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Councillor Aaron Shotton – Leader
Colin Everett - Chief Executive
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Reference 658A2013
Date 29 November 2013
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Dear Councillor Shotton and Colin

Annual Audit Letter

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 further scope to strengthen its financial controls in a number of areas and the Council faces significant financial challenge which needs to be addressed

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 30 September 2013 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.

The key matters arising from the accounts audit were reported to members of the Audit Committee and Council in my Audit of Financial Statements report on the 25 September 2013 and are summarised below:

- There were a number of amendments in relation to the accounting of fixed assets. The Council had treated non-enhancing capital expenditure incorrectly and an adjustment of £13.8 million was required to restate asset values as a result of having to impair assets. In addition, not all assets were recorded in the asset register resulting in inconsistencies with the financial ledger which could lead to errors in accounting treatment. Further work also needs to be done to understand the functionality of the fixed asset register and embed consistent working practices.
- Despite some improvements, in particular the clearance of long standing 'balancing items' in the accounts, there is further scope to improve the quality of the accounting statements.
- Based on legal advice available to it, the Council did not fully 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 payment 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 2012-2013 audit of accounts.
- In September 2013 the liquidation of AD Waste was finalised. In accounting terms this was an adjusting event after the balance sheet date and between the draft accounts preparation and finalisation, the Council therefore adjusted the final version of the accounts to reflect the post liquidation position. All accounting transactions relating to ADW being brought in-house have been completed and were satisfactory.

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 2013 had been understated by £0.9 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.

The Council updated its medium term financial plan in October 2013. The plan identified a budget gap of £16.5 million for 2014-15 and £47.8 million over the coming five years. Since then, the provisional Local Government Settlement for 2014-15 was announced by Welsh Government. This included a number of adjustments which had the effect of reducing the budget gap to £15.5 million for 2014-15. The plan sets out the organisational change strategy to meet the efficiency and savings targets over the next five years. The major structural review will consist of: corporate efficiency; functional efficiency; organisational design – structure and operating models; and, organisational design – workforce.

The scale of change facing the Council to deliver the financial savings is considerable although we understand that the Council is well on its way to identifying how the financial gap in 2014-15 is to be met. Nonetheless there is still significant work required to set a balanced budget for 2014-15 and to meet the financial challenges in 2015-16 and beyond.

The Council is close to finalising its single status agreement which sees 84.5 per cent of staff set to stay the same or gain on base pay. The proposed agreement also aims to provide a modern and positive solution for low pay. The Council is confident that it strikes the balance of acceptability and affordability and the financial implications have been built into its financial planning.

I issued a certificate confirming that the audit of the accounts has been completed on 30 September 2013.

The financial audit fee for 2012-13 is currently expected to be in line with the agreed fee set out in the Annual Audit Outline.

Yours sincerely



John Herniman
For and on behalf of the Appointed Auditor
29 November 2013