



WALES **AUDIT** OFFICE
SWYDDFA **ARCHWILIO** CYMRU

Audit of Financial Statements Report

Flintshire County Council

Audit years: 2011-12

Issued: September 2012

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Status of report

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The team who delivered the work comprised:
John Herniman, Amanda Hughes and Ron Parker.

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Summary report

Introduction

1. The Appointed Auditor is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of Flintshire County Council at 31 March 2011 and 31 March 2012 and its income and expenditure for the years then ended.
2. We received the draft financial statements for the year ended 31 March 2012 on 30 June 2012 and have now substantially completed the audit work. However, due to a number of significant adjustments to the accounts and delays in receiving information to support certain items (non-current assets and equal pay provisions), audit work is still ongoing. Should anything further arise from this work an update will be provided to both the Audit Committee and County Council meeting when the accounts are approved on 25 September. 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 Kerry Feather, Head of Finance.
3. 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.
4. The quantitative levels at which we judge such misstatements to be material for Flintshire County Council are £5.092 million for income and expenditure items and working capital balances, and £8.224 million for other balances. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity.

Proposed audit report

5. It is the Appointed Auditor'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](#).
6. However, there will be a modification to the audit report as a member of the public has recently made enquiries with the Appointed Auditor about Communities First monies. Therefore whilst we can give the opinion on the financial statements, we cannot formally conclude our other audit responsibilities and issue the certificate of audit closure.
7. The proposed audit report for 2011-12 is set out in [Appendix 2](#).

Significant issues arising from the audit

Uncorrected misstatements

8. We set out below the misstatements we identified in the financial statements, which have been discussed with management but remain uncorrected, and request that these are corrected. If you decide not to correct these misstatements, we ask that you provide us with the reasons for non-correction.

Non-current assets are overstated as a number of assets have not been depreciated

- It was identified that there is no process in place to review asset lives on revaluation. The new asset system automatically calculates depreciation based on the asset life held in the system, which reduces by one year each year. As a result, some asset lives were reduced to nil even though they had been revalued and are still in use. This resulted in depreciation being understated and non-current assets being overstated by £628,000.

Grants received in advance are incorrectly classified on the face of the balance sheet

- Grants received in advance should be separately disclosed on the face of the balance sheet. Currently, £4.710 million of grants received in advance are incorrectly disclosed as short-term creditors.

Corrected misstatements

9. There are 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. They are set out with explanations in [Appendix 3](#) and the more significant are explained in more detail below.

Other significant issues arising from the audit

10. In the course of the audit we consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you. There were some issues arising in these areas this year.

We have some concerns about the qualitative aspects of your accounting practices and financial reporting

11. We have the following concerns about the qualitative aspects of your accounting practices and financial reporting.

Non-current assets and related accounts were subject to extensive restatement

12. During 2011-12 the Council introduced a new fixed asset software system (Technology Forge). The non-current asset balances contained in the accounts should be derived from this system. However, it was identified early in the audit that the accounts did not reconcile back to the asset system.
13. The exercise to provide a reconciliation, of which there were numerous versions, identified that the draft financial statements did not accurately reflect the underlying asset system and the non-current asset figures were subject to extensive restatement. The extent of the restatement meant that we could not conduct our audit work in this area until we received a final reconciliation, which we have referred to in paragraph 20.
14. The balance on the revaluation reserve should be the difference between historic net book value (held on the asset register) and the current net book value of non-current assets in the balance sheet. This was not the case, as transactions were misclassified between the revaluation reserve and the capital adjustment account.
15. The capital adjustment account should clearly show the charges for depreciation and impairment that have been charged to the revenue account and reflected in the non-current asset note. Whilst we are satisfied that the transactions are materially correct, the audit trail of transactions between the two account areas is difficult to follow. It is essential that the Council provides clear and explanatory working papers, at the commencement of the audit, in future.
16. The Council's accounting policy states that investment properties are revalued each year. However, the valuation exercise for 2011-12 was based on incomplete records and as a result six investment properties have not been subject to an annual revaluation.

There are a number of general issues relating to the quality of the accounts and supporting records

17. In 2010-11 we recommended that the Council carry out a 100 per cent revaluation of its housing stock in 2011-12, to establish a baseline following the inconsistent application of its accounting policy. This revaluation took place. However, the information provided to the valuer does not allow him to properly adopt the Beacon principle (an agreed valuation methodology for housing stock) when valuing the stock. Whilst we are satisfied that the valuation of housing stock is materially stated at the year-end, we would recommend that the Council ensures that it is able to provide the valuer with the information needed to allow the Beacon methodology to be fully adopted.
18. Councils are required to prepare their financial statements in accordance with the Code of Practice on Local Authority Accounting. The revised accounts mainly meet disclosure requirements, but some departures still exist. In future, we recommend that the Council uses the Code's disclosure checklist to ensure that the accounts fully comply with disclosure requirements and that the draft accounts are subject to a quality review. In addition, the style and format of the statements could be improved to ensure best practice and consistency with other local authorities and assist the reader.

