

Audit of Accounts Report – Monmouthshire County Council

Audit year: 2022-23

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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.

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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 2022-23 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 £3.629m 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 £10,000
- 6 We have now completed this year's audit.
- 7 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.

Impact of revised ISA315 on this year's audit

- 8 Our audits of your accounts for the year ended 31 March 2023 have been carried out under a revised auditing standard (ISA 315 (UK) Identifying and Assessing the Risks of Material Misstatement (Revised July 2020)). The revised standard has had a significant impact this year on how auditors undertake audit risk assessments and our overall audit approach.
- 9 In planning our audit, we are now required to undertake more detailed and extensive risk assessment procedures to identify risks of material misstatement. The subsequent design and performance of our audit approach has been responsive to each assessed risk.
- 10 The introduction of the revised Standard and a different audit approach has had implications for audit timetables, and the new approach has required additional time to implement.

Proposed audit opinion

- 11 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**.
- 12 We issue a 'qualified' audit opinion where we have material concerns about some aspects of your accounts; otherwise we issue an unqualified opinion.
- 13 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards.
- 14 Our proposed audit report is set out in **Appendix 2**.

Significant issues arising from the audit

Uncorrected misstatements

- 15 There are no misstatements identified in the accounts, which remain uncorrected.

Corrected misstatements

- 16 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

- 17 During the audit, we consider a number of matters relating to the accounts and report any significant issues arising to you. Issues we consider include:
 - 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 identified material weaknesses in internal controls.
- 18 There is one matter to bring to your attention in relation to the treatment of non-enhancing capital expenditure.
- 19 Non-enhancing capital expenditure is expenditure which is capital in nature but does not increase the value of an asset and is therefore removed from the fixed asset register via an impairment. The Council does not recognise non-enhancing expenditure against the individual asset to which it relates, therefore the subsequent impairment is not matched to an asset as is required by the CIPFA code.

- 20 As a result, when assets are revalued, a revaluation gain may be posted in full to the revaluation reserve in error, rather than reversing the previous impairment loss in the Comprehensive Income and Expenditure Statement. This means that the revaluation reserve may be materially overstated.
- 21 Our work has identified that the total non-enhancing expenditure in year is £1.4 million. The maximum cumulative impact on the revaluation reserve is £10.3 million.
- 22 We have sought technical advice in relation to this issue and have determined, in line with IAS 8, that it would be impracticable for the Council to retrospectively correct this issue due to insufficient reliable evidence being available to accurately correct the historic accounting entries.
- 23 The error would result in a misclassification between the Revaluation Reserve and the Capital Adjustment Account. These are both unusable reserves and as such the balance sheet is correct in totality.
- 24 In addition, there is no impact on the Council's general fund or capital financing calculations meaning there is no direct impact on council taxpayers.
- 25 When considering whether this matter materially impacts the financial statements, we have determined that this matter would not influence the decisions that the primary users of the financial statements make on the basis of the financial statements¹.
- 26 We have recommended that from 2023/24 the Council allocates its non-enhancing expenditure to individual assets to ensure any subsequent revaluations are accounted for appropriately. Management's response is detailed in **Appendix 4**.

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.

¹ IAS 1 defines materiality as follows: Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Appendix 1

Final Letter of Representation

[Audited body's letterhead]

Auditor General for Wales
Wales Audit Office
1 Capital Quarter
Tyndall Street
Cardiff
CF10 4BZ

22 February 2024

Representations regarding the 2022-23 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 2023 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 CIPFA Code on Local Authority Accounting 2022-23 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 the Governance and Audit Committee

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for ensuring that the Council maintains adequate accounting records.

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 22 February 2024.

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:

Peter Davies
Chief Officer, Resources and Section 151
Officer
Monmouthshire County Council

Andrew Blackmore
Chair, Governance and Audit Committee
Monmouthshire County Council

Date: 22 February 2024

Date: 22 February 2024

Appendix 2

Proposed Audit Report

The 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 County Council for the year ended 31 March 2023 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 the 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 2022-23.

In my opinion, in all material respects, the financial statements:

- give a true and fair view of the financial position of Monmouthshire County Council as at 31 March 2023 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 2022-23.

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.

My staff and I are independent of the 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 the 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.

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 is in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022-23;
- The information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and is 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:

- I have not received all the information and explanations I require for my audit;
- adequate accounting records have not been kept, or returns adequate for my audit have not been received from branches not visited by my team; or
- the financial statements are not in agreement with the accounting records and returns.

