



Councillor Aaron Shotton
Colin Everett
Flintshire County Council
County Hall
Mold
Flintshire
CH7 6NB

24 Cathedral Road / Heol y Gadeiriau
Cardiff / Caerdydd
CF11 9LJ
Tel / Ffôn: 029 20 320500
Fax / Ffacs: 029 20 320600
Email / Ebost: wales@wao.gov.uk
www.wao.gov.uk

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Dear Aaron and Colin

Annual Audit Letter – Flintshire County Council 2013-14

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

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 2014, 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 Flintshire County Council in my Audit of Financial Statements reports on 24 September 2014 and are summarised below:

- Records relating to non-current assets are insufficiently detailed within the Council's asset register to allow the easy identification of individual assets across all asset categories. This has potential implications for both the accounting of assets and the existence and use of them. The Council were able to provide us with enough information to issue an unqualified opinion on the accounts, but the Council could usefully improve the quality of asset register.
- The Council continued to make improvements to the quality of its accounts although we identified some issues in respect of expenditure cut off (ie accounting for transactions in the correct period) and classification of balances relating to deposits.
- 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 2013-2014 audit of accounts.
- Whilst we did not identify any specific issues, it is essential that the Council, in its role as the administering authority, continues to work closely with its Employer Bodies (including Flintshire, Wrexham and Denbighshire Councils, as well as a number of smaller bodies) to ensure that pension fund membership records are up to date and accurately record data for active, deferred and pensioner records. This is important both for the individuals concerned and also to the Employer bodies in ensuring that they account for pension obligations correctly within their respective financial statements.

The Council is required to provide Whole of Government Accounts (WGA) under the HM Treasury's *Whole of Government Accounts (Designation of Bodies) Order*. The Council submitted its WGA return by the due date. We reviewed the return and identified no issues that we wish to draw to your attention.

It is also worth noting, the Council lead on the preparation of the accounts of the North Wales Residual Waste Joint Committee and the Taith Regional Transport consortia. On 30 September I issued unqualified opinions on both sets of accounts confirming that they present a true and fair view of the respective Joint Committee's financial position and transactions. The key matters arising from the accounts audit were reported to the

members of the respective Committees in my Audit of Financial Statements reports. I do not need to bring anything to your attention in this letter.

I am satisfied that the Council has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources

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. 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. This year, the Annual Improvement Report will include the findings of the Corporate Assessment undertaken in September 2014.

Prior to 2014-15, the Council has a track record of accurately identifying and meeting its budget shortfall on an annualised basis. In establishing its 2014-15 budget, the Council put in place a major structural review to yield savings from corporate and functional efficiencies, as well as organisational design which focused on both structure and workforce. The Council currently projects that a good proportion of the planned savings are likely to be achieved, but the first phase of the Voluntary Redundancy Programme did not yield the anticipated savings and a second phase is currently being worked through. There is a residual risk that, if permanent savings cannot be identified, an underlying budget shortfall will be carried through to 2015-16 onwards, adding to the pressures in future years.

The Council continues to strengthen its financial planning arrangements but at the same time faces unprecedented levels of austerity. Following details of the Welsh Local Government settlement for 2015-16, the Council now faces a budget gap of £16.4 million in 2015-16. The gap may be exacerbated by the shortfall in 2014-15, resulting in the need for a level of cuts not previously encountered.

The Council, particularly through the collective work of both Cabinet and the new Chief Officer Team, is developing detailed three-year service business plans which form the basis of the proposals to deal with this significant shortfall. However, the scale of the budget gap and the uncertainties that remain mean that the Council's ability to set a balanced and achievable budget for 2015-16 remains extremely challenging, as does the outlook for future years. I have previously expressed concern over the annualised nature of the financial planning, so it is positive to note that the Council's business plans will now form the basis of planning for 2016-17 and beyond, as well as 2015-16, and that this will be considered in the context of the 2015-16 budget.

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

I also issued a completion certificate for the Joint Committees on the same date.

My work to date on certification of grant claims and returns has not identified significant issues that would impact on the 2014-15 accounts or key financial systems

In September 2014, the Audit Committee considered my Certification of Grants and Returns 2012-13 report which confirmed that the Council has adequate arrangements in place for the preparation and submission of its grant claims. However, 65 per cent of claims were either amended and/or qualified and the Council needs to further strengthen its arrangements. To assist in this, and following the delivery of grants training to relevant officers, we issued Grants feedback memoranda for each claim to identify improvements in respect of individual grants.

My programme of audit work on the 2013-14 grant claims is currently underway and I will issue a more detailed report on my grant certification work, in Spring 2015, once this year's programme of certification work is complete. I will be conducting follow-up work to determine whether the areas of improvement identified in our 2012-13 feedback memoranda have been addressed.

The financial audit fee for 2013-14 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**