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- 19.** We have reported for the last two years that the accounts contain balancing entries, and we recognise that work has been done to resolve these and that the amounts have reduced considerably. However, the income and expenditure account and the cash flow still contain balancing entries of £46,000 and £213,000 respectively, and it remains imperative that the Council identifies the accounting entries that make up the remaining balances and resolves them in the 2012-13 financial statements.

We encountered some difficulties during the audit

- 20.** Whilst we received the draft financial statements by the deadline of 30 June 2012, aspects of the statements relating to non-current assets were subject to considerable revision and we did not receive the final version of these revisions until the last week of August. Whilst we appreciate that these issues were caused by the implementation of new software and that staff were working very hard to resolve the issues, it nonetheless hampered progress with the audit.
- 21.** Otherwise we received information in a timely and helpful manner.

There are three matters significant to the oversight of the financial reporting process that we need to report to you

The Council needs to ensure that it does not over rely on external advice when preparing its financial estimates

- 22.** We reported last year that, in common with most local authorities in Wales, the Authority was in the process of assessing the potential liability for equal pay settlements with employees. Following detailed discussions with management, we were satisfied that a reasonable accounting provision, based on information then available, was recognised in the accounts for this liability.
- 23.** However, we reported that further work was necessary to underpin the estimate with detailed information based on employee data. During the year, the Council has made progress in this respect, as part of the wider Single Status project, and engaged an independent expert in this field to prepare detailed calculations of the potential liability.
- 24.** These figures were then used as the basis of the financial provision in the accounts but were not subject to any detailed review (to ensure understanding) or challenge (to ensure agreement). In addition, when challenged at audit, the Council were not able to provide supporting evidence or the full rationale behind some of the assumptions used, instead placing full reliance on the work of the independent expert. As such, there was insufficient care and ownership of the entries in the financial statements. As a result the figure included in the accounts has been amended to better reflect the potential liability.
- 25.** Whilst it is appropriate to seek external advice, Council officers need to ensure that they are satisfied that the basis of the calculation and assumptions used are robust before advising the Council on the final implementation stages of single status.

The authority has not recognised a liability for pension contributions on its equal pay liabilities.

26. As set out in the previous section the Council is in the process of agreeing equal pay settlements with employees and the accounts include a provision in respect of this liability. The authority has, on the basis of legal advice available to it, not provided for pension contributions on this liability. However, it has included a nominal sum to buy out any pension obligations.
27. The Appointed Auditor has been provided with legal advice which suggests that pension contributions should be made on the payments to resolve the equal pay claims.
28. In light of the diverging legal views and the uncertainty regarding the need to recognise a provision in respect of pension contributions on equal pay settlements, the Appointed Auditor has concluded that he is not required to undertake any further action regarding this matter as part of the 2011-2012 audits of accounts.
29. The authority needs to be alert to any future court decisions on this issue that could clarify the legal position and impact on need for a provision. In the event of any such decisions, the Appointed Auditor will also need to reconsider his position.

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

30. The Code of Practice requires the Council to disclose details of related party transactions within its accounts. In order to gather the relevant information, the Head of Finance wrote to members specifically seeking details of related party interests, for the statement of accounts, by 26 April 2012. However, 10 members failed to submit returns which mean that the related party disclosures may not be complete.

We did not identify any material weaknesses in your internal controls

31. As part of its work Internal Audit make recommendations on identified weaknesses in internal control. A number of recommendations relating to financial systems have either not been addressed for over a year, or actions taken were not effective to resolve the identified weaknesses.
32. It is essential that control weaknesses are fully addressed in a timely manner and that the Audit Committee holds officers to account where this is not taking place.

There were no significant matters discussed and corresponded upon with management which we need to report to you.

Appendix 1

Final Letter of Representation

Appointed Auditor
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

[Date]

Representations regarding the 2011-12 financial statements

This letter is provided in connection with your audit of the financial statements of Flintshire County Council for the year ended 31 March 2012.

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 the Code of Practice for Local Authority Accounting; in particular the financial statements give a true and fair view in accordance therewith.

We acknowledge our responsibility for 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.

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- 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 Flintshire County 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; and
 - 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.

The basis of the calculation and the assumptions applied in relation to the Equal Pay provision are reasonable and are based on the best information available at this time. These estimates will be refined as part of the ongoing work on reaching a settlement on Single Status and Equal Pay over the coming months.

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.

Materiality considerations were taken into account in determining not to adjust the identified 'Uncorrected Misstatements' in relation to non-current assets and grants received in advance.

The effects of the uncorrected misstatements are not considered material and any ongoing effects relating to these audit points will be resolved during 2012/13.

Representations by Flintshire County 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 Flintshire County Council on 25 September 2012.

Signed by:

Kerry Feather

Head of Finance

Date: 25 September 2012

Signed by:

Date: 25 September 2012

Appendix 2

Proposed audit report of the Appointed Auditor to Flintshire County Council

Independent auditor's report to the Members of Flintshire County Council

I have audited the accounting statements and related notes of:

- Flintshire County Council; and
- Clwyd Pension Fund

for the year ended 31 March 2012 under the Public Audit (Wales) Act 2004.

