



Audit of Financial Statements Report

Monmouthshire County Council

Audit year: 2014-15

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The team who delivered the work were Ann-Marie Harkin, Steve Wyndham, Anthony Ford, Jane Thomas, Ben Buckley, Rhodri Jones and Kate Ashburner.

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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 2015 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 are £2.9 million. Whether an item is judged 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 2014-15, that require reporting under ISA 260.

Status of the audit

6. We received the draft financial statements for the year ended 31 March 2015 on 30 June 2015, which met the submission deadline and have now substantially completed our 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 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

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. None of these misstatements are material, either individually or in aggregate.

Capita Gwent Consultancy pension liability

11. In 2002, the Council, along with three other local authorities in Gwent, formed a collaborative partnership for the joint procurement of engineering and related services through Capita Gwent Consultancy Limited (Capita Gwent), a private joint-venture company. Capita Gwent has been a member of the Greater Gwent Pension Fund since 2002.
12. The termination of the Gwent Consultancy framework agreement in August 2012 resulted in an outstanding pension liability for the Greater Gwent Pension Fund totalling £7.3 million. Following extensive legal negotiations with the Capita Group and officer consultation with the Pensions Committee of the Greater Gwent Pension Fund, a settlement of £3.3 million from the Capita Group was accepted on 2 October 2014.
13. Approval was obtained during June 2014 from each of the four respective Councils' Cabinets that any unfunded residual liability would be settled in equal share to the Pension Fund. As a settlement has been reached with the Capita Group, this has resulted in a liability of £1 million for each Council. This has been agreed by the Greater Gwent Pension Fund to be absorbed into the Council's employer's pension contribution rate, and paid over 25 years.
14. Whilst there remains some uncertainty in regard to the actual implications of this arrangement upon the Council's financial statements, the Fund's actuary indicated during Summer 2014 that £1m of extra deficit would give rise to an additional deficit recovery amount of £49,500 p.a. if recovered over 25 years. In addition the pension fund liability upon the Council's balance sheet is likely to be understated by some £1m.
15. The Council has currently disclosed this as a contingent liability in its financial statements. However, as the final settlement has now been confirmed this should be accounted for in the Council's financial statements and added to the Council's pension liability (IAS19) figure.

Property, Plant and Equipment

16. There are two uncorrected misstatements in respect of the Property, Plant and Equipment (PPE) balance of £156m as follows:
 - **Innovation House:** The PPE balance includes £3.4m in respect of the Innovation House building at Magor. Our audit identified that an asset life of 5 years had been attributed to this asset within the Council's Fixed Asset Register. We queried the reasonableness of this and the Council's Estates Section confirmed that this asset life is incorrect and that it should be 30 years, meaning that the value of the buildings of this asset within PPE is understated by £1.161m and the accumulated depreciation similarly overstated.
 - **Depreciated Replacement Cost Asset Valuations:** The Council uses the depreciated replacement cost (DRC) method of valuing assets where there is no

readily available market value – this mainly relates to school valuations. The CIPFA Code prescribes that finance costs are to be excluded from these valuations. Finance costs have however been included in some of the DRC asset valuations resulting in the PPE asset balance value being overstated by some £535,000.

Other Misstatements

17. There are a further three misstatements that relate to other areas of the financial statements as detailed below:
- **Credit Notes:** We identified an amount of £108,000 relating to several credit notes that had been treated as relating to 2015-16 but our testing identified that they related to 2014-15. If adjusted, expenditure in the accounts would be reduced by £108,000 and creditors decreased by the same amount.
 - **Current Assets Classification Error:** A classification error of £596k exists between Debtors and Cash upon the Council's balance sheet. Whilst Cash is under stated by £596k and Debtors correspondingly overstated, the overall Current Assets sub-balance is not affected.
 - **Comprehensive Expenditure & Income Account (CIES):** Included in CIES is expenditure of £579k and income of £424k in regard to the billing and recovery of highways maintenance costs in respect of other Welsh councils. This income and expenditure relates to other authorities and should be excluded from the Council's accounts.

