



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

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

Audit year: 2017-18

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infoofficer@audit.wales.

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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.

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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 Bridgend County Borough Council (the Council) at 31 March 2018 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 2017-18 financial statements.

Status of the audit

- 5 The Section 151 Officer signed the draft 2017-18 financial statements on 30 May 2018 and provided them to us by the agreed date of 31 May. As planned, their receipt was one month ahead of the current statutory deadline 30 June (see [Exhibit 1](#)).
- 6 We 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. The audit team has already discussed these issues with the relevant 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 misstatements identified in the draft financial statements. Therefore, there are no uncorrected misstatements to report. None of the corrections impacted on the 'bottom line' of any of the primary statements, such as the Comprehensive Income and Expenditure Account and the Balance Sheet.

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.

There were no other significant issues arising from the audit

- 11 During 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:

- **The Council has generally sound accounting and financial reporting practices.** We found that the overall quality of the draft financial statements presented for audit has continued to improve, with officers having prepared them to a mostly high standard for 2017-18. These ongoing improvements are particularly important given the challenges of 'earlier closure' that we cover at paragraphs 12 to 15.

Generally, we found the information provided to be relevant, reliable, comparable, material and easy to understand. We concluded that the accounting policies, and the accounting estimates, are appropriate and financial statement disclosures unbiased, fair and clear.
- **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.
- **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.**
- **We did not identify any material weaknesses in your internal controls.**

- **There are no other matters specifically required by auditing standards to be communicated to those charged with governance.**

The accounts and audit deadlines going forward

- 12 Under the Accounts and Audit (Wales) (Amendments) Regulations 2018¹, in the future the Council and the Auditor General are required to meet earlier statutory deadlines. Under the amended regulations the new deadlines are due to change in stages, with the final change taking effect from 2020-21. **Exhibit 1** sets out the new dates.

Exhibit 1: changes introduced by the amended regulations

Annual financial statements	Financial statements signed by the responsible finance officer (Section 151 Officer)	Financial statements approved by the Council and published (with the signed audit certificate or an explanation for its absence)
2017-18	30 June 2018	30 September 2018
2018-19	15 June 2019	15 September 2019
2019-20	15 June 2020	15 September 2020
2020-21 and thereafter	31 May 2021	31 July 2021

- 13 In terms of the 2017-18 financial statements, Council officers have made strong progress in producing its draft financial statements one month earlier, without sacrificing their quality. After submitting the statements for audit, Council officers were present and available, and they engaged with us responsively and knowledgeably. These attributes were crucial in enabling us to conclude our main testing by the end of July.
- 14 This year the Audit Committee (to consider and approve the audited financial statements) has been brought forward to early September 2018 to work towards the earlier closing deadlines. Given this year's successful outcome, for next year officers intend to provide us again with draft financial statements by 31 May, and to also bring the Audit Committee forward to early August 2019.
- 15 This coming autumn we will continue to work closely with officers to ensure that further improvements are made to the preparation and audit of the 2018-19 financial statements. A key aspect of these improvements will be to bring more of our audit work forward, so that wherever possible it is completed before we receive the draft financial statements.

¹ <http://www.legislation.gov.uk/wsi/2018/91/contents/made>

Recommendations arising from our 2017-18 financial audit work

- 16 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.

Update on last year's recommendations

- 17 [Appendix 5](#) provides an update on the Council's progress with last year's audit recommendations, which has been generally good.

Independence and objectivity

- 18 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 19 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

6 September 2018

Representations regarding the 2017-18 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 2018 for the purpose of expressing an opinion on their truth and fairness and their proper preparation.

We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

Management representations

Responsibilities

We have fulfilled our responsibilities for:

- the preparation of the financial statements in accordance with legislative requirements and Code of Practice on Local Authority Accounting in the United Kingdom; in particular the financial statements give a true and fair view in accordance therewith; and
- the design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

Information provided

We have provided you with:

- Full access to:
 - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;
 - additional information that you have requested from us for the purpose of the audit; and

- unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
- The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- Our knowledge of fraud or suspected fraud that we are aware of and that affects the Council and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements.
- Our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others.
- Our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
- The identity of all related parties and all the related party relationships and transactions of which we are aware.

