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# MCC/WAO Joint Progress Document – Monmouthshire County Council

Audit year: 2018-19

Date issued: September 2019

Document reference: **1466A2019-20**

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# Summary

## Introduction

1. Our *2018-19 - Audit of Financial Statements report* was presented to the Audit Committee on 12 September 2019 and summarised the more significant matters arising from our audit. It highlighted the 'corrected' and 'uncorrected' misstatements in the final financial statements. None of the issues in the report prevented the Auditor General from issuing an unqualified audit opinion. However, action is required by the Council to address some of these issues when preparing its 2019-20 financial statements. These are set out in [Exhibit 1](#).
2. We also identified other important matters during our audit that were not reported to the Audit Committee within our 2018-19 Audit of Financial Statements report. These issues are set out in [Exhibit 2](#). As part of our audit we also carry out a high-level review of the Council's key computer systems. The findings of this work have been discussed and agreed with key officers and are included in this exhibit.
3. We have also reviewed the progress with implementing the agreed issues that we reported in our 2017-18 Joint Progress report. We are pleased to report that the Council has implemented the majority of the agreed actions. There is one that remains outstanding and is shown in [Exhibit 3](#).
4. The Council needs to address the issues reported above during 2019-20 and we will review implementation as part of the forthcoming year's audit. We also recommend that management update the Audit Committee with progress made in implementing the agreed actions when presenting the draft 2019-20 Financial Statements. The issues raised in this report have already been discussed with the Assistant Head of Finance and his team.
5. The deadlines to produce and certify the accounts remain unchanged for 2019-20, but will be brought forward to 31 July by the year 2020-21. The Council is in a strong position as it was able to present its accounts for audit by 4 June 2019, which is not far off the anticipated deadline of the end of May by the year 2020-21. The intervening years will be important as we work towards the earlier deadlines. It will also be vitally important to have early working papers to a good quality standard to support the accounts, as this will enable our audit work to start much sooner with an earlier audit opinion issued. For the Council, this requirement will need to be balanced against the resources and the finite number of staff that it has available to work on the accounts and the pressures of the routine work of the finance team.

Exhibit 1: summary of issues raised in the Audit of Financial Statements Report

Issue/Recommendation	Agreed Action/Date	Progress
<p><b>1) Pension Liability understated by £1,941,000 following the McCloud ruling</b></p> <p>In December 2018, the Court of Appeal ruled against the Government, holding that changes made to pension schemes discriminated against a group of firefighters and a group of judges on the grounds of age. These cases are referred to as McCloud. This judgement has implications for other public sector pension schemes including the Greater Gwent Pension Fund, of which the Council is a member. It is anticipated that the costs of providing a remedy to affected employees will be significant, with the pension scheme actuaries estimating additional potential liabilities to the Council of £1,941,000. The impact on the financial statements was that Long-term Creditors (Liability related to defined benefit pension scheme) and Unusable Reserves (Pension Reserve) was understated by £1,941,000.</p> <p><b>Recommendation</b></p> <p>The Council should ensure that the pension fund actuary takes account of the McCloud judgement and any further developments in its assessment of the pension fund deficit for 2019-20.</p>	<p>Agreed. If any further liability falls due to the Greater Gwent Pension Fund as a result of the judgement, the Authority will include revised figures subject to next formal actuarial valuation</p> <p><b>Date:</b> To be reviewed as part of 2019/20 Statement of accounts process</p>	

