



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Audit of Financial Statements Report – **Flintshire County Council**

Audit year: 2016-17

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We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

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The Auditor General intends to issue an unqualified audit report on your financial statements. There are some issues to report to you prior to their approval.

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Summary report

Introduction

- 1 The Auditor General 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 (the Council) and its Group at 31 March 2017 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 the Council and its Group is £4.9 million. 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 the Council, for 2016-17, that require reporting under ISA 260.

Status of the audit

- 6 We received the draft financial statements for the year ended 31 March 2017 on 30 June 2017, in the line with 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 Corporate Finance Manager and his team.

Proposed audit report

- 8 It is the Auditor General'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 Where we identify misstatements that are not trivial but have no impact on our opinion, we raise them with management who have the option to amend for them. Where they decide not to amend, their decision needs to be ratified by those charged with governance to ensure they agree. We set out below the misstatement we identified in the financial statements, which has been discussed with management who have decided not to amend it due to it not being material, a figure that is estimated that will be corrected in 2017-18, and therefore not having a significant impact on the accounts or our opinion.

Financing and Investment Income and Expenditure within the Comprehensive Income and Expenditure Statement is overstated by £387,000

- 11 Testing of the provision for aftercare of former landfill sites identified an error in a supporting spreadsheet for calculating the unwinding of discount used in estimating the future costs relating to one site. As a consequence the Financing and Investment Income and Expenditure line Comprehensive Income and Expenditure Statement is over stated by £387,000. The error also impacts upon corresponding entries; Gross Expenditure of the Streetscene and Transportation in Comprehensive Income and Expenditure Statement, the 'Expenditure and Funding Analysis' and the 'Group Accounts' and associated notes.
- 12 We have discussed this matter with the officers and are satisfied that it does not impact upon the financial position of the Council as the overall provision shown on the Balance Sheet is correct. The Council has informed us that this matter has been resolved for 2017-18.

Corrected misstatements

- 13 There are five misstatements that have been corrected by management, that 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

- 14 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.

Accounting practices and financial reporting

- 15 The Council's draft financial statements were prepared to a good standard and were supported by comprehensive and timely working papers, helping us to achieve the overall completion timetable. The Accounts Governance Group which oversees the production of the financial statements has also continued to play an active role in supporting the Finance team and ensuring that the wider organisation engages appropriately in the Council's accounts preparation process. This has enabled us to complete our audit in a shorter elapsed time than in the previous year.
- 16 With the implementation of the earlier production and publication of local government annual accounts by the end May and July respectively from 2020-21, the Council should identify opportunities for streamlining its closedown processes. The Accounts Governance Group should play an important role in meeting the challenge by ensuring corporate ownership of the demands placed upon the Council in meeting the earlier preparation of the financial statements.
- 17 Recommendations from 2015-16, and how they were addressed, are set out in [Appendix 4](#).

We did not encounter any significant difficulties during the audit

- 18 The Corporate Finance Manager and his team maintained open and constructive dialogue with the audit team throughout the audit and, as a result, the audit process has gone smoothly.
- 19 We were not restricted in our work and we received the vast majority of the information that we required for our audit in a timely and helpful manner.

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

- 20 No significant matters were discussed or corresponded upon during our audit.

There are no other matters significant to the oversight of the financial reporting process that we need to report to you

- 21 Last year we reported that the Council needed to accelerate its investigations into the potential liabilities arising from a number of former waste disposal sites to enable it to estimate the extent of the liabilities disclosed in Note 21 'Provisions' and Note 36 'Contingent Liabilities'. There is the potential for any liabilities to be significant should, for instance, there be a need for a landfill cap to be installed or replaced, or if alternative treatment plans are required.
- 22 Our review of the Council's arrangements for assessing the potential liabilities during the year found that it has progressed its review and has held frequent

discussions with Natural Resource Wales. As a consequence the Council has got a better understanding of the position at various former waste disposal sites and the financial statements reflect this. We will continue to monitor the Council's progress over the coming year.

We did not identify any material weaknesses in your internal controls

- 23 No material weaknesses in the Council's internal controls were identified during our audit.

Recommendations arising from our 2016-17 financial audit work

- 24 The recommendation arising from our financial audit work is set out in [Appendix 5](#). Management has responded to it and we will follow up progress on during next year's audit. Where any action is outstanding, we will continue to monitor progress and report it to you in next year's report.

Independence and objectivity

- 25 As part of the audit finalisation process, we are required to provide you with representations concerning our independence. We can confirm that with the exception of one member of staff, there are no known threats to the independence of the Auditor General for Wales or on the independence of staff or contractors working on his behalf.
- 26 With regards to the exception noted above, a member of the Financial Audit Manager's family is employed as a teacher in a Flintshire secondary school. We have taken appropriate steps to ensure that he has not been involved in any work at the school or any specific examination of the Council's education service and its payroll transactions.
- 27 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 the Council that we consider to bear on our objectivity and independence.

