.</p>
-----------------------	---

<b>Benefits of implementing the recommendation</b>	Exit package payments made to individuals are accurate and in line with Council policy.
--	---

<b>Accepted in full by management</b>	Yes
---------------------------------------	-----

<b>Management response</b>	<p>The actual error related was as a result of a spreadsheet formula that overstated the number of full years worked. The Finance Manager – Financial Control has now documented the process to ensure that there is segregation between the Human Resources Advisors that calculate the package and the Pensions Team that checks the accuracy. The previous spreadsheet template has been amended to ensure that this does not happen again.</p>
----------------------------	--

<b>Implementation date</b>	Done
----------------------------	------

Exhibit 8: Matter arising 7

<b>Matter arising 7 - IT controls and support</b>	
<b>Findings</b>	<p>Our audit includes a high-level review of some of the key IT controls operating within the systems that inform the production of the financial statements. As part of this review we noted the following:</p> <ul style="list-style-type: none"> <li>• The service level agreement (SLA) for the provision of the CIPFA Asset Register (dated 2012) highlights that some of the system uses Windows 2003 Enterprise Edition and MS SQL 2005, both of which are no longer supported. As a result of our observation, CIPFA confirmed to officers that their environment has been upgraded since the 2012 SLA, and is using systems that are supported.</li> <li>• When resetting user passwords on the E5 main accounting system, and cash receipting system, appropriate security checks are not always undertaken when resetting passwords via the telephone, in order to confirm the user is who they say they are.</li> <li>• The Northgate SX3 and CIPFA Asset Register systems both have an inbuilt 'tick box' option to require users to set complex passwords, which would be more secure. However, we found that the option is not used by the Council.</li> </ul>
<b>Priority</b>	Medium
<b>Recommendation</b>	<p>The Council should:</p> <ul style="list-style-type: none"> <li>• Update its SLA with CIPFA.</li> <li>• Ensure that when resetting user passwords on the E5 main accounting system, and cash receipting system, appropriate security checks should be undertaken when resetting passwords via the telephone to confirm the user is who they say they are. This control may also be strengthened by the potential addition of an appropriate password reset tool.</li> <li>• Ensure that the Northgate SX3 and CIPFA Asset Register systems both make use of the available 'password complexity function', in order to strengthen password security control.</li> </ul>
<b>Benefits of implementing the recommendation</b>	The security of the IT systems and infrastructure supporting the annual financial statements is more robust.
<b>Accepted in full by management</b>	Yes

**Matter arising 7 - IT controls and support**

<b>Management response</b>	Management will request an updated SLA from Cipfa and will examine the use of self-serve password resets on E5 main accounting system and the use of complex passwords on Northgate. This has been implemented on the CIPFA asset register.
<b>Implementation date</b>	June 2018

Wales Audit Office  
24 Cathedral Road  
Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone.: 029 2032 0660

E-mail: [info@audit.wales](mailto:info@audit.wales)

Website: [www.audit.wales](http://www.audit.wales)

Swyddfa Archwilio Cymru  
24 Heol y Gadeirlan  
Caerdydd CF11 9LJ

Ffôn: 029 2032 0500

Ffacs: 029 2032 0600

Ffôn testun: 029 2032 0660

E-bost: [post@archwilio.cymru](mailto:post@archwilio.cymru)

Gwefan: [www.archwilio.cymru](http://www.archwilio.cymru)