

Archwilydd Cyffredinol Cymru
Auditor General for Wales



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

Audit of Financial Statements Report

Flintshire County Council

Audit year: 2013-14

Issued: September 2014

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Status of report

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The team who delivered the work comprised John Herniman, Amanda Hughes, Ron Parker, Sue Bethell, Paul Jones and Diane Jones

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The Appointed Auditor intends to issue an unqualified audit report on the financial statements of Flintshire County Council. There are some issues to report to you prior to their approval.

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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 2014 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 £4.881 million for income and expenditure items and working capital balances, and £7.651 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 2013-14, that require reporting under ISA 260.

Status of the audit

6. We received the draft financial statements for the year ended 31 March 2014 on 30 June 2014, the agreed 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 Gary Ferguson, Corporate Finance Manager.

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](#).

Significant audit risks

12. In our Financial Audit Strategy, we set out information regarding the significant and elevated audit risks that were identified during the audit planning process. [Exhibit 1](#) below sets out the outcome of our audit procedures in respect of those risks:

Exhibit 1: Summary of main risks and action taken

Risks	Action taken
Control environment risks	
Management override of controls The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk. In addition, the Council continues to face significant financial pressures, including funding cuts. The current financial pressures on the Council increase the risk that management judgements and estimates could be biased in an effort to meet its financial challenges.	<ul style="list-style-type: none">• We understood and evaluated internal control processes and procedures as part of our planning work.• We reviewed and tested the appropriateness of a sample of manual journals processed during the year.• We looked carefully at management estimations and considered if they were subject to bias.• We understood the business rationale for significant transactions which appeared out of the normal course of business.• Our audit procedures also included an unpredictable element that varies year on year. <p>We have not identified any misstatements as a result of our testing to date.</p>

Risks	Action taken
<p>Revenue and expenditure recognition</p> <p>There is a risk of material misstatement in the financial statements arising from error or omission of transactions, balances and disclosure.</p>	<ul style="list-style-type: none"> • We have evaluated key controls to confirm our understanding of the design of the control; tested key reconciliations, and, tested that transactions that occurred around year-end were appropriately classified within the financial year to which they related. • We have considered the accounting policies adopted by the Council and subjected income and expenditure to the appropriate level of testing to identify any material misstatement. • We have also considered the work we undertook in relation to the risk of management override of controls (see above). <p>We did not identify any misstatements as a result of our work.</p>
<p>Financial statements risks</p>	
<p>Property, plant and equipment (PPE)</p> <p>Risk of material misstatement in the financial statements arising from the accounting for Non-Current Assets.</p> <p>We have identified a number of issues in previous years which have resulted in material adjustments to the draft financial statements.</p>	<ul style="list-style-type: none"> • We have considered the accounting treatment and disclosure of non-current assets to ensure that issues identified in previous years have now been addressed. • We have tested a sample of transactions to ensure that noncurrent assets are appropriately valued and correctly reflect depreciation and impairment. <p>As a result of our work, some amendments to the financial statements were made and matters reported (see below and Appendix 3).</p>
<p>Notes relating to remuneration, exit packages and related parties</p> <p>We have identified a number of disclosures as being material by nature. These include the above notes.</p>	<ul style="list-style-type: none"> • We have tested a sample of the detailed transactions contained within these notes to ensure that they are fairly stated. • We have confirmed that the accounting treatment and disclosure requirements have been met. <p>We did not identify any misstatements as a result of our work.</p>

Risks	Action taken
<p>Provisions including single status The preparation of the Statement of Accounts will involve the estimation of a number of account figures such as provisions for the Council's liabilities (eg equal pay claims, legal disputes).</p>	<ul style="list-style-type: none"> We assessed the reasonableness of the accounting estimates made by officers in light of the latest information available to them and considered the documentation held to support the estimates and the judgements made. We have considered the accounting treatment and disclosure of provisions and associated entries, eg single status/equal pay reserve. <p>As a result of our work some amendments to the financial statements were made and matters reported (see below and Appendix 3).</p>

Other significant issues arising from the audit

13. 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.