Appendix 1

Final Letter of Representation

Auditor General for Wales
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

27 September 2017

Representations regarding the 2016-17 financial statements

This letter is provided in connection with your audit of the financial statements of Flintshire County Council and of its Group for the year ended 31 March 2017 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 of the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17; in particular the financial statements give a true and fair view in accordance therewith.
- 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.

- 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. The effect of the uncorrected misstatements identified during the audit is 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 27 September 2017.

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.

Signed by:

Signed by:

Gary Ferguson
Corporate Finance Manager

Councillor Brian Lloyd
Chair of Flintshire County Council

27 September 2017

27 September 2017

Appendix 2

Proposed audit report of the Auditor General to Flintshire County Council

I have audited the accounting statements and related notes of:

- Flintshire County Council;
- Flintshire County Council Group; and
- Clwyd Pension Fund;

for the year ended 31 March 2017 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, and the Housing Revenue Account Income and Expenditure Account and Movement on Reserves Statement.

Flintshire County Council's Group accounting statements comprise the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet and the Group 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 2017 based on International Financial Reporting Standards (IFRSs).

Respective responsibilities of the responsible financial officer and the Auditor General for Wales

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 10, the responsible financial officer is responsible for the preparation of the statement of accounts, Flintshire County Council's Group accounting statements and 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 Financial Reporting Council'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, Flintshire County Council Group's 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 Narrative Report 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 2017 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 2016-17.

Opinion on the accounting statements of Flintshire County Council Group

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Flintshire County Council Group as at 31 March 2017 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 2016-17.

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 2017 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 2016-17.

Opinion on other matters

In my opinion, the information contained in the Narrative Report 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 following matters, which I report to you, if, in my opinion:

- adequate accounting records have not been kept;
- the accounting statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit;
- the Annual Governance Statement does not reflect compliance with guidance.

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 Auditor General for Wales' Code of Audit Practice.

Anthony Barrett

For and on behalf of

Huw Vaughan Thomas

Auditor General for Wales

28 September 2017

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 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.

Nature of correction	Reason for correction	Impact
<p>Comprehensive Income and Expenditure Account – Service Expenditure Analysis – Theatre Clwyd was amended for the following:</p> <ul style="list-style-type: none"> • ‘Gross Expenditure’ from £4,038,000 to £5,768,000. • ‘Gross Income’ from £(4,085,000) to £(6,013,000). • ‘Net Expenditure’ from £(47,000) to £(245,000). 	<p>Transactions between the Council and its wholly owned subsidiary, Theatr Clwyd Productions Ltd, were omitted in error. Whilst not material to the financial statements, the transactions are necessary to support Theatr Clwyd Productions Ltd’s claim for Theatre Tax Relief.</p>	<p>Corresponding increases were included in Note 15 ‘Short Term debtors – Other entities and individuals’ and Note 19 ‘Creditors – Other entities and individuals’. Appropriate corresponding amendments were also included in the Balances Sheet, Movement in Reserves Statement and Expenditure and Funding Analysis.</p> <p>The amendment decreased the ‘Deficit on the provision of Services’ by £198,000.</p>
<p>Cash Flow Statement was amended for the following:</p> <ul style="list-style-type: none"> • ‘Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities’ from £(10,811,000) to £(22,811,000). • ‘Net cash flows from operating activities’ from £6,027,000 to £(5,973,000). • ‘Net cash flows from investing activities’ £(34,245,000) to £(25,468,000). 	<p>Testing of the Cash Flow Statement identified a transposition error of proceeds from Short Term Investments as they were incorrectly entered in the Council’s supporting working paper as a cash outflow of £(6,000,000) as opposed to a cash inflow of £6,000,000.</p>	<p>Appropriate corresponding amendments were made to the disclosure notes supporting the Cash Flow Statement:</p> <ul style="list-style-type: none"> • Note 25 – Operating Activities • Note 26 – Investing Activities <p>The change had no other impact on the Council’s financial statements.</p> <p>Presentation disclosure only.</p>