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 11, the responsible financial officer is responsible for:

- the preparation of the statement of accounts, which give a true and fair view and comply with proper practices;
- maintaining proper accounting records;
- internal controls 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;
- 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 the responsible financial officer anticipates that the services provided by the Council will not continue to be provided in the future.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit the financial statements in accordance with the Public Audit (Wales) Act 2004.

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 and those charged with governance, including obtaining and reviewing supporting documentation relating to Monmouthshire County Council's 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 following areas: revenue recognition, expenditure recognition and posting of unusual journals.

- Obtaining an understanding of Monmouthshire County Council's framework of authority as well as other legal and regulatory frameworks that Monmouthshire County 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 Monmouthshire County Council.
- Obtaining an understanding of related party relationships.

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 Monmouthshire County 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.

This description forms part of my auditor's report.

Other auditor's responsibilities

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during 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 Auditor General for Wales' Code of Audit Practice.

Adrian Crompton
Auditor General for Wales
23 February 2024

1 Capital Quarter
Tyndall Street
Cardiff, CF10 4BZ

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. None of the amendments processed as a result of our audit work impact the Surplus or Deficit on Provision of Services.

Summary of corrections made

Value of correction	Nature of correction	Reason for correction
£37,019k	Note 12.9 Capital Commitments Increase Crick Road Care Home capital commitment by £99k. Increase King Henry VIII Future Schools capital commitment by £36,920k.	For these projects, the note incorrectly disclosed only the 2023-24 budget for the projects, not the full amount committed for the remainder of the project. The adjustment ensures the full commitments as at 31 March 2023 are disclosed. This note is a disclosure note only and has no impact on the Primary Statements.
£10.893k	Note 11.6 Revenue grants and Contributions Increase total revenue grants credited to services by £10.893k.	Some grants credited to services had been excluded from the analysis in the note. The adjustment ensures the correct grant amounts are disclosed. This note is a disclosure note only and has no impact on the Primary Statements
£4,352k	Note 13.6 Creditors Increase Short-Term Creditors by £4,352k. Note 13.7 Provisions	Accumulating Compensated Absences were classified as a provision rather than a short-term creditor.

	Decrease Current Provisions by £4,352k.	The adjustment ensures the correct classification with the notes and Balance Sheet.
£3,164k	<p>Notes 13.6 Creditors Reduce short term creditors by £3,164k.</p> <p>Note 15.3 (Increase)/Decrease in Cash and Cash Equivalents Reduce cash by £3,164k.</p>	Unreconciled payments from the made from the Council's bank account had been incorrectly transferred to creditors resulting in an incorrect cash-book position. The adjustment ensures that the correct cashbook position is reflected in the financial statements.
£2,883k	<p>Note 11.2 Income Analysed by Nature Decrease Gain/loss on disposal of non-current assets by £2,883k.</p> <p>Increase Interest and investment income by £2,883k.</p>	This ensures that changes in the valuations of investment properties are appropriately disclosed as financing and investment income and expenditure as required by the CIPFA Code.
£2,883k	<p>Note 11.2 Expenditure Analysed by Nature Increase Depreciation, amortisation and impairment expenditure by £2,883k.</p> <p>Decrease Gain/loss on disposal of non-current assets by £2,883k.</p>	This ensures that changes in the valuations of investment properties are appropriately disclosed as required by the CIPFA Code.
£2,855k	<p>Note 12.1 Property, Plant and Equipment Debit the value of Other Land and Buildings by £2,855k.</p> <p>Note 10.7 Revaluation Reserve Credit Revaluation Reserve £2,515k.</p> <p>Note 10.8 Capital Adjustment Account</p>	<p>The Authority uplifted the value of its assets to take account of inflationary increases in property values to ensure the carrying values in the accounts are materially in line with current values.</p> <p>However, 8 assets were excluded from this exercise. The adjustments ensures all assets are captured by the uplift.</p>

