



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# Audit of Financial Statements Report – **Monmouthshire County Council**

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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 Monmouthshire County Council (the Council) at 31 March 2018 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 level at which we judge such misstatements to be material for the Council are £2.88 million for income and expenditure items, working capital and 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, where necessary.
- 5 This report sets out for consideration the matters arising from the audit of the financial statements of the Council for 2017-18 that require reporting under ISA 260.

## Status of the audit

- 6 We received the draft financial statements for the year ended 31 March 2018 on 4 June 2018 which was in line with the agreed deadline, and we have now substantially completed our audit work.
- 7 We are reporting to you the 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 Head of Finance and Assistant Head of Finance.

## 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 We set out below the misstatements we identified in the financial statements, which have been discussed with management but remain uncorrected, and request that these are corrected. If you decide not to correct these misstatements, we ask that you provide us with the reasons for non-correction.
- a. Accrued income and deferred income overstated by £1,372,006**

For internal monitoring purposes the accountant responsible had tried to split (via journal postings) the income from Welsh Government over two ongoing projects to reflect their year-end positions. These postings resulted in an overstatement of both accrued income (Debtors) and deferred income (Creditors). However, there was no impact on income per the Comprehensive Income and Expenditure Statement (CIES). The impact on the financial statements is that Short-term Creditors and Short-term Debtors is overstated by £1,372,006.
  - b. Termination Benefits understated by £15,000**

During testing of termination benefits we identified a commitment to terminate the employment for one individual, which was not included in the accounts. The impact on the financial statements is that both Accruals and Termination Costs (included in Employee Benefit Expenses) are understated by £15,000.
  - c. Property, Plant and Equipment overstated by £1,020,000**

During testing of Property, Plant and Equipment (PPE) we identified one asset (Monmouthshire Leisure Centre) that was under reconstruction and was not considered for an impairment review at year-end. The Authority has capitalised all the costs for the renovation under Assets Under Construction but had not undertaken an impairment of the 'old' leisure centre that was included in Land and Buildings. The impact on the financial statements is that Property, Plant and Equipment is overstated by £1,020,000 and the Revaluation Reserve/Surplus on revaluation of PPE Assets in the CIES is overstated by £1,020,000.
  - d. Grant income and expenditure understated by £343,825**

During income cut-off testing, we identified one 2017-18 bank receipt (from Welsh Government) for the Schools Maintenance Revenue Grant that was not recognised in grant income. Instead, an incorrect posting/journal had reduced both income and expenditure. The impact on the financial statements is that both Cost of Services Income (Grant Income) and Cost Services Expenditure are understated by £343,825.

## 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 During 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 no significant issues arising in these areas this year:
- **We have no concerns about the qualitative aspects of your accounting practices and financial reporting.** As referred to above, the draft Annual Accounts were provided to us on 4 June 2018 and we found the information provided to be relevant, reliable, comparable and easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear. However, the statements included a significant number of rounding errors (as reported in last year's ISA 260). We have recommended that these are adjusted for, but Management has decided not to adjust for these.
  - **We did not encounter any significant difficulties during the audit.** We received information in a timely and helpful manner and were not restricted in our work. We met with the Finance Team regularly during the final audit to review progress and clear any issues arising promptly. The working papers provided were of a good standard. However, further improvements could be made. Following completion of last year's audit we agreed a 'Schedule of Deliverables' with the finance team in order to ensure that appropriate working papers were available to us at the commencement of the audit. Unfortunately not all of these papers were presented to us with the draft financial statements, which resulted in having to request them again. We will continue to work with the Finance team to see if the audit process can be developed and refined further.
  - **There was one significant matter discussed and corresponded upon with management which we need to report to you.** We noted that the Council is failing to 'de-recognise' existing infrastructure assets when these assets are replaced or where improvements are made. This is because the Council is unable to identify the individual assets, due to insufficient detail being contained in the asset register. Going forward, improvements are needed to the process and the description of assets within the fixed assets register, to ensure that infrastructure assets are more clearly identifiable and can be 'de-recognised'. We are comfortable that the net book value of the assets included in the accounts at 31 March 2018 is not materially misstated.