Financial statement representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

The financial statements are free of material misstatements, including omissions.

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 6 September 2018.

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: 6 September 2018

Signed by:

Chair of the Audit Committee

Date: 6 September 2018

Appendix 2

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

Report on the audit of the financial statements

Opinion

I have audited the financial statements of Bridgend County Borough Council for the year ended 31 March 2018 under the Public Audit (Wales) Act 2004.

Bridgend County Borough Council's financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial position of Bridgend County Borough Council as at 31 March 2018 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of Bridgend County Borough Council in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the responsible financial officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about Bridgend County Borough Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The responsible financial officer is responsible for the other information in the annual report and accounts. The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated later in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information to identify material inconsistencies with the audited financial statements 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.

Report on other requirements

Opinion on other matters

In my opinion, based on the work undertaken in the course of my audit:

- the information contained in the Narrative Report for the financial year for which the financial statements are prepared is consistent with the financial statements and the Narrative Report has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and the Governance Statement has been prepared in accordance with guidance.

Matters on which I report by exception

In the light of the knowledge and understanding of Bridgend County Borough Council and its environment obtained in the course of the audit, I have not identified material misstatements in the Narrative Report or the Governance Statement.

I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

- adequate accounting records have not been kept;

- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit.

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.

Responsibilities

Responsibilities of the responsible financial officer for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 11, the responsible financial officer is responsible for the preparation of the statement of accounts, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of statements of accounts that are free from material misstatement, whether due to fraud or error.

In preparing the statement of accounts, the responsible financial officer is responsible for assessing Bridgend County Borough Council's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Anthony J Barrett
For and on behalf of the Auditor General for Wales
10 September 2018

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

We consider that the following misstatements, which management have corrected, should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process. The majority of amendments are in relation to reclassification and presentation of figures in the notes, rather than to the primary statements which are largely unchanged.

Exhibit 2: summary of corrections made to the draft financial statements

	Value of correction	Nature of correction	Reason for correction
1	Various adjustments	<p>Comprehensive income and expenditure statement (CIES)</p> <p>Amendments to the 'Cost of Services' section of the CIES, which do not affect the net Cost of Services but are reclassifications within income:</p> <ul style="list-style-type: none"> • 'Communities' ('GOVT Grants' column) increase of £411,000 to £7,923,000; • 'Communities' ('Other Income' column) decrease of £411,000 to £13,697,000; • 'Operational and Partnership Services' ('GOVT Grants' column) increase of £2,549,000 to £9,257,000; and • 'Operational and Partnership Services' ('Other Income' column) decrease of £2,549,000 to £2,840,000. <p>In addition, amendments were made to the 2016-17 comparative 'Cost of Services' figures, which do not affect the net Cost of Services but are reclassifications within income:</p> <ul style="list-style-type: none"> • 'Social Services and Wellbeing' ('GOVT Grants' column) increase of £29,000 to £4,444,000; • 'Social Services and Wellbeing' ('Other Income' column) decrease of £29,000 to £16,689,000; • 'Communities' ('GOVT Grants' column) increase of £830,000 to £9,177,000; • 'Communities' ('Other Income' column) decrease of £830,000 to £14,765,000; • 'Operational and Partnership Services' ('GOVT Grants' column) increase of £2,876,000 to £9,624,000; and • 'Operational and Partnership Services' ('Other Income' column) decrease of £2,876,000 to £3,258,000. 	<p>To correctly classify revenue expenditure funded from capital under statute (REFCUS) grant income as 'government grants' and not 'other income'.</p> <p>At the start of our audit the Council's finance officers told us about these misstatements in the draft financial statements presented for audit. We reviewed them and agreed the adjustments necessary. These adjustments do not have any impact on the financial position of the Council.</p>

