



WALES **AUDIT** OFFICE

SWYDDFA **ARCHWILIO** CYMRU

MCC / WAO Joint Progress Document

Monmouthshire County Council

Audit year: 2014-15

Issued: October 2015

Status of report

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Summary

Introduction

1. Our *2014-15 - Audit of Financial Statements report* summarised matters arising from the audit including highlighting any corrected and uncorrected misstatements and other issues for the Council's attention. None of the issues in that report prevented the Auditor General from issuing an unqualified opinion on the financial statements, but action is required by the Council to address some of these issues when preparing the 2015-16 financial statements. These are summarised in Exhibit 1.
2. We also identified other matters during our audit that were not reported to the Audit Committee within our *2014-15 Audit of Financial Statements report*. These issues are summarised in Exhibit 2.
3. In addition, in completing our audit, we reviewed the progress made by management in implementing the agreed issues that we reported in our *2013-14 Joint Progress report*. Whilst we are pleased to report that the Council has implemented the majority of the agreed actions a small number of areas remain where further action is required and these are highlighted within Exhibit 3.
4. The Council needs to address each of these issues during 2015-16 and we shall monitor implementation during our 2015-16 audit. It is also recommended that management provide an update to the Audit Committee of the progress made in resolving these issues when presenting the draft 2015-16 Financial Statements to the Audit Committee. These issues have already been discussed with the Head of Finance and her team.

Exhibit 1 – Summary of issues raised in the Audit of Financial Statements report (presented to the September 2014 Audit Committee)

Issue/Recommendation	Agreed Action/Date	Progress
<p><u>Capita Gwent Consultancy pension liability</u></p> <p>In our Audit of Financial Statement report, we reported that the Council had not included in its accounts its share of a potential £7.3million liability, or some £1 million, in respect of pension liabilities relating to employees of the former Capita Gwent Consultancy.</p> <p>Action is required by the Council to ensure that this liability is correctly accounted for within the 2015-16 financial statements.</p> <p>Recommendation</p> <ul style="list-style-type: none"> • The Council needs to work closely with the Torfaen Pension Fund and the other Councils, involved in the arrangement, to ensure it is kept fully informed of developments in settling this issue; and • In the event of there being no further progress in settling the issue before 31/3/2016, the Council should request that the Pension Fund obtain a separate up to date valuation from the actuary in order to determine the Council's share of the liability and to ensure it is correctly accounted for. 	<p>Updated position of liability as at 31/03/16 to be recognised in the 2015/16 financial statements</p>	<p>To be dealt with as part of accounts closure</p>

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Issue/Recommendation	Agreed Action/Date	Progress
<p><u>Incorrect asset life allocated to Innovation House</u></p> <p>We identified that the Council had allocated an asset life of 5 years to Innovation House in the fixed asset register (FAR) which was significantly less than asset lives for other Council buildings. The Council's Estates department subsequently confirmed that the asset life was incorrect and an asset life of 30 years was appropriate.</p> <p>This error resulted in the value of the Council's buildings within the accounts being understated by £1.161m with accumulated depreciation similarly overstated.</p> <p>Based upon our audit work we are satisfied that this is an isolated error.</p> <p>Recommendation</p> <p>The Council needs to:</p> <ul style="list-style-type: none">• Correct the Innovation House asset value and depreciation charge within the accounts; and• Update the asset life allocated in the FAR so that future depreciation calculations are correct.	<p>To be corrected during 2015/16</p>	<p>Target Dec 2015</p>

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Issue/Recommendation	Agreed Action/Date	Progress
<p><u>Depreciated replacement cost asset valuations</u></p> <p>We reported in our Audit of Financial Statements report issues relating to Council's use of the depreciated replacement cost (DRC) method in valuing assets, such as schools, leisure centres and other assets where there is no readily available market value.</p> <p>Whilst the CIPFA Code prescribes that valuers should not include finance costs when using the DRC method to value assets we identified that finance costs had been included in some of the Council's DRC asset valuations. We understand this arose as the guidance used by Estates (the Red Book) in completing the valuations, states that finance costs are to be included. The Council has estimated that asset valuations are overstated by some £535,000 by not following the approach prescribed by the Code.</p> <p>Recommendation</p> <p>The Council needs to recalculate asset values for all assets valued on a DRC basis as part of preparing the 2015-16 financial statements and update the fixed asset register accordingly.</p>	<p>To be adjusted during 2015/16 to remove finance costs</p>	<p>Target Dec 2015</p>

