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Please contact us in Welsh or English.

Cysylltwch â ni'n Gymraeg neu'n Saesneg.

Councillor Aaron Shotton – Leader/ Colin Everett – Chief Executive
Flintshire County Council
County Hall
Mold
Flintshire
CH7 6NB

Reference: 252A2017-18

Date issued: 28 November 2017

Dear Aaron and Colin

Annual Audit Letter Flintshire County Council 2016-17

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

The Council complied with its responsibilities relating to financial reporting and use of resources

It is Flintshire County Council's (the Council) 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.

I issued an unqualified audit opinion on the 2016/17 financial statements confirming they present a true and fair view of the Council, its Group, and Pension Fund's financial position and transactions on 29 September 2017. My report is contained within the financial statements and the key matters arising from the audit were:

- The Council's draft financial statements were prepared to a good standard and were supported by comprehensive and timely working papers, helping us to achieve the overall completion timetable.
- Progress was made in reviewing the potential liabilities arising from former waste disposal sites.
- With the advent of earlier production and publication of local government annual accounts by the end May and July respectively from 2020-21, the Council should identify opportunities for streamlining its closedown processes. The continuing role of the Accounts Governance Group should assist the Council with this challenge, helping to ensure that it is viewed as a corporate responsibility rather than something that impacts solely on the finance team.
- The Pension Fund's draft financial statements were not prepared to the standard consistently achieved in previous years. We identified a number of accounting errors and a large number of discrepancies with supporting working papers, which resulted in the financial statements being corrected. We also encountered some prolonged delays in receiving responses to audit queries. Officers advised us that the difficulties in part arose due to extenuating internal circumstances arising from staffing issues during the closedown process.

The key matters arising from the accounts audit were reported in detail to members of the Council in my Audit of Financial Statements report on the 27 September 2017.

I issued a certificate confirming that the audit of the accounts has been completed on 29 September 2017.

We held a joint post project learning exercise with Council finance officers on 16 November 2017 and identified areas we can both learn from this year, in preparation for the earlier production of the financial statements. We will continue holding regular meetings with officers to take any issues forward and to start preparations for future challenges referred to above.

Whilst I am satisfied that the Council has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources, its financial outlook represents a significant challenge

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 under the Local Government (Wales) Measure 2009. 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.

The Council has acknowledged its significant financial challenges and anticipates an operating deficit of £1.1 million for the financial year ending the 31 March 2018. The Council has reported

that the projected operating deficit is largely due to the materialisation of known significant risks within the Streetscene and Transportation portfolio. The Council currently anticipates using its contingency reserve to offset the operating deficit, but this is not sustainable. The Council has confirmed that this is the first time it has had to use its contingency reserve to meet an unplanned deficit and this is because its ability to identify additional in year savings is restricted by the overall financial pressures it is facing.

Furthermore, the Council faces significant financial challenges in 2018-19, and is currently forecasting a minimum annual funding gap of £13.6 million, excluding increases in Council tax. To date, savings plans have not been identified to fully bridge the gap which represents a significant risk to the Council being able to meet its statutory responsibilities to set a balanced budget. The Council has informed us that it recognises that without additional support from the Welsh Government, it will not be able to produce a balanced budget. As part of the final phase of its budget setting over the next few months, the Council needs to explore all available options for bridging the funding gap and develop comprehensive and robust plans to deliver the necessary financial savings. Whilst reserves provide a temporary cushion against financial pressures, the Council has used its reserves over recent years to support revenue expenditure which cannot be considered as a sustainable long term strategy. At 31 March 2014 the Council's Revenue Reserves stood at £48 million, but had reduced to £31 million by 31 March 2017. Whilst this reduction includes the use of one-off earmarked reserves such as single status, other reserves are being used to meet financial pressures and in year overspends. The Council has acknowledged that it is at a high risk of becoming financially unsustainable as it continues to face unprecedented financial challenges in the short and medium term. We will continue to monitor progress over the coming months.

My work to date on certification of grant claims and returns has not identified significant issues that would impact on the 2016-17 accounts or key financial systems

My ongoing work on the certification of grants claims and returns has not identified any significant issues to date in relation to the accounts or the Council's key financial systems. A more detailed report on my grant certification work will follow in the spring 2018 once this year's programme of certification work is complete.

The financial audit fee for 2016-17 is currently expected to be in line with the agreed fee set out in the Annual Audit Plan.

Yours sincerely



John Herniman
Engagement Director
For and on behalf of the Auditor General for Wales