- **There are no other matters significant to the oversight of the financial reporting process that we need to report to you.**
- **We did not identify any material weaknesses in your internal controls.**
- **There are not any other matters specifically required by auditing standards to be communicated to those charged with governance.**

## Independence and objectivity

- 13 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 14 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 County 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

3 July 2018

## Representations regarding the 2017-18 financial statements

This letter is provided in connection with your audit of the financial statements of Monmouthshire County Council for the year ended 31 March 2018 for the purpose of expressing an opinion on their truth and fairness, their proper preparation and the regularity of income and expenditure.

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:

- Preparing the financial statements in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18; in particular the financial statements give a true and fair view in accordance therewith:
  - including the relevant accounting and disclosure requirements and apply appropriate accounting policies on a consistent basis;
  - make judgements and estimates on a reasonable basis;
  - state whether applicable accounting standards have been followed and disclosed and explain any material departures from them; and
  - prepare them on a going concern basis on the presumption that the services of Monmouthshire County Council will continue in operation.
- Ensuring the regularity of any expenditure and other transactions incurred.
- The design, implementation and maintenance of internal control to prevent and detect 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 the Monmouthshire 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.
- Our knowledge of all possible and actual instances of irregular transactions.

## 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.

**Additional Disclosure (suggested wording) – Included within the Fixed Asset balances are a number of Heritage Assets, each with a value of £1. We are satisfied that an appropriate method of valuation has been used to establish these values and the individual assets are not materially misstated.**

## Representations by the Audit and Risk Assurance Committee

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 Monmouthshire County Council on 20 September 2018.

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.

P Matthews  
Chief Executive  
20 September 2018

P Fox  
Council Leader  
20 September 2018

# Appendix 2

## Proposed audit report of the Auditor General

### The independent auditor's report of the Auditor General for Wales to the members of Monmouthshire County Council

#### Report on the audit of the financial statements

##### Opinion

I have audited the financial statements of Monmouthshire County Council for the year ended 31 March 2018 under the Public Audit (Wales) Act 2004.

Monmouthshire County Council's financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and the related notes, including a summary of significant accounting policies.

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 [year] based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial position of Monmouthshire County Council as at 31 March 2018 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18.

##### Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the council in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the responsible financial officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

### Other information

The responsible financial officer is responsible for the other information in the annual report and accounts. The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated later in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information to identify material inconsistencies with the audited financial statements 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.

## Report on other requirements

### Opinion on other matters

In my opinion, based on the work undertaken in the course of my audit:

- the information contained in the Narrative Report for the financial year for which the financial statements are prepared is consistent with the financial statements and the Narrative Report has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and has been prepared in accordance with guidance.

### 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 financial statements are not in agreement with the accounting records and returns;
- the governance statement contains material misstatements of fact or is inconsistent with other information I am aware of from my audit; or
- I have not received all the information and explanations I require for my audit.

### Certificate of completion of audit

I certify that I have completed the audit of the accounts of Monmouthshire 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 J Barrett  
For and on behalf of the Auditor General for Wales  
September 2018

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 Members of Monmouthshire 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.