	Value of correction	Nature of correction	Reason for correction
2	£2,264,000	Note 21a Increase in a capital commitment in respect of Pencoed Primary School.	To disclose the correct value of the capital commitment.
3	£4,007,000	Note 23 Short-term debtors Adjustments: <ul style="list-style-type: none"> • increase 'Central Government Bodies' by £63,000; • increase 'Other Local Authorities' by £919,000; • increase 'NHS Bodies' by £3,025,000; and • decrease 'Other Entities and individuals' by £4,007,000. 	To correctly analyse the categorised debtor balances within Note 23.
4	£25,000	Note 19 Related party transactions Decrease of £25,232 resulting in a revised figure in the statement 'Other payments made to organisations where members declared interests totalled £426,230'.	To remove two duplicated amounts and include one omitted amount from the total value.
5	£6,486,000	Note 20 Adjustments between Accounting Basis and Funding Basis under Regulations Removal of a duplicated figure of £6,486,000 from the 2016-17 comparative note against the classification 'Cash payments in relation to deferred capital receipts'.	To remove an erroneous entry within the comparative figures.
6	£706,000	Note 11 Grants Adjustments: <ul style="list-style-type: none"> • 'Housing Benefit Subsidy' reduced by £632,000 to £47,980,000; • 'Others' increased by £632,000 to £3,592,000; • 'Supporting People' reduced by £74,000 to £5,816,000; and • 'Other Social Services & Wellbeing' increased by £74,000 to £4,828,000. 	To analyse grant income amounts against the correct classifications.
7	Various	Note 15 Officers' Remuneration – Disclosure 1 Adjustments: <ul style="list-style-type: none"> • remuneration ratio amended from 6.67 to 6.64; and • median salary amended from £20,055 to £20,138. 	To disclose the correct remuneration ratio and median salary.
8	£470,000	Note 21c Non-current assets valuation Adjustments: <ul style="list-style-type: none"> • 'Impairment losses/(reversals) recognised in the Revaluation Reserve' reduced by £470,000 to £nil; (and the classification line removed); and • 'Accumulated Depreciation and Impairment written out to the surplus/deficit on the provision of services' increased by £470,000 to £6,949,000 and renamed 'Accumulated Depreciation and Impairment written out to Gross Carrying Amount'. 	To correctly analyse the in-year revaluation movements.

	Value of correction	Nature of correction	Reason for correction
9	£3,226,540	<p>Note 19 Related party transactions</p> <p>The 'Other Public Bodies' disclosure correctly included Awen Trust but had omitted the value of payments made to the Trust of £3,226,540.</p>	To disclose the related-party amounts paid to Awen Trust.
10	£577,000	<p>Note 25 Short-term creditors</p> <p>Adjustments:</p> <ul style="list-style-type: none"> • increase 'Other Local Authorities' by £577,000; and • decrease 'Other Entities and Individuals' by £577,000. 	To correctly analyse the categorised creditor balances within Note 25.
11	£3,000,000	<p>Note 30 Pensions liabilities, IAS19 disclosures – section headed 'Impact on the Council's Cash Flows'</p> <p>Increase of £3,000,000 in the amount disclosed for 'Local Government Pension Scheme' to £29,690,000.</p>	To correctly disclose the amount reported by the actuary.
12	£14,000,000 £1,000,000	<p>Narrative Report</p> <p>Section 3 Financial Performance – Financial context of the Council</p> <p>Adjustments:</p> <ul style="list-style-type: none"> • intangible assets figure reduced by £1,000,000 to £4,000,000; and • amount disclosed for 'generates fees, internal and external changes and other service income used to deliver services' reduced by £14,000,000 to £52,000,000. 	To disclose the correct figures.