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

Non-current assets are not sufficiently detailed within the Council's asset register to allow the identification of individual assets across all asset categories

15. Historically the Council has not ensured that all assets are recorded in its asset register in sufficient detail to allow for the easy recognition of individual assets. This is particularly the case for infrastructure, vehicles, plant and equipment. There are potential implications, both in terms of ensuring that the assets are accounted for correctly in respect of depreciation and impairment, but also in allowing the Council to easily confirm that the assets are still in existence and use.
16. In order for us to obtain sufficient assurance that assets are materially stated, it has been necessary for the finance team to recreate detailed asset listings which has been time consuming. It is essential that the Council ensures that individual assets are recorded within the asset register in sufficient detail in the future. It may also be necessary to consider improving the existing records of assets.
17. As part of our sample testing on Council dwellings, we identified that two council house properties had been valued as one-bedroom properties when they were in fact three-bedroom properties. We are satisfied that the overall valuation of the council house

stock is materially stated, but the Council needs to ensure that it correctly classifies and therefore correctly values its assets.

The Council continues to make improvements in the quality of its accounts although there are still some outstanding matters

18. The general quality of the accounts continues to improve and there are fewer adjustments in numbers than there has been previously.
19. However, there are two areas where further work is required:
 - As part of this year's audit we have identified a number of transactions which have been accounted for in the wrong financial year, despite the finance department issuing clear instructions to the Council departments. Of particular concern is that the decision, in some instances, behind whether or not to accrue has been as a result of whether a budget was under or over spent. However, it is an underlying requirement in the preparation of accounts that transactions are recorded in the correct period based on whether goods and services have been received by 31 March. Whilst we are satisfied that the cumulative value of these errors is not material, it is essential that both the procedures and the understanding by budget holders is strengthened.
 - The Council has a number of highways, environmental and s106 deposits which it holds as part of the short-term creditors (£912,000) and receipts in advance (£793,000) balances. The accounting treatment of a deposit is dependent upon the substance of the specific agreements which will differ from one to another. Currently, the Council is unable to demonstrate that the classification of these deposits (between creditors and receipts in advance and between non-current and current balances) is correct, although we are satisfied that any misstatement (which has a nil effect overall) is not material. The Council needs to undertake an exercise, with reference to the individual agreements, to determine the appropriate accounting treatment of deposits.

The Authority has not recognised a liability for pension contributions on its equal pay liabilities and an element of its provision was based on historic information when more current data should have been available

20. The Council is in the process of agreeing equal pay and single status 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.
21. 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 and the single status implementation payments.
22. 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 and single status

settlements, the Appointed Auditor has concluded that he is not required to undertake any further action regarding this matter as part of the 2013-2014 audits of accounts.

23. 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.
24. The equal pay provision provides for potential costs relating to settlement of historic equal pay cases and for the cost of the one-off single status implementation and incentive payments. We are satisfied that the element of the provision for the settlement of the equal pay cases is a reasonable estimate of the likely costs. However, the estimate for the single status implementation and incentive payments was based on data from 2012. Given that payments to individuals were imminent at the time the accounts were prepared, we would have expected more current information to be available for estimation purpose.
25. In addition, this element of the provision did not include an estimate for the cost of employer national insurance costs even though it is payable. As a result, an adjustment has been made to increase the provision by £484,000.
26. It was also necessary for the Council to reconsider the single status/equal pay reserve, which was created to defer the cost of equal pay until the point the payments are actually made. However, this accounting treatment is only permissible in relation to the equal pay element. Consequently, this reserve has been adjusted by the sum relating to the single status implementation payments which have now been funded by earmarked reserves.

There are two matters relevant to the financial reporting process that we need to report to you

27. Firstly, whilst the Council can demonstrate that it considers the use of its earmarked and general reserves in its budget decision making, it does not have a clear protocol that sets out the arrangements for the establishment, discharge and review of reserves to support the Council's financial strategy and plan.
28. Secondly, International Accounting Standard 19 (Employee Benefits) requires bodies to disclose in their accounts the assets, liabilities and transactions, together with certain information regarding underlying assumptions, in respect of retirement benefits.
29. The actuary prepares both a triennial funding valuation and an annual valuation of the pension fund liabilities, on an IAS 19 basis, which provides both revenue and balance sheet disclosures for inclusion in the financial statements. This is prepared using a range of data, provided by the administering authority (Clwyd Pension Fund), and actuarial assumptions.
30. It is critical therefore that the administering authority's membership records are up to date and accurately record data for active, deferred and pensioner records. Both the employer body (via its payroll team) and the administering authority need to work together to ensure that membership records are kept up to date. This not only has

implications for the IAS19 disclosures in the financial statements, but also for the individuals concerned.

