



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# Audit of Financial Statements Report and Management Letter – The Monmouthshire County Council Welsh Church Act Fund

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[infoofficer@audit.wales](mailto:infoofficer@audit.wales).

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.

The team who delivered the work were Ann-Marie Harkin, Terry Lewis, Rhodri Davies and Jane Davies.

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This document summarises the conclusions on the 2016-17 audit including our recommendations for the year. 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 purpose of this report is twofold:
  - to set out for consideration the matters arising from the audit of the financial statements of The Monmouthshire County Council Welsh Church Act Fund for 2016-17, that require reporting to those charged with governance, in time to enable appropriate action; and
  - to formally communicate the completion of our audit and capture the recommendations arising from our audit work for the year.
- 2 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 The Monmouthshire County Council Welsh Church Act Fund at 31 March 2017 and its income and expenditure for the year then ended.
- 3 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.
- 4 The quantitative levels at which we judge such misstatements to be material for The Monmouthshire County Council Welsh Church Act Fund are £10,000 for income and expenditure items and £112,753 for balance sheet items. 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.

## Status of the audit

- 5 We received the draft financial statements for the year ended 31 March 2017 on 15 June 2017, 15 days prior to the agreed deadline of 30 June 2017, and have now substantially completed the audit work.
- 6 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 management.

## Proposed audit report

- 7 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](#).
- 8 The proposed audit report is set out in [Appendix 2](#).

## Significant issues arising from the audit

### Uncorrected misstatements

9 We set out below the misstatements we identified in the financial statements, which have been discussed with management but remain uncorrected. Explanations for not correcting these misstatements are provided (by management) in the Letter of Representation [Appendix 1](#).

#### **a. Investment Land incorrectly classified and valued**

In line with the Charities Statements of Recommended Practice (SORP) section 10.46, land is to be 'excluded from investment properties and treated as tangible fixed assets if the property is occupied by the charity for its own purposes'. The land (at Rogiet Glebe) is being used as allotments and meets the definition of Section 7 of Schedule 1 of the Fund's scheme, as it provides leisure facilities to the public. It should therefore be classified as a tangible fixed asset and not an investment asset.

The land is considered a 'community asset' and is being carried at £1 in the Balance Sheet. In line with the SORP the land should be included at its most recent valuation of £6,000. The impact on the financial statements is that Fixed Assets are understated by £5,999 and the gain on Investment Assets in the SOFA is understated by £5,999.

#### **b. Investments incorrectly valued at year-end**

Three Investments were valued at the 'mid-price' instead of the 'bid-price' (as per section 11.27 of FRS102) to value three investments at year-end. The impact on the financial statements is that Investments on the Balance Sheet are understated by £4,176 and the gain on Investment Assets on the SOFA is understated by £4,176.

#### **c. Investment income overstated**

Testing of Investment income identified one discrepancy, whereby the CCLA income was overstated by £6,596. This was due to the understatement of the prior year's brought forward balance. The impact on the financial statements is that Fund Balance brought forward is understated by £6,596 and the gain on Investment Assets in the SOFA is overstated by £6,596.

### Corrected misstatements

10 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

- 11 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 some issues arising in these areas this year:
- **We have some concerns about the qualitative aspects of your accounting practices and financial reporting.** There were numerous disclosure omissions and errors that have now been adjusted. These errors could have been prevented if the Council had used the CIPFA Disclosure checklist to ensure compliance with the reporting framework (Charities SORP FRS 102) when preparing the draft accounts.
  - **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.**
  - **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

- 12 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 13 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 Monmouthshire County Council Welsh Church Act Fund 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

23 November 2017

### Representations regarding the 2015-16 financial statements

This letter is provided in connection with your audit of the financial statements of Monmouthshire County Council Welsh Church Act Fund for the year ended 31 March 2017 for the purpose of expressing an opinion on their truth and fairness.

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 Charities SORP 2015 in preference to the Charities SORP 2005 which is referred to in the extant regulations but has been withdrawn, 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;
  - 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 Monmouthshire County Council Welsh Church Act Fund 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 those charged with governance

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 the Trustee on 23 November 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:

Date:

Date:

# Appendix 2

## Proposed audit report of the Auditor General to the Trustee of Monmouthshire County Council Welsh Church Act Fund

I have audited the financial statements of Monmouthshire County Council Welsh Church Act Fund for the year ended 31 March 2017, which comprise the Statement of Financial Activities, the Balance Sheet, Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

### Respective responsibilities of trustee and independent auditor

As explained more fully in the Trustee Responsibilities Statement set out on page 2, the trustee is responsible for the preparation of financial statements which give a true and fair view.