### Exhibit 1: summary of corrections made to the draft financial statements

Value of correction	Nature of correction	Reason for correction
£6,886,100	<p><b>Comprehensive Income &amp; Expenditure Statement (CIES)</b> Children &amp; Young People Gross Expenditure decreased by £6,886,100. Surplus on revaluation of Property Plant and Equipment Assets decreased by £6,886,100.</p> <p><b>Unusable Reserves</b> Revaluation Reserve decreased by £6,886,100. Capital Adjustment Account increased by £6,886,100.</p>	The revaluation of Caldicot Comprehensive School has been treated in the financial statements as two separate valuations, when it should have been treated as one (single asset). This resulted in an impairment of the old school asset debited to the CIES and an upwards revaluation of the new school asset credited to the Revaluation Reserve. The Authority should have recorded the net movement as it is a single asset.
£629,000	<p><b>Note 12.10 Capital Commitments</b> Capital commitments was decreased by £629,000.</p>	The capital commitments regarding Monmouthshire Comprehensive School, incorrectly included a commitment to phase 1 and 2 of the rebuild, which had been completed in year.
Presentational	<p><b>Note 13.1 – Categories of Financial Instruments</b> Short-Term Debtors 2016-17 was decreased by £4,241,000. Short-Term Debtors 2017-18 was decreased by £3,144,000. Long-Term Debtors 2017-18 was decreased by £1,096,000.</p>	The Short and Long-Term Debtors in Note 13.1 did not agree to the Balance Sheet or supporting Debtors note 13.5. The figures included in note 13.1 were 'gross' when they should be net (ie after impairment).

Value of correction	Nature of correction	Reason for correction
Presentational	<b>Note 11.2 Nature of Expenditure</b> Fees, charges and other service income decreased by £8,059,000. External grants and contributions increased by £8,059,000.	From review of the working papers, there were a number of 'consolidation' adjustments that had been incorrectly classified.
Presentational	<b>Note 13.4 Nature and extent of risks arising from financial instruments</b> Supporting note added for material Balance Sheet item: Short-Term Investments £10,038,000.	Additional disclosure required to comply with the CIPFA Code 2017-18.
Presentational	<b>Note 13.4 Nature and extent of risks arising from financial instruments</b> Short-Term Borrowings PWLB increased by £998,873. Long-Term Borrowings BWLB decreased by £998,873.	All Public Works Loan Board (PWLB) loans were treated as Short-Term Borrowings. One loan is due to be repaid in Less than one year and should have been treated as Short-Term Borrowings.
Presentational	<b>Note 13.4 Nature and Extent of Risks arising from Financial Instruments</b> Loans Mature between one and two years decreased by £5,000,000. Loans Mature between two to five years increased by £5,000,000.	One loan was incorrectly classified as maturing between one and two years, when it should have been classified as maturing between two to five years.
Presentational	<b>Note 16.6 Related Business Operations</b> Dragon Waste Ltd trading results updated to reflect 2017-18 figures.	The figures included for Dragon Waste Ltd in 2017-18 financial statements had not been updated from last year.
Narrative	Further detail added regarding restatement of Cost of Services (COS) comparatives to ensure the Authority is in line with the CIPFA Code 2017-18.	The COS comparatives for gross income and expenditure have been restated, but the Authority has not disclosed the nature of the reclassification, the amount or the reason for reclassification.  This is required as per section 3.4.2.31 of the CIPFA Code 2017-18.
Narrative	Revised wording for accounting policy 17.20 Overheads and Support Services.	Accounting policy did not reflect the treatment in the financial statements.



Value of correction	Nature of correction	Reason for correction
Narrative	<p><b>16.6 Related Business and Operations</b>  Detail added regarding £4,500,000 loan from CSC Foundry Ltd, which is included in Short-Term Borrowings.</p>	<p>The related party disclosure for the 'City Deal' did not include details of the related party transaction with CSC Foundry Ltd. Monmouthshire County Council had significant control during 2017-18 and should have disclosed any transactions or balances with CSC Foundry Ltd, as per section 3.9.4 of the CIPFA Code 2017-18.</p>

Wales Audit Office  
24 Cathedral Road  
Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone.: 029 2032 0660

E-mail: [info@audit.wales](mailto:info@audit.wales)

Website: [www.audit.wales](http://www.audit.wales)

Swyddfa Archwilio Cymru  
24 Heol y Gadeirlan  
Caerdydd CF11 9LJ

Ffôn: 029 2032 0500

Ffacs: 029 2032 0600

Ffôn testun: 029 2032 0660

E-bost: [post@archwilio.cymru](mailto:post@archwilio.cymru)

Gwefan: [www.archwilio.cymru](http://www.archwilio.cymru)