Issue/Recommendation	Agreed Action/Date	Progress
<p><b>2) Consolidation of related business and operations</b></p> <p>The Council had chosen not to consolidate their associates and joint ventures (as detailed in Note 16.6 Related Business and Operations), on the grounds that their interests in aggregate were not sufficiently material to consolidate into the financial statements. Per our review (which was based on more recent data), these associates and joint ventures were material in aggregate. The Council then chose to consolidate the largest joint committee (Cardiff Capital Region City Deal), to ensure the accounts were not materially misstated.</p> <p><b>Recommendation</b></p> <p>The Council should consolidate their associates and joint ventures, as they are likely to be material in future accounting periods.</p>	<p>Partially Agreed. The Authority makes it clear in its accounting policies that consolidation of interests in other entities will only be made where they are sufficiently material when reviewing both quantitative and qualitative information. For this reason CCRCDC has been consolidated into the 2018/19 Statements.</p> <p>It is felt that consolidation of CCRCDC has detracted from the transparency of the Council's individual activities and further engagement will be sought with WAO to explore alternative presentation in future statements, potentially showing consolidated adjustments as a separate addition.</p> <p>When reviewing the remaining entities, consolidation is not deemed necessary and the Authority considers that it would add very little value to the reader of the accounts to do so. In order to ensure compliance with the Code requirements, a range of narrative disclosures are made within the statements.</p>	

Issue/Recommendation	Agreed Action/Date	Progress
<p><b>3) Expenditure overstated as prepayment journals not posted at year-end</b>  Testing identified that certain year-end prepayment journals were not being posted for certain types/classes of expenditure. This resulted in expenditure being overstated by £178,705 (estimated/projected error). It is noted that a similar error was reported in last year's ISA260 (£177,000), and therefore the impact on the CIES is trivial.</p> <p><b>Recommendation</b>  The Council should review the year-end process regarding prepayments and in particular these types of expenditure.</p>	<p>Not agreed. The reality is the Accounts reasonably reflect 12 months' worth of service and expenditure, and to correct would introduce artificial variance in any comparison between years. Audit colleagues calculate the effect as being £178,705, but ignore the adjustments that would be made in bringing forward expenditure from previous financial year such that the net effect of the adjustment is anticipated to have a trivial effect on bottom line of Accounts.</p> <p>With statutory deadlines for the production of the statement of accounts being brought forward further in future years it is accepted that more estimation will be required in order to meet these timescales and that despite best efforts trivial errors such as these may become more numerous.</p>	

Issue/Recommendation	Agreed Action/Date	Progress
<p><b>4) Adding a Voluntary Controlled School back onto balance sheet</b>            Incorrect accounting entries used to add a Voluntary Controlled School back onto balance sheet, which resulted in the Revaluation Reserve and Capital Adjustment Account being misstated by £4,114,000.</p> <p><b>Recommendation</b>            The Council should ensure correct accounting treatment for complex transactions.</p>	<p>Agreed. The Council is clear on the accounting arrangements. The legal process for conveying these assets as voluntary controlled has not yet been satisfied. Every year the situation is reviewed on whether to omit from the balance sheet using “substance over form” convention. This year’s analysis indicated no active progress in the conveyance to continue to utilise substance over form approach.</p> <p>This, together with the intention to treat as community school assets until the legal process was satisfactorily completed was communicated to WAO, Diocese and Council colleagues.</p> <p>Colleagues presumed to adjust the balance sheet through simplistic use of revaluation reserve given anticipation of quick resolution, but have since rolled back the entries they made to remove the assets originally.</p>	
<p><b>5) Consolidation adjustment to separate the capital receipts credit from the NBV of sales debit on Investment Properties</b>            The above consolidation adjustment was incorrect, as it did not take into consideration the deferred capital receipts on sale of investment properties. This did not impact the net gain/loss on disposal, but both expenditure and income were understated by £5,261,509.</p> <p><b>Recommendation</b>            The Council should ensure that all income is taken into consideration when posting this consolidation adjustment.</p>	<p>Agreed. Consideration of similar instances will be taken into account during 2019/20 closure.</p>	

