



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

Audit of Financial Statements Report

Flintshire County Council

Audit year: 2012-13

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Status of report

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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 2013 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 Flintshire County Council are £4.7 million for income and expenditure items and working capital balances; and £7.9 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.
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.
5. This report sets out for consideration the matters arising from the audit of the financial statements of Flintshire County Council, for 2012-13, that require reporting under ISA 260.

Status of the audit

6. We received the draft financial statements for the year ended 31 March 2013 on 30 June 2013 (the statutory deadline) and have now substantially completed the audit work.
7. 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 responsible finance officer for the Council (Kerry Feather).

Proposed audit report

8. 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](#).
9. The proposed audit report is set out in [Appendix 2](#).

Significant issues arising from the audit

Uncorrected misstatements

10. There are no misstatements identified in the financial statements, which remain uncorrected.

Corrected misstatements

11. 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](#).

Other significant issues arising from the audit

12. 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 concern about the qualitative aspects of your accounting practices and financial reporting

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

Non-current assets were subject to restatement as non-enhancing expenditure had not been impaired

14. As part of its annual capital programme, the Council incurs expenditure both on new assets and on existing assets. Where expenditure is incurred on existing assets, the Council should assess whether the expenditure is enhancing, i.e. that every £1 spent adds £1 to the fair value of the asset. Where this is not the case, it may be necessary to impair the asset and write down the historic cost to ensure that the asset is carried at its fair value within the financial statements.
15. The Council has not been carrying out this assessment on an annual basis. Instead, this expenditure has been held in a capitalised expenditure code and only written out when the asset was next re-valued, as part of the five year rolling revaluation programme.
16. In addition, the asset register, Technology Forge, has not been updated for this capitalised expenditure and, as a result, it has neither been impaired nor depreciated.
17. An adjustment has been made to impair £13.8 million of non-enhancing capital expenditure in 2012-13. It was also necessary to make a prior period adjustment of an additional £12.752 million.

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18. It is essential that the Council considers whether its capital expenditure is enhancing or non-enhancing on an annual basis.
 19. In addition, it is essential that all assets (new or existing) are subject to an annual review for impairment. Whilst we could see some evidence that a review of specific assets had been carried out, the Council could not demonstrate that a formal annual exercise had taken place.

Further work is needed to understand the functionality of Technology Forge and embed appropriate working practices

20. The Council introduced Technology Forge in 2011-12 as its asset register. The system is jointly used by both the Valuers' section and Finance.
21. However, as set out in paragraph 16, the Council does not currently update Technology Forge for expenditure that adds to an existing asset, which results in its financial value being held partly in the asset register and partly in an accounting code. This could result in errors in accounting treatment, as already identified.
22. In addition, we have also identified that the revaluation reserve was overstated by £1.274 million because the transactions generated by the Technology Forge system on revaluation were not always correct. This is not a fault with the system, but caused by users of the system not fully understanding the relevance of certain steps in terms of the accounting transactions it generates.
23. The Council must invest in appropriate development of processes and training to ensure that all staff understand how to properly use the system to ensure that it prepares the correct accounting transactions.

There have been improvements but there are some general issues relating to the quality of the accounts

24. For a number of years we have reported that the accounts contained balancing items. With some input from us, the Council has now resolved this issue and the accounts no longer contain balancing entries.
25. In addition, improvements have been made to ensure that the accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting.
26. However, departures from the requirements of the Code still exist in relation to short term debtors and creditors where the analysis contained with the respective notes is not in accordance with requirements.
27. In addition, the accounts continue to be subject to a reasonably high level of adjustment, particularly in relation to non-current assets.

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

28. 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.

29. 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.
30. 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 2012-2013 audits of accounts.
31. The Council 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.
32. Except for this, we are satisfied that the provision for settlement of equal pay liabilities is reasonable. The Council needs to keep this under review and ensure that the provision is well supported and that the equal pay strategy is translated into a proper accounting position.

There is one matter relevant to the oversight of the financial reporting process that we need to report to you

33. The Audit Committee has discussed matters relating to AD Waste previously and therefore this issue is relevant to the Committee's overview of the financial statements.
34. In September 2013, the liquidation process relating to AD Waste was finalised. In accounting terms, where there is an event after the reporting period that provides evidence of conditions that existed at the end of the reporting period, then it is an adjusting event. This is the case in this instance and therefore the accounts have been amended to reflect the final position following liquidation.
35. Except for receipt of a final cash distribution which is held as a short term debtor (and has subsequently been received after the year-end), all accounting transactions relating to bringing AD Waste in-house have now been completed and are satisfactory.