	Credit Capital Adjustment Account £340k.	
£2,598k	<p>Comprehensive Income and Expenditure Statement</p> <p>A receipt and payment relating to CCRCD was incorrectly included in gross income and gross expenditure in the financial statements. The transaction was made on an agency basis and therefore should not have been included in the financial statements.</p> <p>As both income and expenditure have been reduced by the same amount, there is not impact on the Surplus or Deficit on Provision of Services.</p> <p>The transaction will also be added to note 11.4 Agency Income and Expenditure.</p>	The amendment ensures that agency arrangements are correctly excluded from the authority's financial statements.
£2,007k	<p>Note 11.2 Expenditure Analysed by Nature</p> <p>Decrease Employee Benefits Expenses by £2,007k.</p> <p>Increase Other Services Expenses by £2,007k.</p>	<p>A year-end adjustment relating to payroll costs had been applied to the incorrect category of expenditure.</p> <p>The adjustment ensures the correct classification of expenditure within the note.</p>
£203k & £111k	<p>Note 10.6 Capital Receipts Reserve</p> <p>Decrease the Transfer from deferred Capital Receipts Reserve by £111k.</p> <p>To ensure the transfer value agrees to note 10.11.</p> <p>Note 10.11 Deferred Capital Receipts</p> <p>Increase Transfer to the Capital Receipts Reserve by £203k.</p>	<p>The transfer of deferred capital receipts from the Deferred Capital Receipts Reserve (note 10.11) to the Capital Receipts reserve (note 10.6) had been misclassified and was shown at the incorrect value in note 10.6.</p> <p>The adjustment ensures the transfer is shown at the correct value and in the correct line of each note.</p>

	<p>Decrease Transfer of Deferred Sale Proceeds by £203k</p> <p>To ensure the transfer is correctly classified.</p>	
Various	<p>Various</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>	<p>To ensure accuracy of the financial statements and compliance with the CIPFA Code.</p>

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:

Matter arising 1

Matter arising 1 – Non-enhancing capital expenditure should be allocated to individual assets	
Findings	As detailed in paragraphs 18-26 we found that the Council do not allocate its non-enhancing capital expenditure to individual assets. This means that subsequent revaluations of those assets could lead to an overstatement of the revaluation reserve.
Priority	High
Recommendation	For the 2023/24 financial statements, the Council should ensure that it allocates non-enhancing capital expenditure to the relevant asset within its fixed asset register.
Benefits of implementing the recommendation	Allocating the expenditure to the relevant asset will ensure that subsequent revaluations reverse impairment losses and that the revaluation reserve is not overstated.
Accepted in full by management	Yes
Management response	<p>This has primarily arisen in areas of widespread programmes of works where it hasn't been practicable or cost effective to split expenditure down to individual asset level.</p> <p>Given the requirement to have clearly defined revaluation reserve balances per asset, an additional</p>

	step will be added to the closure process for 2023/24 to ensure that this is maintained moving forward.
Implementation date	1 st April 2024

Matter arising 2

Matter arising 2 – Annual process for submission of Declarations of Interest requires embedding	
Findings	<p>Last year we recommended that the Council implement an annual declaration process for members to aide compiling the related party transactions disclosure note.</p> <p>The Council has implemented a process however several declarations had not been returned prior to the commencement of the audit.</p> <p>In particular, 8 returns were not received until January 2024.</p>
Priority	Medium
Recommendation	The Council should ensure the new processes is embedded via training to ensure all declarations are received annually.
Benefits of implementing the recommendation	Obtaining an annual return would ensure completeness of the disclosure note, compliance with the CIPFA code requirements and ensure a more efficient audit process.
Accepted in full by management	Yes
Management response	<p>The new process in place for 2022-23 was not fully embedded and established with members until June 2023 which disrupted the progress in collating declarations.</p> <p>The Council has subsequently looked to support members fully in understanding their responsibilities and the process will be started in a timely manner to collate declarations as at 31st March 2024.</p>

Implementation date

1st April 2024

Matter arising 3

Matter arising 3 – Additions should be added to the fixed asset register before the year end valuations process	
Findings	<p>Our testing of property revaluations identified that property additions are posted to the fixed asset register after revaluations are posted. This means that the expenditure in the year isn't considered when re-valuing assets and could result in property valuations being overstated.</p> <p>For 2022-23 we have determined that there is no material risk of overstatement to property valuations arising from this issue.</p>
Priority	High
Recommendation	The Council should post fixed asset additions to the fixed asset register before valuation updates to ensure assets are appropriately valued and to ensure compliance with CIPFA code requirements.
Benefits of implementing the recommendation	Posting additions before valuations will ensure all spend during the year is considered when revaluing an asset and will reduce the risk of material misstatement of the balance sheet and reserves.
Accepted in full by management	Yes
Management response	The Council agrees that applying capital additions before valuations will maintain a consistent approach to revaluation and ensure accuracy and uniformity of approach. This will be embedded fully for 2023/24 closure processes.
Implementation date	1 st April 2024



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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.