Issue/Recommendation	Agreed Action/Date	Progress
<p><b>6) Removal of internal income and expenditure for significant trading operations</b>  Note 11.4 'Significant Trading Operations' incorrectly included internal Income and Expenditure in respect of Grounds Maintenance. Internal charges should have been removed following an update to the Code, as per CIPFA Bulletin 3. This resulted in income and expenditure being overstated by £2,477,000. This error was identified through our analytical review (ie year-on-year comparison of the financial statements). We were aware last year's figures included internal income and expenditure and this year's figures were comparable and therefore incorrectly included internal income and expenditure. If the Council had undertaken a similar process it could have prevented this error</p> <p><b>Recommendation</b>  The Council should ensure that all internal income and expenditure is excluded from its accounting statements.</p>	<p>Agreed. The actual process of removing internal I&amp;E from the statement of accounts was a complex task due to the transitional arrangements only being communicating by CIPFA shortly before the year-end &amp; the volume of data that then needed to be analysed in a short space of time. The majority of these type of transactions were identified and successfully negated in the statements, however the grounds maintenance element was unfortunately overlooked in the analysis.</p> <p>Moving forward the section has the time to introduce system refinements which will allow this process to be automated for future closure periods.</p>	
<p><b>7) Note 12.12 Leases – Authority as Lessor</b>  There were a number of errors regarding this note, as follows:</p> <ul style="list-style-type: none"> <li>– <b>Operating Leases</b> - the future minimum lease payments receivable under non-cancellable leases in future years, were understated by £14,964,000, as they did not include the lease payments for Investment Properties acquired in-year, and</li> <li>– <b>Operating Leases</b> – this note had been omitted from the accounts, when it should have been included. The gross carrying amount of the minimum lease payments receivable under finance leases was understated by £3,680,000.</li> </ul> <p>Although this note does not impact the primary financial statements, it is required under CIPFA Code for additional disclosure purposes.</p> <p>As above, this error was identified through our analytical review (ie year-on-year comparison of the financial statements). If the Council had undertaken a similar process it could have prevented this error.</p> <p><b>Recommendation</b>  The Council should ensure it carries out a detailed quality assurance review to eliminate this type of error.</p>	<p>Agreed. For 2019/20 the information needed to complete the note will be collated a lot earlier to ensure compliance with the code.</p>	

Issue/Recommendation	Agreed Action/Date	Progress
<p><b>8) Note 16.8 Senior Officer Remuneration</b></p> <p>One officer that met the definition of a Senior Officer (as per section 3.4.5.1 of the Code and para I144 to I147 of the Code Guidance Notes) had not been disclosed in Note 16.8 Senior Officer Remuneration. The impact on the financial statements was that this note was understated by £76,261.</p> <p><b>Recommendation</b></p> <p>The Council should review the organisational chart and payroll information in preparing this note to ensure officer disclosed meet the definition of a Senior Officer (as per section 3.4.5.1 of the Code and para I144 to I147 of the Code Guidance Notes) and are satisfied the disclosure is complete.</p>	<p>The impact is upon the narrative disclosure note rather than the primary financial statements. The presentation of information compares current year with previous year. There was an oversight to check an individual who wasn't included previously, because their salary didn't exceed £60k threshold until this year.</p>	
<p><b>9) Classification / presentational errors</b></p> <p>There were a number of classification / presentational errors identified in the financial statements, to the following notes:</p> <p><b>i) Note 11.2 Nature of Expenditure</b></p> <ul style="list-style-type: none"> <li>• Depreciation, amortisation and impairment decreased by £4,923,000;</li> <li>• Gain/Loss on disposal of non-current assets (Expenditure) increased by £4,923,000;</li> <li>• Fees, charges and other service income decreased by £7,053,000;</li> <li>• External grants and contributions decreased by £1,789,000; and</li> <li>• Gain/Loss on disposal of non-current assets (Income) increased by £8,842,000.</li> </ul> <p><b>ii) Note 13.5 Debtors</b></p> <ul style="list-style-type: none"> <li>• Finance Lease increased by £192,000, and Corporate Sundry Debtors decreased by £192,000.</li> </ul> <p><b>iii) Note 13.1 Categories of Financial Instruments</b></p> <ul style="list-style-type: none"> <li>• Principal sum borrowed (Short-Term) increased £786,000, and Long-Term decreased £786,000.</li> </ul> <p><b>Recommendation</b></p> <p>The Council should review its process to ensure there are no presentational errors for the 2019-20 accounts.</p>	<p>Whilst every effort goes into ensuring the statement of accounts is produced as accurately as possible, the Council accepts that tightening statutory deadlines for production will inevitably lead to greater estimation and the risk of minor classification issues such as the items listed.</p> <p>Every effort will be made to enhance planning for the 2019/20 closure to avoid repeat of these errors.</p>	