Nature of correction	Reason for correction	Impact
<p>Note 9 'Property, Plant and Equipment – Other Land & Buildings' was amended for the following:</p> <ul style="list-style-type: none"> • 'Cost or Valuation - from Assets derecognised' from £(66,000), to £(4,940,000). • 'Accumulated Depreciation and Impairment – Assets Derecognised' from £66,000 to £4,940,000. 	<p>Testing of 'Other Land & Buildings' identified that Note 9 incorrectly included the gross book value of £4,874,000 for Holywell High School and a corresponding figure for 'accumulated depreciation and impairment'. The impairment for the demolition of the old school site was not reflected in Council's asset register.</p>	<p>Appropriate corresponding amendments were made to the total cost of valuation at 31 March 2017 and the total Accumulated Depreciation and Impairment at 31 March 2017. The change had no other impact on the Council's financial statements.</p> <p>Presentation disclosure only.</p>
<p>Note 15 'Short term Debtors – Other entities and individuals - 2016' was amended from £11,580,000 to £14,160,000; and Note 19 Creditors – Short Term – Central Government bodies - 2016' was amended from £3,993,000 to £6,573,000.</p>	<p>The prior year 2015-16 National Domestic Rates debtor balance was not netted off the associated credit balance and the net balance included in short-term creditors. This resulted in an understatement of both short-term debtors and short-term creditors of £2,580,000.</p>	<p>An appropriate adjustment was reflected in the prior-year Balance Sheet.</p> <p>Presentation disclosure only.</p>
<p>Note 34 'Joint Arrangements' was amended for the following:</p> <ul style="list-style-type: none"> • 'Gross expenditure – GWE' was amended to include £15,833,000. • 'FCC Share – Expenditure – allocation basis – Pro rata to pupil population was amended to include £3,589,000. 	<p>The Council did not receive the relevant information from GWE, the North Wales Regional School Effectiveness and Improvement Service, to populate the disclosure note until September 2017.</p>	<p>No other impact upon the Council's financial statements.</p> <p>Presentation disclosure only.</p>

Appendix 4

Responses to recommendations arising from our 2015-16 financial audit work

We set out all the recommendations arising from our 2015-16 audit work with a summary of action taken by management during 2016-17. We have followed these up as part of the 2016-17 audit and summarise our findings:

Recommendation	Management and Audit Response
<p>The basis of the housing stock valuation was not appropriate and needed to be reviewed and recalculated</p> <p>For the next housing stock valuation (as at 1/4/2020) ensure that an appropriate basis for revaluation is used.</p>	<p>Management Response</p> <p>The Council has reviewed and revised the basis for calculating the housing stock valuation for future accounting periods.</p> <p>Audit response</p> <p>Review of the other assets valued in 2016-17 has confirmed that an appropriate valuation basis for has been used by the Council's valuer.</p>
<p>The Council was unable to estimate the value of any potential liabilities relating to the cost of landfill restoration and aftercare.</p> <p>Progress ongoing investigations into the status of former sites to establish whether there is the need for restoration or aftercare. Should that identify that liabilities exist, set aside a financial provision in the accounts.</p>	<p>Management Response</p> <p>The Council has a strategic plan for completing all of the assessments, which are complex, can involve different land owners and other public bodies such as Natural Resources Wales, and often take a number of years to be completed. However, assessments at two of the sites are now nearing completion.</p> <p>A more detailed report outlining the issue, the risks and how the Council will mitigate those risks will be brought to Cabinet and the relevant Overview and Scrutiny Committee to track progress.</p> <p>Audit Response</p> <p>The Council has progressed its ongoing investigations into the status of former landfill sites and have assessed the need for restoration against current national guidance. Where future costs have been identified, the Council has accounted for these appropriately.</p>
<p>Accuracy of pension records</p> <p>The Council needs to liaise with the Pension Fund administrator to resolve discrepancies in pension data.</p>	<p>Management Response</p> <p>A Steering Group of Senior Officers from the Clwyd Pension Fund and the unitary authorities has been set up which meets periodically to discuss and resolve such issues. Plans are in place to implement an online computer module that will allow information to be submitted by employers more directly and efficiently into the pension administration system. This will be implemented on a phased basis with each unitary authority in 2016/17 and 2017/18.</p> <p>Audit Response</p> <p>Progress has been made by the Council and the Pension Fund administrator in resolving the discrepancies in pension data. An online computer module has been implemented for Denbighshire County Council. Work is ongoing to implement the module for Flintshire County Council and Wrexham County Borough Council.</p>

Appendix 5

Recommendation arising from our 2016-17 financial audit work

We set out all the recommendations arising from our audit with management's response to them. We will follow up these next year and include any outstanding issues in next year's audit report:

Matter arising 1 – Removing non-material and duplicated disclosures	
Findings	The 2016-17 include a number of non-material disclosures such as Note 34 'Joint Arrangements' and duplicated descriptions of the core statements in the 'Narrative Report' and the primary statements.
Priority	Low
Recommendation	In preparing for the earlier closure and preparation of the financial statements the Council should review its financial statements to identify opportunities for removing non-material and duplicated disclosures.
Benefits of implementing the recommendation	To streamline and de-clutter the Council's financial statements.
Accepted in full by management	Yes
Management response	The Council will review the financial statements during the year for opportunities to remove non-material disclosures and any duplicated descriptions to streamline and de-clutter the document.
Implementation date	31 March 2018

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