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Dear Councillor Shotton and Colin

## Annual Audit Letter to the Members of Flintshire County Council

This letter summarises the key messages arising from my statutory responsibilities under the Public Audit (Wales) Act 2004 as the Appointed Auditor and my reporting responsibilities under the Code of Audit Practice.

**The Council complied with its responsibilities relating to financial reporting and use of resources but there is still scope to improve financial controls in a number of areas and the Council needs to further develop its financial planning to help it meet the financial challenges ahead**

It is the Council's responsibility to:

- put systems of internal control in place to ensure the regularity and lawfulness of transactions and to ensure that its assets are secure;
- maintain proper accounting records;
- prepare a Statement of Accounts in accordance with relevant requirements; and
- establish and keep under review appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Public Audit (Wales) Act 2004 requires me to:

- provide an audit opinion on the accounting statements;
- review the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources; and
- issue a certificate confirming that I have completed the audit of the accounts.

Local authorities in Wales prepare their accounting statements in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. This Code is based on International Financial Reporting Standards. On 26 September 2012 I issued an unqualified audit opinion on the accounting statements stating that they present a true and fair view of the Council's and the Pension Fund's financial position and transactions. My report is contained within the Statement of Accounts. The key matters arising from the accounts audit were reported to members of the Audit Committee and Council in my Audit of Financial Statements reports on 25 September 2012.

The following issues were identified regarding Flintshire County Council's accounts:

- The accounts contained two uncorrected misstatements, although they were not material. The first related to the charge for depreciation on fixed assets which was understated by £628,000 (and as a result non-current assets were overstated by the same amount) and the second related to the misclassification of £4.710 million of grants received in advance which were incorrectly disclosed as short term creditors on the balance sheet. However, the Council provided management representations to explain the reasons for not amending and confirmed that the issues will be resolved in the 2012-2013 accounting statements.
- Non-current (fixed) assets and related accounts were subject to extensive restatement for a number of reasons, but in particular, because the draft set of accounts had not been reconciled to the new fixed asset software system. This hampered progress with the audit as the Council did not provide the final reconciliation and resulting amendments to the accounts until late in the audit window.
- There were a number of general issues relating to the quality of the accounts and supporting records some of which we had reported previously, including: the need to address balancing items within the accounts, ensure full compliance with disclosure requirements and ensure all information is available to correctly value Council Houses.
- There were three other matter which were significant to the oversight of the financial reporting process:
  - The Council needs to ensure that it does not over rely on external advice when preparing its financial estimates. The Council used estimates prepared by an independent expert as the basis for its accounting provision for equal pay liabilities without carrying out any review. In the final statements the figure was amended to better reflect the potential liability.
  - Based on legal advice, the Council did not recognise a liability for pension contributions on its equal pay liabilities. This is contrary to legal advice received by the Appointed Auditor which suggests that pension contributions should be paid on payments to resolve equal pay claims. Given the diverging legal views and uncertainty regarding the need to recognise a provision, the

Appointed Auditor concluded that he would not take any further action as part of the 2011-2012 audit of accounts.

- A number of members failed to return related party declarations which were required to comply with disclosure requirements.

Since the financial statements were approved, I'm advised that the Council has made good progress in terms of both reviewing and clearly determining the financial implications of single status and equal pay, as it works with relevant parties, to put in place its single status agreement.

The following issue was identified regarding the Clwyd Pension Fund accounts:

- The accounts contained an uncorrected misstatement, although it was not material. Investments were recorded in the accounts based on valuation reports available at the time of preparation. Prior to the conclusion of the audit, more up to date valuation reports became available which showed that investments at 31 March 2012 had been understated by £2.297 million. However, as this was a timing issue, the Council provided management representations, which we accepted, to explain the reason for not amending.

My consideration of the Council's arrangements to secure economy, efficiency and effectiveness has been based on the audit work undertaken on the accounts as well as placing reliance on the work completed as part of the Improvement Assessment under the Local Government (Wales) Measure (2009). Overall, I am satisfied that the Council has appropriate arrangements in place. The Auditor General will highlight areas where the effectiveness of these arrangements has yet to be demonstrated or where improvements could be made when he publishes his Annual Improvement Report.

As referred to in the Auditor General for Wales' recent Improvement Assessment letter to the Council (dated October 2012), the Medium Term Financial Plan (MTFP) still requires further development and this is acknowledged by the Council. In its response to the Improvement Letter, the Council identified that the plan is not static but rather, is under continual review as the Council responds to the volatility in public finances, the economy and the range of challenges being faced by local government and public services.

In a Cabinet report (16 October 2012), the Head of Finance outlined how the MTFP has been developed in accordance with the key objectives of the Medium Term Financial Strategy. The report identified a potential budget gap, at that stage of £8.4 million, against which efficiencies need to be identified to balance the budget for 2013-14. Using similar planning assumptions this would be a gap of £35 million over the MTFP period to 2017-18. It was also reported that the MTFP would be updated with any revenue implications from the:

- development of the capital programme taking place during October; and
- outcome of the negotiations on single status on agreement being reached by the Council.

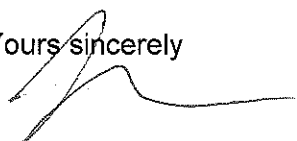
I understand from the Council that work is ongoing with 2013-14 budget planning and that budget gap proposals for the 2013-14 budget, including efficiency measures, will be reported to Cabinet in December, alongside an update of the implications for future years.

I am concerned that the implementation of efficiency measures, particularly those that impact on service delivery, often need significant lead in time from the decision to the saving realisation. Whilst elements of the Flintshire Futures programme take a medium-term view, this is not consistently the case across the wider programme, where some plans continue to primarily focus on the shorter term. It is essential that for all projects within the programme, there is clarity on the timing of and the benefits to be realised and, where they result in cash savings, how and when it impacts on the medium term financial plan. The Council acknowledges this and has recently reviewed its internal arrangements through the establishment of a Flintshire Futures Board comprising members and officers to oversee the delivery of its efficiency programme.

I have not yet issued a certificate confirming that the audit of the accounts has been completed as there is an outstanding matter raised by a member of the public into which I need to make enquiries.

The financial audit fees for 2011-12 are currently expected to be in line with the agreed fees set out in the Annual Audit Outlines.

Yours sincerely



John Herniman  
Group Director

For and on behalf of the Appointed Auditor  
29 November 2012