Issue/Recommendation	Agreed Action/Date	Progress
<p><b>10) Related Party Disclosures</b></p> <p>Added and removed various related party relationships to ensure compliance with the CIPFA Code 2018-19. These adjustments were due to:</p> <ul style="list-style-type: none"> <li>– Senior Officers Declarations of interest not including all related party relationships; and</li> <li>– Declarations of interest not being complete for Senior Officers that had left in-year.</li> </ul> <p><b>Recommendation</b></p> <p>Council should ensure Senior Officers are aware what constitutes a ‘related party’ transaction and declaration of interest are completed for all Senior Officers that leave during the year.</p>	<p>Partially agreed. There are widespread differences across Councils in the presentation of such information, and this also extends to the auditing. The Council’s traditional entries exceed those of some other Councils, so grateful for WAO flagging the inconsistency. There is a commitment to review other Council’s audited accounts before next year’s closure process to amend approach to twofold provide a greater consistency in reporting whilst acknowledging earlier closing deadlines and less time to prepare accounts.</p>	
<p><b>11) Casting, comparatives and note referencing errors identified in the draft financial statements</b></p> <p>As in previous years, the financial statements contained a significant number of rounding errors (in excess of 100) for which management decided not to adjust. In addition, there were a number of high-value casting errors (£2.19 million to Note 12.1 and £28.8 million to Note 12.5), note referencing errors and notes where comparatives were missing. Management chose to adjust the financial statements for these errors.</p> <p><b>Recommendation</b></p> <p>Council should improve its quality assurance arrangements in preparation of next year’s accounts, to ensure these errors are not repeated.</p>	<p>Whilst every effort goes into ensuring the statement of accounts is produced as accurately as possible, the Council accepts that tightening statutory deadlines for production will inevitably lead to the risk of minor issues such as the items listed.</p> <p>Every effort will be made to enhance planning for the 2019/20 closure to avoid repeat of these errors.</p>	

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<p><b>12) Deliverables</b></p> <p>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 satisfactory standard. However, we identified some areas for improvement. For example, 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.</p> <p><b>Recommendation</b></p> <p>The Finance team should continue to work with us to see if the audit process can be developed and refined further.</p>	<p>Agreed. Working paper refinements and timely provision of information is an ongoing process and we will work with WAO to ensure where possible information meets their requirements whilst having regard for tightening reporting deadlines.</p>	<p>.</p>

Exhibit 2: summary of issues arising not previously reported

Issue/Recommendation	Agreed Action/Date	Progress
<p><b>1) Logotech backups not undertaken at regular intervals</b>                      The Logotech fixed asset system backups are taken on an ad hoc basis and not at regular intervals. While not material to the accounts for 2018-19, having an irregular backup schedule puts the Council at a risk of data loss if there were a Logotech system failure.</p> <p><b>Recommendations</b>                      The Council should implement regular scheduled backups for the Logotech system.</p>	<p>Not agreed. The database information is stored on the Council's main server structure and is therefore backed up every day by the SRS. There is no risk of data loss.</p>	

Exhibit 3: summary of progress against issues reported in the prior-year joint progress document

Issue/Recommendation	2018-19 Agreed action & implementation date	Agreed Action 2019-20
<p><b>1) IT Risk Register</b>                      There is no IT risk register, or a clear way of identifying IT risks at the Council.</p> <p><b>Recommendations</b>                      The Council should consider the need for an IT risk register. This would enable the Council to have a coordinated overview of its IT risks.</p>	<p>No action agreed in last year's Joint Progress Document.</p>	<p>The Audit committee received details of the Council's IT Risk register at its meeting of July 25<sup>th</sup> 2019.</p>

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