



# Audit of Financial Statements Report addendum - recommendations

## **Flintshire County Council**

**Audit year:** 2014-15

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# Status of report

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# Summary report

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1. This report is an addendum to my Audit of the Financial Statements Report presented to Flintshire County Council on 24 September 2015.

## Introduction

2. 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.
3. 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.
4. 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 30 September 2015, I issued an unqualified audit opinion on the accounting statements confirming 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.
5. The key matters arising from the accounts audit were reported to members of the Council in my Audit of Financial Statements report on 24 September 2015.

## Recommendations arising from our 2014-15 financial audit work

6. In my Audit of Financial Statements report I set out that I would present a separate paper with details of the recommendations arising from our financial audit work. The recommendations are set out below with management's response to them:

### Matter arising 1 – Preparation of the Comprehensive Income and Expenditure Statement (CIES)

#### Findings

The Council had changed its basis of compilation for the gross income and expenditure presented within the CIES in order to improve the quality of the statement. However, a number of transactions were incorrectly treated which led to both gross income and gross expenditure being materially overstated.

#### Priority

High

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**Matter arising 1 – Preparation of the Comprehensive Income and Expenditure Statement (CIES)**

<b>Recommendation</b>	Undertake further work to ensure that transactions are correctly mapped as either income or expenditure and ensure that all central charges and agency arrangements are correctly netted out.
<b>Benefits of implementing the recommendation</b>	To correctly state the Comprehensive Income and Expenditure statement in accordance with the Local Government Code of Practice.
<b>Accepted in full by management</b>	Accepted
<b>Management response</b>	2014/15 code map corrected and reviewed by Officers of Flintshire County Council and Wales Audit Office. 2015/16 code map set up earlier in the year and tested before year-end to ensure there are no issues. Guidance and training to be delivered to all Finance staff by Officers of Flintshire County Council and Wales Audit Office jointly.
<b>Implementation date</b>	March 2016

**Matter arising 2 – Allocation of support services and other overheads**

<b>Findings</b>	The Service Reporting Code of Practice (SeRCOP) sets out guidance on the presentation of the service expenditure analysis used in the CIES and the definition of total cost which includes an appropriate share of all support services and other overheads. These should be charged, allocated or apportioned in accordance with seven principles set out in the SeRCOP. As part of our work, we identified some concerns that the principles were not being fully adhered to.
<b>Priority</b>	High
<b>Recommendation</b>	To review the basis for the allocation of support services and other overheads to ensure that they comply with the seven principles set out in the SeRCOP.
<b>Benefits of implementing the recommendation</b>	To ensure that the service expenditure analysis reflects total cost as defined by the SeRCOP
<b>Accepted in full by management</b>	Accepted
<b>Management response</b>	Methods of apportioning support and overheads costs to service headings defined in SeRCOP to be reviewed.
<b>Implementation date</b>	February 2016

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### Matter arising 3 – internal recharging

<b>Findings</b>	Within the Council there are a range of activities undertaken that result in internal charging from one department to another. As this is not actual income or expenditure incurred by the Council, it is necessary to net these transactions out of the CIES so as to not overstate the actual income and expenditure. In order to facilitate this, the Council uses a range of 'equal and opposite' accounting codes within its coding structure in the financial ledger. As part of our work, we identified that the coding of these transactions was not consistent across the Council resulting in the value of transactions of the income recharge codes being significantly higher than that on the corresponding expenditure recharge codes, when they should have been of the same value.
<b>Priority</b>	High
<b>Recommendation</b>	Ensure that all internal transactions are coded correctly within income and expenditure so as to allow them to be correctly excluded from the CIES.
<b>Benefits of implementing the recommendation</b>	To ensure that gross income and gross expenditure are correctly stated.
<b>Accepted in full by management</b>	Accepted
<b>Management response</b>	A review will be undertaken to determine the different kinds of internal charging across the Council and agree standard processing for the different kinds of charging. Guidance and training will be provided to all Finance staff. A system of in-year monitoring will be introduced to avoid any year-end issues.
<b>Implementation date</b>	March 2016

### Matter arising 4 – Bank Reconciliation

<b>Findings</b>	The bank reconciliation had reconciled the bank statements to the movement of payments and receipts during the year as opposed to the cash book figure. As a result there was an error in the Note relating to cash and cash equivalents. In addition there was an unreconciled item of £17,000 relating to cash receipting.
<b>Priority</b>	High
<b>Recommendation</b>	Ensure that the bank reconciliation is correctly prepared and that all transactions are fully reconciled.
<b>Benefits of implementing the recommendation</b>	To ensure the integrity of the accounting records.