There are no other matters that we need to report to you

36. There are no other matters to report to you. In particular:
 - We did not encounter any significant difficulties during the audit;
 - there were no significant matters discussed and corresponded upon with management which we need to report to you;
 - we did not identify any material weaknesses in your internal controls; and
 - there are no other matters specifically required by auditing standards to be communicated to those charged with governance.

Independence and objectivity

- 37.** As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 38.** 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 Flintshire County Council that we consider to bear on our objectivity and independence.

Appendix 1

Final Letter of Representation

Appointed Auditor
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ
25 September 2013

Representations regarding the 2012-13 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 2013 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 the Local Government Code of Practice; 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.

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. The effects of uncorrected misstatements identified during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

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 2013.

Signed by:

Kerry Feather

Head of Finance

Date: 25 September 2013

Signed by:

Carolyn Thomas

Chair to the Council

Date: 25 September 2013

Appendix 2

Proposed audit report of the Appointed Auditor to 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 2013 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, and the Cash Flow 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 2012-13 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 the responsible financial officer is responsible for the preparation of the statement of accounts, including Clwyd Pension Fund's accounting statements, 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 2013 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 2012-13.

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 2013 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 2012-13.

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 Annual 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

I certify that I have completed the audit of the accounts of Flintshire County Council in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Code of Audit Practice issued by the Auditor General for Wales.

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

30 September 2013

Appendix 3

Summary of corrections made to the draft financial statements which should be drawn to the attention of the Members of Flintshire County Council

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
£414,000	Housing Revenue Account (HRA) To correctly charge the HRA with its share of IAS19 pension interest costs	To comply with the Code disclosure requirements.
-£262,000	Housing Revenue Account (HRA) To correctly reflect IAS 19 pension costs	To comply with the Code disclosure requirements.
-£13.800 million (2012-13) -£12.752 million (2011-12)	Note 17 – Property Plant & Equipment Non enhancing capital expenditure had not been impaired in accordance with Code requirements A prior period adjustment was also required.	Incorrect treatment of capitalised expenditure.
£2.545 million	Note 18 and Note 27 Agricultural estates assets were incorrectly classified as assets held for sale, but did not meet the criteria for that classification	To correct classification error
-£146,000	Note 32 - Provisions The provision for accumulated absences had been incorrectly calculated	To correct misstatement
£3.027 million	Note 30 and Note 38 Funds which were earmarked reserves had been incorrectly classified as grants received in advance	To correct classification error
Various	Note 8 - Related Parties Disclosure relating to Welsh Government grant support was understated by £11.585 million. Inclusion of various debtor and creditor balances at year end.	To comply with Code disclosure requirements.

<p>Various</p> <p>Note these entries are as a result of an adjusting post balance sheet event as opposed to adjustments identified in the course of the audit.</p>	<p>There were a number of transactions related to the liquidation of AD Waste. The main transactions in the Comprehensive Income and Expenditure Statement (CIES) are:</p> <p>Total income and expenditure -£3.053 million, made up from the gain on disposal (-£4.022m) offset by the second distribution (£600k) and the de-recognition of unrealised gains (£369k).</p> <p>The balance sheet mirrored this amount, of £3.053m, made up investments (-£724k), short term debtors (£-1.082m), offset by short term borrowing (£4.859m).</p> <p>These also included accounting transactions to account for the revaluation of the assets of AD Waste. The main transactions in the CIES are:</p> <p>Total income and expenditure -£2.733 million, being the result of the revaluation and the difference between the original assets held and the re-valued assets. Noncurrent assets have been adjusted accordingly.</p> <p>These affected a number of different notes in the accounts.</p> <p>A post balance sheet event note has been included in the accounts to explain the adjustments.</p>	<p>To properly account for an adjusting post balance sheet event following conclusion of the liquidation of AD Waste and to comply with the Code of Practice.</p>
<p>-£1.274 million</p>	<p>Note 17 – Property Plant & Equipment</p> <p>The revaluation balance relating to four assets was overstated by £1.274 million as a result of processing errors</p>	<p>To correct misstatement</p>
<p>£395,000</p>	<p>Note 32 - Provisions</p> <p>Provision for Equal Pay revised to reflect underlying accounting assumptions</p>	<p>To adjust the provision based on a revised accounting estimate.</p>

A number of the adjustments above impact on the primary statements i.e. the movement in reserves statement, the comprehensive income expenditure statement, the balance sheet and the cash flow statements.



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