



# Audit of Accounts Report – Monmouthshire County Council

Audit year: 2021-22

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Mae'r ddogfen hon hefyd ar gael yn Gymraeg. This document is also available in Welsh.

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We intend to issue an unqualified audit report on your Accounts. There are some issues to report to you prior to their approval.

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# Audit of Accounts Report

## Introduction

- 1 We summarise the main findings from our audit of your 2021-22 annual report and accounts in this report.
- 2 We have already discussed these issues with the S151 Officer and Deputy S151 Officer.
- 3 Auditors can never give complete assurance that accounts are correctly stated. Instead, we work to a level of 'materiality'. This level of materiality is set to try to identify and correct misstatements that might otherwise cause a user of the accounts into being misled.
- 4 We set this level at £3.468m for this year's audit.
- 5 There are some areas of the accounts that may be of more importance to the reader and we have set a lower materiality level for these, as follows:
  - Senior officer remuneration £1,000
  - Related party transactions (for individuals) £10,000
- 6 We have now substantially completed this years' audit.
- 7 However, at the time of writing, work is ongoing relating to an item of correspondence received from a member of the public which may delay the provision of our audit opinion. A verbal update on the status of this work will be provided at the Governance & Audit Committee on 16 February 2023.
- 8 In our professional view, we have complied with the ethical standards that apply to our work; remain independent of yourselves; and our objectivity has not been compromised in any way. There are no relationships between ourselves and yourselves that we believe could undermine our objectivity and independence.
- 9 It was necessary to make a change to the audit Engagement Lead to that advertised in the Audit Plan. Derwyn Owen, a Director within Audit Wales, was the Engagement Lead for the audit of accounts.

## Infrastructure Assets

- 10 In common with other local authorities, Monmouthshire County Council has taken advantage of temporary reliefs for reduced disclosures related to infrastructure assets allowed for in the Update to the Code and Specifications for Future Codes for Infrastructure Assets and the 2022 amendments to the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003.
- 11 The authority has not disclosed gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean gross cost and accumulated depreciation are not measured accurately and would not faithfully represent the asset position to the users of the financial statements.

- 12 The reliefs are a temporary expedient that are intended to allow authorities to address the information deficits and prepare robust information to support the carrying value of infrastructure assets. The temporary reliefs are only applicable for financial years up to and including 2024-25.
- 13 **Exhibit 1** shows the impact of this issue on the audit timetable and financial statements.

#### **Exhibit 1 – impact of infrastructure issues**

<b>Timetable</b>	<p>Given the continuing slippage arising from the COVID-19 pandemic and national issues relating to the audit of infrastructure assets, the Welsh Government provided flexibility in terms of both the accounts preparation deadlines and the audit deadlines:</p> <ul style="list-style-type: none"> <li>• The timescale for completing your accounts was revised by the Welsh Government from 31 May 2022 to 31 August 2022.</li> <li>• We received the draft accounts on 9 August 2022.</li> <li>• Our deadline for completing our audit was changed from 31 July 2022 to 31 January 2023</li> <li>• We expect your audit report to be signed on 17 February 2023.</li> </ul>
<b>Financial statement disclosures</b>	<p>The historic cost and accumulated depreciation balances relating to infrastructure assets have been removed from the accounts. This means the infrastructure column has been removed from note 12.1 and the net book value of infrastructure assets is shown in the balance sheet.</p> <p>Additional narrative has been added to note 12 in relation to this adjustment.</p>

## Proposed audit opinion

- 14 We intend to issue an unqualified audit opinion on this year's accounts once you have provided us with a Letter of Representation based on that set out in **Appendix 1**.
- 15 We issue a 'qualified' audit opinion where we have material concerns about some aspects of your accounts; otherwise we issue an unqualified opinion.
- 16 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards.
- 17 Our proposed audit report is set out in **Appendix 2**.

# Significant issues arising from the audit

## Uncorrected misstatements

- 18 We set out below the misstatements we identified in the accounts, which have been discussed with management but remain uncorrected. We request that these are corrected. If you decide not to correct these misstatements, we ask that you provide us with the reasons in writing for not correcting them:

### **Overstatement of year-end creditors (£261,000)**

- 19 Our testing of year-end creditors identified that one of our sampled transactions had been incorrectly accrued for in the 2021-22 accounts despite some of the services not being delivered until 22-23. This error related specifically to creditors relating to capital projects.
- 20 The error identified is below our materiality threshold. We have performed further audit procedures to identify the circumstances surrounding the error and have isolated the transactions at risk of a similar error arising. The residual population at risk of similar errors is £1.372m which is below our materiality threshold. We are therefore satisfied that there is no risk of material misstatement present in the accounts relating to this issue.
- 21 Given the immaterial value of the amendments required, the number of affected disclosures and the tight timescale to approve the final accounts the Council has informed us that they do not wish to correct these items.