31. Whilst the administering authority process changes notified to them by the employer throughout the year, the employer also submits an annual contributions return. This allows for the data to be reconciled and often identifies changes, e.g. starters, leavers or additional roles, for which the administering authority has not been notified.
32. In 2013-14, Flintshire's annual contribution return was submitted to the administering authority in the wrong format. Consequently, delays occurred in reconciling the membership data which has resulted in annual pension information being sent to the employees late.
33. The administering authority are keen to move to a monthly process and whilst we appreciate that there are resource implications for both the administering authority and the employer bodies, we would encourage this move as it is critical that membership data is accurate.

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

34. 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 that we have not reported to you already; and
 - there are not any other matters specifically required by auditing standards to be communicated to those charged with governance.

Independence and objectivity

35. As part of the finalisation process, we are required to provide you with representations concerning our independence.
36. 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

[Audited body's letterhead]

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

24 September 2014

Representations regarding the 2013-14 financial statements

This letter is provided in connection with your audit of the financial statements (including that part of the Remuneration Report that is subject to audit) of Flintshire County Council for the year ended 31 March 2014 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 Code of Practice on Local Authority Accounting in the United Kingdom; 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;

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- 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.
 - 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.
 - 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 24 September 2014.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Gary Ferguson
Corporate Finance Manager (Chief
Finance Officer)

Glenys Diskin
Chair to the Council

Date: 24 September 2014

Date: 24 September 2014

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
- Clwyd Pension Fund

for the year ended 31 March 2014 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.

The 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 2013-14 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, Flintshire County Council'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 the Flintshire County Council'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 and to identify any information that is apparently materially incorrect based on, or materially

inconsistent with, the knowledge acquired by me in the course of performing the audit. 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 2014 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 2013-14.

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 2014 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 2013-14.

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 2014

Appendix 3

Summary of corrections made to the draft financial statements which should be drawn to the attention 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
-£51,000	Note 38 This resulted from a number of different adjustments, which related to some calculation errors in revaluation. This also had an effect on the Comprehensive Income and Expenditure Statement.	To ensure the note and prime statement reflected the correct figure.
£949,000	Note 5 to the HRA was an additional disclosure related to HRA share of contributions to/from the pension reserve.	To comply with the Code disclosure requirements.
£623,113	Note 41 Capital Commitments A contract had been omitted from the disclosure note.	To reflect the actual position.
£3,795,000	Note 18 Grant Income A number of errors had been identified, including understated grant income.	To reflect the actual position.
£72,000	Note 30 Audit Fees Included a footnote to explain redistribution of reserves to the Council.	For completeness.
£272,000	HRA Income and Expenditure Statement In the original draft accounts the non-dwelling rents were included within the Dwelling rents. This amendment splits them but has no effect on the accounts overall.	To comply with the Code disclosure requirements.
£28,158	Note 29 Related Parties The amounts owed to the Council by the BCHLHB, where understated.	To reflect the actual position.

Value of correction	Nature of correction	Reason for correction
£20,230,000	<p>Note 6 PPE</p> <p>The additions figure did not agree to Note 40 amount for capital investment, as it did not include £20 million on non-enhancing capital expenditure. This amount should also be reflected in the impairments line of Note 6.</p>	To comply with the Code accounting guidance.
£484,000	<p>Note 20 Provisions</p> <p>The Equal Pay provision was increased to better reflect the estimate of the liability.</p>	To reflect the full amount of provision required.
-£3,768,000	<p>Note 23 Equal Pay Account</p> <p>Reduction in the Equal pay in the single status/equal pay reserve in Unusable Reserves and in the Earmarked Reserves in Usable Reserves.</p>	To correctly fund the implementation payments from earmarked reserves.
Narrative disclosures	There were a number of narrative amendments to disclosure notes that have all been actioned.	To comply with guidance and to amend errors identified.

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