Appendix 4

Recommendations arising from our 2017-18 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 3: Matter arising 1

Matter arising 1 – council tax creditor balances	
Findings	<p>Last year we reported that the Council had been unable to produce a system-based report to provide a breakdown of its council-tax creditor (of some £1.5 million) as at 31 March 2017. The creditor includes amounts owed to council-tax payers at the financial year-end or amounts paid by council tax payers in advance of the new financial year's liability. Appendix 5 provides an update on last year's recommendation, which confirms that this year the Council has produced a breakdown of the creditor.</p> <p>The Council's creditors as at 31 March 2018 includes a balance of £1,589,398, in respect of historic balances that have not been cleared from the Council Tax system, payments made in advance of the liability being due, and a balance that officers are reviewing that is due to some of its council-tax payers, which officers are acting on to resolve. The Council's system-based reports indicate that some amounts owed cover the period from 1998-99 to date.</p> <p>We understand that this balance relates to:</p> <ul style="list-style-type: none">• Council-tax payers who have paid their council tax before it was due. For example, a council-tax payer would pay their 2018-19 council tax in March 2018. These amounts would not be repayable as the payer had sought to pay upfront.• Council-tax payers who had unintentionally made overpayments or where there have been other changes that have affected their council tax bill. <p>At the time of audit there is no final analysis available that confirms the value of unintentional overpayments that will need to be repaid.</p>

Matter arising 1 – council tax creditor balances	
Recommendation	<p>The Council should identify, and make every effort to repay, all amounts overpaid by council-tax payers for the years to 31 March 2018.</p> <p>The Council should strengthen its identification and routine repayment of any overpayments by council-tax payers after 31 March 2018.</p>
Accepted in full by management	<p>Whilst the Council does have processes in place in relation to identification and reimbursement of overpayments management accept that improvements can be made.</p>
Management response	<p>The Council has in place processes to ensure that overpayments are credited against future Council Tax bills or refunded at the earliest opportunity. Difficulties arise where residents move property either within or outside of the Borough and do not provide the relevant details in order to issue refunds, change or close bank account or the account holder is deceased. Whilst processes are in place to enable residents to reclaim overpaid amounts, not all do so. Officers will continue to advise residents to seek reimbursement of such monies.</p>
Implementation date	31 March 2019

Exhibit 4: Matter arising 2

Matter arising 2 – asset componentisation	
Findings	<p>The accounting guidance for local government accounts states: 'Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately', 'components of an item of property, plant or equipment that make up a significant part of the cost of the item would only need to be separated where the item itself is material individually or when aggregated with like items'.</p> <p>Since the introduction of this requirement the Council has valued and depreciated its property assets (for property with a value over £4 million) on a component-basis. In doing so the valuer has separately valued component parts (such as lifts, plumbing, wiring and lighting) and assigned them a shorter asset life in comparison to the rest of a building.</p> <p>As at 31 March 2017, the Council's componentised assets had a total mechanical and electrical value of some £28 million, being material in aggregate and material in respect of certain individual assets.</p> <p>However, for 2017-18 the Council has not applied component accounting to any new assets during the year. Both we and officers have estimated that, for 2017-18, the impact of not component accounting is that depreciation is understated by some £210,000. While this amount is immaterial to the 2017-18 financial statements, the continue practice of not component accounting would result in the estimated misstatement accumulating over the years and potentially becoming material.</p>
Recommendation	The Council should reintroduce component accounting in its 2018-19 financial statements and thereafter.
Accepted in full by management	The recommendation is noted and, where the impact is material, component accounting will be applied.
Management response	The Council has applied componentisation to assets where it would have a material effect on the Financial Statements.
Implementation date	Component Accounting has been in place for a number of years, but the Council will review this on an ongoing basis.