Corrected misstatements

18. 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

19. 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. In doing so we have undertaken audit procedures to address those risks that we communicated within our 2014-15 Annual Audit Outline document and can also confirm that we have found no instances of deliberate error or omission.
20. There were some issues arising in these areas this year:
- **We have no concerns about the qualitative aspects of your accounting practices and financial reporting.** There are no significant matters arising that need to be reported. We intend to discuss our more detailed findings with the Head of Finance and her team as part of our Final Accounts Memorandum report.

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- **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

- 21.** As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 22.** 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 Monmouthshire County Council that we consider to bear on our objectivity and independence.

Appendix 1

Final Letter of Representation (Council's letterhead)

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

24 September 2015

Representations regarding the 2014-15 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 2015 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 the Code of Audit Practice on Local Authority Accounting in the United Kingdom for 2014-15; 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

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- 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 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 Members of Monmouthshire 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 Monmouthshire County Council on 24 September 2015.

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:

Officer who signs on behalf of management

Date:

Signed by:

Officer or Member who signs on behalf of those charged with governance (director only for companies)

Date:

Appendix 2

Proposed audit report of the Auditor General to the Members of Monmouthshire County Council

I have audited the accounting statements and related notes of Monmouthshire County Council for the year ended 31 March 2015 under the Public Audit (Wales) Act 2004.

Monmouthshire 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 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 2014-15 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 set out on page 6, the responsible financial officer is responsible for the preparation of the statement of accounts, 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 Monmouthshire 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. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Opinion on the accounting statements of Monmouthshire County Council

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Monmouthshire County Council at 31 March 2015 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 2014-15.

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 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 Governance Statement contains material misstatements of fact or is 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 Monmouthshire 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.

For and on behalf of

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

September 2015

Appendix 3

Summary of corrections made to the draft financial statements

During our audit, we identified several misstatements that have been corrected by management which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

A number of minor amendments and reclassification adjustments were also made to the financial statements. We have not listed all of these items as they relate to either revisions in disclosures of information, narrative changes, reclassifications between headings, or the amounts involved are trivial. The more significant items amended are however detailed below:

Nature and value of correction

Provisions and Contingencies – Capita Gwent Pension Liability

Note 13.7g/h has been amended to include additional narrative that summarises the progress in determining the Council's liability to the Pension Fund and highlights that the Council has an additional liability of £1 million which it will need to fund via additional expected annual pension contributions of £49,500 per annum.

Provisions and Contingencies – CMC2

The Council acts as guarantor in regard to the bank overdraft of CMC2. Whilst the draft Financial Statements disclosed this as a contingent liability within Note 13.7h, following the recent Cabinet decision there is now sufficient evidence to confirm that this liability is now probable and £122k has therefore been provided for this within the audited Financial Statements.

Grant Income Disclosures

Reclassification amendments have been made to the grant income notes as follows:

- Note 11.7c – a grant of £196,000 has been reclassified from other grants to other Assembly Government grants; and
- Note 11.1d – £2.187 million of government grants has been reclassified from fees and charges to the government grants line.

Senior Officer Remuneration Disclosures

Note 16.8 has been amended to include:

- The ratio of the Chief Executive's salary to the overall median salary of the Council's employees as per the revised requirements of the CIPFA Code for 2014-15; and
- The remuneration paid to the former Monitoring Officer who was employed by the Council during part of 2014-15 and required disclosure given his annualised salary exceeded £60,000.

Comprehensive Income & Expenditure Account (CIES) - Bus Services Support Grant

Highways and Transport Services has been amended to remove some £10 million of income and expenditure in respect of Bus Services Support Grant for which the Council is the lead authority for the South East Wales area. In our view the Council acts as an agent for the Welsh Government for the distribution of this grant to the other Local Authority bodies, and therefore only that income and expenditure attributable to the Council should be included in the Financial Statements. The net expenditure total within CIES is not affected by this amendment.