### **Overstatement of year-end creditors (£361,000)**

- 22 We identified a further error within our creditors sample testing where a pre-payment for services of £361,000 had been incorrectly treated as a creditor rather than a debtor. In addition, the services related to the 22-23 financial year and had been incorrectly accrued into expenditure. We have completed further audit procedures and are satisfied that this is an isolated matter due to the specific nature of the transaction.
- 23 Given the immaterial value of the amendments required, the number of affected disclosures and the tight timescale to approve the final accounts the Council has informed us that they do not wish to correct this item.

## Corrected misstatements

- 24 There were initially misstatements in the accounts that have now been corrected by management. However, we believe that these should be drawn to your attention and they are set out with explanations in **Appendix 3**.

## Other significant issues arising from the audit

- 25 In the course of the audit, we consider a number of matters relating to the accounts and report any significant issues arising to you, such as:
- Concerns about the qualitative aspects of accounting practices and financial reporting.
  - Any significant difficulties during the audit.
  - Significant matters discussed and corresponded upon with management which we need to report to those charged with governance
  - Any other matters significant to the oversight of the financial reporting process that we need to report, e.g. material misstatements, reporting inconsistencies etc.
  - Any identified material weaknesses in internal controls; and
  - Any other matters specifically required by auditing standards to be communicated to those charged with governance.
- 26 There are no such matters to report to you for your consideration for this year's audit.

## Recommendations

- 27 The recommendations arising from our audit are set out in **Appendix 4**. Management has responded to them and we will follow up progress against them during next year's audit. Where any actions are outstanding, we will continue to monitor progress and report it to you in next year's report.

# Appendix 1

## Final Letter of Representation

[Audited body's letterhead]

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

16 February 2023

### Representations regarding the 2021-22 financial statements

This letter is provided in connection with your audit of the financial statements (including that part of the Remuneration Report that is subject to audit) of Monmouthshire County Council for the year ended 31 March 2022 for the purpose of expressing an opinion on their truth and fairness and their proper preparation.

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 CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2021-22; in particular the financial statements give a true and fair view in accordance therewith;
- 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 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.

The methods, the data and the significant assumptions used in making accounting estimates, and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework.

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.

## **Representations by 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 the Governance and Audit Committee on 26 January 2023.

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:

Peter Davies

Deputy Chief Executive (S151 officer)

Date: 16 February 2023

Signed by:

Andrew Blackmore

Chair of the Governance and Audit Committee

Date: 16 February 2023

# Appendix 2

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

### Opinion on financial statements

I have audited the financial statements of Monmouthshire for the year ended 31 March 2022 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 UK adopted international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2021-22.

In my opinion the financial statements:

- give a true and fair view of the financial position of Monmouthshire County Council as at 31 March 2022 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with legislative requirements and UK adopted international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2021-22.

### Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. 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 Monmouthshire County 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

In auditing the financial statements, I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on Monmouthshire County Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the responsible financial officer with respect to going concern are described in the relevant sections of this report.

## **Other Information**

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

My responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

## **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 2021-22;
- 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 the Governance Statement has been prepared in accordance with guidance.

### **Matters on which I report by exception**

In the light of the knowledge and understanding of Monmouthshire County Council and its environment obtained in the course of the audit, I have not identified material misstatements in the Narrative Report or the Governance Statement.

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, or returns adequate for my audit have not been received from branches not visited by my team;
- 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.

## **Responsibilities**

### **Responsibilities of the responsible financial officer for the financial statements**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 10 the responsible financial officer is responsible for the

preparation of the statement of accounts, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of statements of accounts that are free from material misstatement, whether due to fraud or error.

In preparing the statement of accounts, the responsible financial officer is responsible for assessing the Council's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

#### **Auditor's responsibilities for the audit of the financial statements**

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

My procedures included the following:

- Enquiring of management, the Council's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to policies and procedures concerned with:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- Considering as an audit team how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the posting of unusual journals.
- Obtaining an understanding of the Council's framework of authority as well as other legal and regulatory frameworks that the Council operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Council.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Governance and Audit Committee and legal advisors about actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance;

- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

I also communicated relevant identified laws and regulations and potential fraud risks to all audit team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the Council's controls, and the nature, timing and extent of the audit procedures performed.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my auditor's report.