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#### **Matter arising 4 – Bank Reconciliation**

<b>Accepted in full by management</b>	Accepted
<b>Management response</b>	The year-end bank reconciliation in future will reconcile to the cash book. Work is underway to address the unreconciled cash receipting balance, and to set up a Council wide procedure for any such transactions arising in the future.
<b>Implementation date</b>	April 2016

#### **Matter arising 5 – Weaknesses in Payroll controls**

<b>Findings</b>	In performing controls testing on payroll, we identified a number of control weaknesses which were also identified and reflected in the Council's Internal Audit report on Payroll.
<b>Priority</b>	High
<b>Recommendation</b>	Ensure that the detailed internal audit report recommendations are implemented.
<b>Benefits of implementing the recommendation</b>	To strengthen the internal control environment in relation to payroll transactions.
<b>Accepted in full by management</b>	Accepted
<b>Management response</b>	Many of the recommendations contained within the Internal Audit report issued in August 2015 have been fully implemented. Internal Audit have conducted a further interim audit of the November 2015 payroll in order to review and report upon the changes that have been made to internal controls and to monitor those actions that are still in progress.
<b>Implementation date</b>	March 2016

#### **Matter arising 6 – Employee contract documentation**

<b>Findings</b>	Evidence to support employee salary levels, eg employment contracts, was not always readily available.
<b>Priority</b>	High
<b>Recommendation</b>	Ensure that employee salaries and any other payments are supported by relevant employment contracts.
<b>Benefits of implementing the recommendation</b>	To ensure that individuals are paid the correct salary.

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### Matter arising 6 – Employee contract documentation

Accepted in full by management	Accepted
Management response	<p>The Wales Audit Office and Internal Audit reports did not identify any instances where individuals were not paid the correct salary.</p> <p>(As per Matter arising 6) - many of the recommendations contained within the Internal Audit report issued in August 2015 have been fully implemented. Internal Audit have conducted a further interim audit of the November 2015 payroll in order to review and report upon the changes that have been made to internal controls and to monitor those actions that are still in progress.</p>
Implementation date	March 2016

### Matter arising 7 – Quality review

Findings	<p>It was evident from our work that the financial accounts had not been subject to a quality review and contained figures that needed explanation or amendment as they were clearly inconsistent and incorrect.</p>
Priority	High
Recommendation	<p>Ensure that the financial statements, and underlying transactions, are subject to a quality review and that all significant variances in transactions and balances are understood and supported by evidence and explanation.</p>
Benefits of implementing the recommendation	<p>To ensure that the accounts are correctly stated and are of good quality.</p>
Accepted in full by management	Accepted
Management response	<p>Additional processes will be built into the closedown programme for reviewing significant variances in transactions and balances in 2015/16.</p>
Implementation date	June 2016

### Matter arising 8 – Understanding the accounts and audit process

Findings	<p>In order to both prepare and audit the financial statements, information and supporting evidence is needed from a range of sources, including from some departments outside of the Finance department.</p> <p>During the audit, requests for evidence and other information from some departments outside of Finance were not always responded to in a timely manner. This was mainly as a result of a lack of understanding of the accounts and audit process and requirements.</p>
Priority	High



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### Matter arising 8 – Understanding the accounts and audit process

<b>Recommendation</b>	Ensure that all relevant departments are clear about their respective roles and responsibilities in the accounts and audit process.
<b>Benefits of implementing the recommendation</b>	Strengthened arrangements and improved efficiency in the accounts preparation and completion of the audit.
<b>Accepted in full by management</b>	Accepted
<b>Management response</b>	<p>Officers from the Council and the Wales Audit Office will jointly present in-year seminars to Chief/Senior Officers of the Council to raise awareness of the Accounts preparation and audit processes, and their role/responsibility in relation to the Accounts.</p> <p>A Governance Group of Senior Officers will be set up to oversee the Accounts preparation and audit processes at a strategic level. The group will monitor the action plan resulting from the 2014/15 audit, and in future escalate any material/significant issues or resource requirements at an earlier stage in the process.</p>
<b>Implementation date</b>	June 2016

### Matter arising 9 – Faster Closing

<b>Findings</b>	<p>Proposals to bring forward the timetable for the preparation and publication of the financial statements sets challenging deadlines over the coming years. It is essential that the Council considers how it can streamline its processes to allow it to meet these deadlines.</p> <p>This will require all relevant parties working together to ensure that the preparation and subsequent audit can be delivered efficiently.</p>
<b>Priority</b>	Medium
<b>Recommendation</b>	Review the accounts processes, in conjunction with the auditors, to look for opportunities to streamline the processes.
<b>Benefits of implementing the recommendation</b>	To ensure that revised publication dates can be met.
<b>Accepted in full by management</b>	Accepted
<b>Management response</b>	The Council has been preparing for faster closedown over the past few years following the similar announcement for English local authorities some years ago, and in ensuring the accounts production process is as efficient as it can be. This preparation will continue.
<b>Implementation date</b>	Ongoing (consultation on changes has only recently closed with proposed changes not implemented until financial years 2018/19 and 2020/21).

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