Exhibit 5: Matter arising 3

Matter arising 3 – use of incorrect land valuations	
Findings	<p>Our testing of land and buildings found that, for ten plots of land, Council officers had used 2016 land values (per acre) in their calculations rather than the correct 2017 land values.</p> <p>We established that, for the ten cases, the land values had not changed between 2016 and 2017 and the calculation error therefore had no impact on the Council's overall asset valuation as at 31 March 2018.</p> <p>In future years, similar calculation errors would result in misstatement in the financial statements if the land acreage values do change.</p>
Recommendation	The Council should consider strengthening its checks to ensure that the asset valuations are calculated using the correct base data.
Accepted in full by management	Yes
Management response	Whilst there has been no impact on the 2017-18 Accounts the recommendation is accepted.
Implementation date	31 March 2019

Exhibit 6: Matter arising 4

Matter arising 4 – Accuracy and integrity of fixed asset register	
Findings	<p>Our testing of property, plant and equipment identified a number of minor errors by the Council, which did not merit amendment in the 2017-18 financial statements. The errors are:</p> <ul style="list-style-type: none"> • two community assets, which should be held at historic cost, had been revalued in error. The error resulted in a net downward movement of £40,000 (asset references 10051 and 20020). • two property disposals with a total gross and net book value of £127,000 had not been processed in the register (asset references 60176, 50016-B10). • one surplus asset with a gross book value of £34,000 had not been depreciated (asset reference 40022-B1). Further testing identified a further three land and building assets that had not been depreciated. The accumulated depreciation for these assets should have been £34,000 (asset references 40005-B7, 50004-C1A, 30058-B1).

Matter arising 4 – Accuracy and integrity of fixed asset register	
Recommendation	The Council should review the errors identified, correct the asset register, and strengthen its processes to help avoid any repetition of these type of errors.
Accepted in full by management	Yes
Management response	It is noted that there were a number of minor errors, none of which impacted on the Financial Statements. Management is committed to maintaining the accuracy of the asset register, which is monitored and updated on an ongoing basis and, as part of this, the above amendments will be actioned during the 2018-19 financial year.
Implementation date	31 March 2019

Appendix 5

Update on last year's recommendations

Exhibit 7: commentary on last year's recommendations

Recommendation	Follow-up comments
<p>The Council should strengthen the arrangements in place, which should include:</p> <ul style="list-style-type: none">• ensuring that adequate induction and ongoing training is provided to all housing benefit staff; and• ensuring that management review and oversight is satisfactory, with particular regard to the input of data into the housing benefit system. <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>	<p>The Council has made good progress with its strengthening of the housing benefit arrangements.</p> <p>Based on our audit examinations we are satisfied that the Council has been taking appropriate action in addressing over and under payments.</p>
<p>The Council should:</p> <ul style="list-style-type: none">• 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• ensure that any outstanding related-party returns are always pursued promptly.	<p>The Council has strengthened its arrangements.</p>
<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">• the instructions sent to all departments; and• of the adequacy of the monitoring arrangements over departmental compliance.	<p>The Council improved its processes for 2017-18 and is undertaking further work that we expect to result in continued improvement.</p>

Recommendation	Follow-up comments
<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>	<p>The Council has made good progress.</p> <p>The Council is taking steps to introduce processes to improve the audit trail for general groupings of expenditure such as highways' works.</p> <p>The Council has flagged a small number of asset balances for further investigation in 2018-19.</p>
<p>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.</p>	<p>The Council has addressed the recommendation. However, our 2017-18 audit work established that reports could be generated to provide a breakdown of the year-end creditor and debtor council-tax balances. Our review of these reports identified a significant number of creditor balances relating to prior year overpayments of council tax, for which we have raised a separate recommendation at Exhibit 3.</p>
<p>The Council should review why the one error arose in the calculation of an exit package 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>	<p>The Council has addressed the recommendation.</p>

Recommendation	Follow-up comments
<p>The Council should:</p> <ul style="list-style-type: none"> • update its SLA with CIPFA. • 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. • 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. 	<p>The Council has obtained an updated SLA from CIPFA, which confirms that appropriate systems are in place and are supported.</p> <p>Council officers told us that:</p> <ul style="list-style-type: none"> • resetting of E5 accounting system passwords requires confirmation with the user. The self-service functionality will be considered during the forthcoming Financial System Upgrade. • the CIPFA Asset Register complexity is in place. Such a facility does not exist in the Northgate system, although the Council seeks to replicate its own security requirements for password complexity.

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

Website: 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

Gwefan: www.archwilio.cymru