I have been appointed as auditor under section 144 of the Charities Act 2011 and report in accordance with regulations made under section 154 of that Act.

My responsibility is to audit the financial statements 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 financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Charity's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustee; and the overall presentation of the financial statements.

In addition, I read all the financial and non-financial information in the Trustee Annual Report, 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.

### Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the state of affairs of the Charity as at 31 March 2017 and of its incoming resources and application of resources for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and the Charities Act 2011.

### Opinion on other matters

In my opinion the information in the Trustee Annual Report is consistent with the financial statements.

### Matters on which I am required to report by exception

I have nothing to report in respect of the following matters where the Charities Act 2011 requires me to report to you if, in my opinion:

- sufficient accounting records have not been kept; or
- the financial 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.

### Emphasis of Matter

Your attention is drawn to the fact that the Charity has prepared its financial statements in accordance with the Charities SORP 2015 in preference to the Charities SORP 2005 which is referred to in the extant regulations but has been withdrawn. We understand this has been done in order for the accounts to provide a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice effective for reporting periods beginning on or after 1 January 2015.

Ann-Marie Harkin  
On behalf of the Auditor General for Wales  
Date:

Wales Audit Office  
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 Trustee of Monmouthshire County Council Welsh Church Act Fund

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
£4,537	<b>Related Party Transactions (Note 12)</b> Monmouthshire County Council receipts increased by £4,513 and payments by £4,537.	Value not included in draft accounts.
Presentational	<b>SOFA</b> Gains on re-valuation of tangible fixed assets decreased by £18,000. Gains on investment assets increased by £18,000.	Per section 4.59 of the SORP, Gains/(losses) on investment assets should include those gains or losses arising from the revaluation of investment property.
Presentational	<b>SOFA</b> Other Trading Activities decreased by £3,060. Investment income increased by £3,060.	Per section 4.37 of the SORP, rental income from investment property should be disclosed within Investment Income. This was incorrectly disclosed in Other Trading Activities.

Value of correction	Nature of correction	Reason for correction
Narrative	<p><b>Trustee Report</b></p> <p>The value for charitable expenditure (and comparative) disclosed in the Trustee's Report (Financial Review) did not agree to the SOFA.</p> <p>The Trustee Report referred to 'non-realised investment losses'. However, there was a gain on investments in year.</p> <p>The Trustee report states that grants have been made in excess of investment income but investment income exceeded grants awarded.</p>	Trustee's report was inconsistent with Financial Statements.
Narrative	<p><b>Trustee Report</b></p> <p>No description of the risks and uncertainties the Charity face were included in the Trustee Report as per section 1.46 of the SORP.</p> <p>The name of the CEO or the individuals the trustee delegates day-to-day management to is not disclosed as per section 1.52 of the SORP.</p>	Trustee report was not in line with SORP requirements.
Presentational	<p><b>Cash Flow Statement</b></p> <p>Various amendments to the Cash Flow Statement and related notes.</p>	Cash Flow statement not consistent with SOFA or reporting requirement as per the SORP.
Narrative	<p><b>Analysis of Grants (Note 4)</b></p> <p>The following was not disclosed:</p> <ul style="list-style-type: none"> <li>Information on institutional grants as per section 16.17 of the SORP.</li> <li>Some institutions were awarded more than one grant, eg Christ Church Ebbw Vale. The total amount awarded to these institutions was not disclosed as per section 16.19 of the SORP.</li> </ul>	Analysis of grants note not in line with SORP requirements.

Value of correction	Nature of correction	Reason for correction
Narrative	<p><b>Accounting policies</b></p> <p>The following was not disclosed:</p> <ul style="list-style-type: none"> <li>• The estimation techniques used to apportion costs as per SORP 8.13.</li> <li>• The Charity meets the definition of a public benefit entity under FRS102 as per SORP 1.18.</li> <li>• The trustees have considered there are no material uncertainties about the charity's ability to continue as a going concern as per SORP 3.39.</li> </ul>	Accounting policies not in line with Charities SORP (FRS 102) requirements.



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