Flintshire County Council's accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Movement on the Housing Revenue Account Statement and the Housing Revenue Account Income and Expenditure Statement.

Clwyd Pension Fund's accounting statements comprise the Fund Account and the Net Assets 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 2011-12 based on International Financial Reporting Standards (IFRSs).

Respective responsibilities of the responsible financial officer and the independent auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on pages ... to ..., the responsible financial officer is responsible for the preparation of the statement of accounts, including pension fund 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 Auditing Practices Board'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 Flintshire County Council and Clwyd Pension Fund'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 Explanatory Foreword to identify material inconsistencies with the audited accounting statements and related notes. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Opinion on the accounting statements of Flintshire County Council

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Flintshire County Council as at 31 March 2012 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 2011-12.

Opinion on the accounting statements of Clwyd Pension Fund

In my opinion, the Pension Fund accounts and related notes:

- give a true and fair view of the financial transactions of Clwyd Pension Fund during the year ended 31 March 2012 and of the amount and disposition of the fund's assets and liabilities as at that date; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011-12.

Opinion on other matters

In my opinion, the information contained in the Explanatory Foreword for the financial year for which the accounting statements and related notes are prepared 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 Governance Statement on which I report to you if, in my opinion, it does not reflect compliance with 'Delivering Good Governance in Local Government: Framework' published by CIPFA/SOLACE in June 2007, or if the statement is misleading or inconsistent with other information I am aware of from my audit.

Certificate of completion of audit

The audit cannot be formally concluded and an audit certificate issued until enquiries arising from a matter raised by a member of the public has been formally completed.

Anthony Barrett
Appointed Auditor
Wales Audit Office
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 those charged with governance

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.

Value of correction	Nature of correction	Reason for correction
Cost at 31 March 2012: Council Dwellings and Garages £ -645,000 Other Land and Buildings £ -2,356,000 Surplus Assets £ -7,201,000 Total £ -10,202,000	Note 20 Property, Plant and equipment. From the review of this, it was identified that the asset register did not reconcile with the statement of accounts and the ledger. Following further work, numerous adjustments were identified that in total amounted to £7.773 million.	Correction of errors and to comply with correct accounting treatment for depreciation, impairment and revaluation.
Depreciation and Impairment: Council Dwellings and Garages £ 121,000 Other Land and Buildings £ 2,364,000 Vehicles, Plant, Furniture & Equipment £ -144,000 Surplus Assets £ 315,000 Infrastructure Assets £ -204,000 Community Assets £ -23,000 Total £ 2,429,000	This also resulted in amendments to the primary statements and a number of other supporting notes.	
Net Book Value: Council Dwellings and Garages £ -524,000 Other Land and Buildings £ 8,000 Vehicles, Plant, Furniture & Equipment £ -144,000 Surplus Assets £ -6,886,000 Infrastructure Assets £ -204,000		

Value of correction	Nature of correction	Reason for correction
Community Assets £ - 23,000 Total £ -7,773,000		
-£5,000	Note 30 Assets held for sale. From the review of this, it was identified that the asset register did not reconcile with the statement of accounts and the ledger.	Correction of errors and to comply with correct accounting treatment for depreciation, impairment and revaluation.
Narrative amendment	Additional wording added to the accounting policy on heritage assets.	To inform the reader.
Narrative amendment	Additional disclosure made in Note 11 Related Parties to disclose transactions with Anglesey County Council and to note that 10 members had failed to complete an annual return.	To comply with the Code of Practice and to inform the reader.
Number of exit packages in band £0-£20,000 + 1	To reflect the correct number of exit packages in the relevant band.	Correction of an error.
£0	Note 19 Intangible Assets Layout amended.	To comply with the Code of Practice.
Additional disclosure	Note 23 Capital Expenditure and Capital Financing Layout amended.	To comply with the Code of Practice.
£8,000	Note 32 Short Term creditors Amount under accrued as a result of a calculation error on a working paper.	Correction of an error.
-£5.498 million	Note 34 Provision Reduction in the provision.	To better reflect the potential liability.
£33.293 million	Note 36 Earmarked Reserves Reclassify reserves from council fund to earmarked reserves.	To comply with the Code of Practice and correctly classify earmarked reserves.
-£5.498 million	Note 37 Unusable Reserves Reduction in the Equal Pay reserve.	To reflect the adjustment to the provision in Note 34.
-£45.601 million	Note 37 Unusable Reserves Reduce revaluation reserve to reflect the amendments to Note 20.	Reconciliation of balance in the revaluation reserve between asset register and balance sheet was

Value of correction	Nature of correction	Reason for correction
		incorrect.
£37.823 million	Note 37 Unusable Reserves Increase Capital Adjustment Account to reflect the amendments to Note 20.	Reconciliation of balance in the capital adjustment account between asset register and balance sheet was incorrect.



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