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<p><u>Agency income and Expenditure</u></p> <p>We identified that the Council had included amounts of income and expenditure in its Comprehensive Income & Expenditure Account (CIES) where the Council was acting as an agent for other Councils. The issue arose where, for practical purposes, several Councils were amalgamating their own costs and billing SWTRA via one consolidated invoice instead of each Council billing SWTRA separately.</p> <p>The Council had included the gross amounts of the consolidated invoices in its accounts instead of the amount that it was entitled to had it invoiced SWTRA for Monmouthshire Council's costs only.</p> <p>Recommendation</p> <p>The Council needs to ensure it excludes the amounts of income and expenditure relating to other bodies in 2015-16.</p>	<p>The Operations and Central Finance accountants will ensure that income and expenditure relating to other bodies will be removed from the MCC accounts in 2015-16. These will be excluded via consolidation adjustments on the face of the statements</p>	<p>To be actioned during accounts closure 2015/16</p>

Exhibit 2 Summary of other issues arising from the Audit not reported in the Audit of Financial Statements Report

Issue/Recommendation	Agreed Action/Date	Progress
<p><u>Related Party Transactions</u></p> <p>The Council is required to identify transactions with related parties and disclose these in its financial statements. The CIPFA code identifies related parties as transactions involving persons able to control or influence an entity and includes close family members within this definition.</p> <p>The current process involves circularising senior managers and elected Councillors to identify related parties but it does not include the identification of any related parties of close family members of Councillors and senior managers.</p> <p>Recommendation</p> <p>The current circularisation procedure needs to be amended so that close family members are included in the related party return.</p>	<p>The related parties year-end procedure will be amended to ensure that the question is asked in relation to close family members are included on the Senior Officer return</p>	<p>To be actioned during accounts closure 2015/16</p>

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Issue/Recommendation	Agreed Action/Date	Progress
<p><u>Disposal of assets</u></p> <p>The Council identified that, as part of the 2014-15 accounts closedown process, vehicles that had been disposed of in 2011-12 were still included in the fixed asset register. The Council subsequently made correcting entries for this issue in the 2014-15 accounts. Delays in capturing fixed asset disposals affect the accuracy and reliability of the asset values recorded in the fixed asset register. We believe this issue arose as vehicles are recorded on a separate asset list that is not regularly reconciled with the fixed asset register.</p> <p>Recommendation</p> <p>The Council needs to ensure the fixed asset register and list of vehicles held are reconciled on a regular basis.</p>	<p>A process is being set up to keep an up to date list of vehicles by liaising with the Transport Section. Historical errors will be updated during 2015/16</p>	<p>Meeting with Transport being arranged for December 2015. Process to be complete by 15/16 year end</p>

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Issue/Recommendation	Agreed Action/Date	Progress
<p><u>Misclassification issues</u></p> <p>As part of our audit testing we identified the following misclassification issues:</p> <ul style="list-style-type: none"> • Expenditure of some £696,000 incurred in undertaking the replacement Monmouthshire Comprehensive School feasibility study has been recorded in the fixed asset register within operational assets but should be recorded in assets under constructions until the asset is brought into use; • A 3G pitch physically located at Caldicot Leisure Centre is currently shown against Chepstow Leisure Centre in the fixed asset register; • Capital expenditure of £225,000 relating to Chepstow Leisure Centre is recorded in the fixed asset register against Caldicot Leisure Centre; and • The movement in the Council Tax impairment figure per the I&E Statement (note 11.4) is different to the corresponding movement in the debtors note (13.5) by some £95k. The £95k relates to potential future court cases in defending unpaid Council tax cases and should be accounted for as a provision. <p>Recommendation</p> <p>The Council needs to:</p> <ul style="list-style-type: none"> • Amend the fixed asset register for the above misclassifications; and • Account for Council tax court costs within the provisions note when preparing the 2015-16 accounts. 	<p>To be moved after rollover of fixed asset register</p> <p>Council Tax Court Case provision to be facilitated by CEO accountant at year-end as part of closedown procedure</p>	<p>Target Dec 2015</p>

Exhibit 2 Summary of other issues arising from the Audit not reported in the Audit of Financial Statements Report

Issue/Recommendation	Agreed Action/Date	Progress
<p><u>Osbaston School – transfer of legal title</u></p> <p>As part of the audit, we considered how Voluntary Aided (VA) and Voluntary Controlled (VC) schools were accounted for in the Council’s accounts. We considered this issue in response to a CIPFA technical panel pronouncement that concluded that Council’s should continue not to account for them on their balance sheets. Our review of CIPFA’s guidance indicated that there was a presumption that legal title would be transferred to the recipient body.</p> <p>However, we identified that while Osbaston School was accounted for as an off balance sheet asset, in line with the CIPFA guidance, full transfer of legal title had not yet taken place. We understand however that this transfer is progressing and that it has been subject to delay.</p> <p>Recommendation</p> <p>The Council needs to formally complete the transfer of legal title for Osbaston School prior to closing the 2015-16 accounts.</p>	<p>Progress to be reviewed during 2015/16</p>	<p>Target 31/3/2016</p>