### **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.

Adrian Crompton  
Auditor General for Wales

24 Cathedral Road  
Cardiff  
CF11 9LJ

# Appendix 3

## Summary of Corrections Made

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 3: summary of corrections made

Value of correction	Nature of correction	Reason for correction
£8,408,000	<b>12.1 Property, Plant &amp; Equipment</b> An additional exercise was completed by the Authority following the receipt of draft accounts to uplift the value of assets not included in the annual valuation. This resulted in a total increase of £8.408m to the net book value of property assets. This adjustment also impacted the revaluation reserve (note 10.7) and capital adjustment account (note 10.8).	To take account of inflationary increases in property values to ensure the carrying values in the accounts are materially in line with current values.
£2,243,000	<b>10.1 Movement in Reserves &amp; 10.8 Capital Adjustment Account</b> The balance of CCRCD unusable reserves has been added to the Capital Adjustment Account as it relates to the Authority's share of CCRCD's Capital Adjustment Account rather than being shown separately in 10.1	To ensure the Capital Adjustment Account is not understated.
£1,363,000	<b>15.1 Reconciliation of Comprehensive Income &amp; Expenditure to Net Cash Flows from Operating Activities</b> A misclassification error in the cashflow has now been corrected. This resulted in a decrease of £1.363m to the (increase)/decrease in creditors and a corresponding increase in Other non-cash items charged to the Surplus or Deficit on the Provision of Services.	To ensure entries in the cashflow statement and supporting notes are correctly classified.

£698,000	<p><b>11.4 Agency Income and Expenditure</b>  The value of one grant provided on an agency basis was understated by £698,000.</p> <p>As the grant was provided on an agency basis there is no impact on the comprehensive income and expenditure statement.</p>	To ensure the agency income and expenditure disclosures are complete.
£575,000	<p><b>12.1 Property Plant &amp; Equipment</b>  To remove the gross book value of vehicles that are no longer owned by the Authority from the PPE note. The vehicles had been fully depreciated so there is no impact on the net book value of vehicles, plant, furniture &amp; equipment at 31 March 2022</p>	To ensure the gross cost of vehicles is not overstated.
£235,000	<p><b>11.2 Expenditure and Income analysed by nature</b>  Reclassification of £235,000 of costs attributable to the disposal of non-current assets from the Other Service Expenses line to the Gain/loss on disposal of non-current assets line of the note.</p>	To ensure expenditure is appropriately classified.
Various	<p><b>12.9 Capital Commitments</b>  Removal of £400,000 school kitchens commitment from the note which had been overstated.</p> <p>£117,000 increase to Abergavenny Borough Theatre works commitment.</p> <p>£300,000 increase to Crick Road Care Home commitment.</p>	To ensure only commitments of over £200k are included in the note in line with the Authority's de-minimis policy  To ensure the total outstanding commitment at year-end is disclosed.
Various	<p><b>14.2 Pension fund stakeholders</b>  Correction of the weighted average calculation from 19.6 to 18.6</p>	To ensure accuracy of the financial statements

	<p><b>14.7 Investments held by the pension fund</b></p> <p>31 March 2022 figures updated to show the 2022 position rather than the 2021 position. This increased the total investments by £90,000.</p>	To ensure the 2021-22 position is shown
Various	<p><b>16.4 Related Party Transactions</b></p> <p>Our audit work identified some transactions that had been incorrectly omitted from the disclosures. The figures in the note have been updated to include all transactions with related parties.</p>	To ensure completeness of the related party disclosures.
Various	<p><b>Various</b></p> <p>Several minor amendments were made to the financial statements relating to either revisions to disclosures of information, narrative changes, casting errors or typos.</p>	To ensure accuracy of the financial statements.

# Appendix 4

## Recommendations

We set out all the recommendations arising from our audit with management's response to them. We will follow up these next year and include any outstanding issues in next year's audit report:

### Exhibit 4: Matter arising 1

#### Matter arising 1 – Member declarations for accounts purposes

<b>Findings</b>	<p>The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2021-22 (the Code) requires that transactions with related parties are disclosed within the financial statements. The Code sets out that related party considerations are applicable to both members and their close family. To ensure the completeness of these disclosures we review declarations of interest made by members each year.</p> <p>Whilst the Authority collates declarations of interest from members to inform its register of interest, this is only completed at the beginning of the electoral term in line with the Authority's code of conduct.</p> <p>For our 2021-22 audit this meant that most declarations were five years old.</p> <p>For annual accounts purposes and compliance with the Code, it is recommended that that an annual declaration is obtained from each member, including nil returns.</p>
<b>Priority</b>	High
<b>Recommendation</b>	The Council should consider requesting annual declarations from members to aide compiling the related party transactions disclosure note in the annual accounts.

<b>Benefits of implementing the recommendation</b>	Obtaining an annual return would ensure completeness of the disclosure note, compliance with the CIPFA code requirements and ensure a more efficient audit process.
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	Recommendation accepted in full. Despite additional efforts to increase the response rate of returns received, it is recognised that the final position was incomplete. Officers will review the process moving forward and identify options for ensuring returns are completed in full, including nil returns. These options will explore the approach of aligning with the requirement for related party information for the accounts with the requirement for annual declarations of interest for Council business.
<b>Implementation date</b>	March 2023



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We welcome correspondence and  
telephone calls in Welsh and English.  
Rydym yn croesawu gohebiaeth a  
galwadau ffôn yn Gymraeg a Saesneg.