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<p><u>Insurance reserve and insurance provision note 13.7</u></p> <p>As part of our discussions with the Council during the audit, we were informed that the Council planned to review the level of its insurance reserve during 2015-16 for reasonableness. We noted that the level of the related reserve, set aside to fund the Council's insurance claims, is greater than the estimated value of all claims received by the Council by some £1.55m.</p> <p>Recommendation</p> <p>The Council should re-evaluate the level of the Insurance Reserve that it holds.</p>	<p>An actuarial assessment of the required level of Insurance reserve has been commissioned and will inform the calculation for year end</p>	<p>Assessment commissioned</p>

Exhibit 2 Summary of other issues arising from the Audit not reported in the Audit of Financial Statements Report

Issue/Recommendation	Agreed Action/Date	Progress
<p><u>Cashflow statement</u></p> <p>We identified several figures in the cashflow statement that did not tie in directly to the movements in the balance sheet. We have summarised the these below:</p> <ul style="list-style-type: none"> • Impairment and downward revaluations - differed to the accounts by some £316,000; • Movement in debtors - differed to the accounts by some £647,000; • Movement in Creditors - differed to the accounts by some £1,000,000; and • Movement in bad debt provision - differed to the accounts by some £40,000. Within this movement we noted a provision for NNDR (£97,000) which has no provision against it the accounts; Corporate Sundry debtors figures differed to the movement in shown Note 13.5 (Debtors analysis) by £39,000 and the movement in Council Tax provision also differed to that shown Note 13.5 by some £94,000 <p>Recommendation</p> <p>The cashflow statement and supporting working papers need to be revisited in 2015-16 with the aim of ensuring cashflow movements are linked to movements in the accounts.</p>	<p>It was the intention to prepare workings as part of the note preparation process but time pressures did not allow.</p> <p>Will be added to 2015/16 closure procedures.</p>	<p>2015/16 year end</p>

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<p><u>Accounting for Sale and Leaseback transactions under IAS17</u></p> <p>The Council enters into sale and leaseback arrangements for several classes of vehicles. Such transactions need to be supported by a technical assessment of the 8 factors within International Accounting Standard (IAS) 17 in order to determine whether the lease is an operating lease or a finance lease and therefore on/off balance sheet.</p> <p>Previously Sector have undertaken this assessment on behalf of the Council and they assessed each of the criteria within IAS17 individually to inform their overall conclusion as to whether the lease is an operating or finance lease. For the current year Capita Finance have completed the assessment but have only provided a summary conclusion of their assessment of the leases without documenting how they have considered each element of IAS17. As a result, we consider that the quality of the evidence to support the Council's accounting treatment is less robust.</p> <p>Recommendation</p> <p>Capita should be requested to provide a comprehensive assessment against each of the individual criteria detailed within IAS17.</p>	<p>Agreed to do so for future assessments</p>	<p>Target – time of next assessment</p>

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<p><u>Dragon Waste Royalties</u></p> <p>We identified that the Council receives royalties of some £31,000 in respect of its waste contract with Dragon Waste. Currently the Council accounts for these transactions when it receives the cash and not on an accruals basis.</p> <p>Recommendation</p> <p>The Council needs to account for Dragon waste royalties on an accruals basis, using estimates where actual waste information is not known.</p>	<p>An account code and budget has now been set up to formally identify and capture this income in 2015-16 and accrue if required.</p> <p>Accrual for these costs is however in the ledger for 2014-15</p>	<p>Complete</p>

Exhibit 3 Summary of progress against issues reported in the prior year joint progress document

Issue/Recommendation	2014-15 Audit Finding	Agreed Action/Date	Progress
<p><u>Content of the Annual Governance Statement</u></p> <p>The Council should cross-reference the Accounting Code/CGC requirements to its AGS making amendments as necessary to ensure required content can be clearly identified in the statement.</p>	<p>A copy of the AGS that included references to Code requirements was not provided to us as part of the audit.</p>	<p>The Accounting Code and the Code of Corporate Governance will be taken into consideration when compiling the AGS in future to ensure all expectations have been met.</p>	<p>This will be done as part of the 2015/16 AGS process.</p>
<p><u>Removal of nil value assets from the fixed asset register</u></p> <p>The fixed asset register needs to be reviewed to ensure all assets in use that are fully depreciated and still owned by the Council are allocated a £1 nominal value.</p> <p>The Council needs to review the working paper supporting note 12.1f to ensure that there are clear links to the fixed asset register.</p>	<p>Not fully implemented there are assets with nil GBV in the asset register. It is unclear if these assets are still in use or have been disposed of.</p>	<p>Assets which are fully depreciated and which were no longer owned by the council at 31/3/2015 will be revalued to nil and retained for information purposes. Anything remaining with a positive GBV can therefore be assumed to be still owned by the Council.</p>	<p>This process was done in 14/15 except for vehicles and will be reviewed again in 15/16 before year end.</p>