

Archwilydd Cyffredinol Cymru
Auditor General for Wales



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Audit of Financial Statements Report

Monmouthshire County Council

Audit year: 2015-16

Issued: September 2016

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Status of report

This document has been prepared as part of work performed in accordance with statutory functions.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 Code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales and the Wales Audit Office are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at info.officer@audit.wales.

The team who delivered the work were Ann-Marie Harkin, Terry Lewis, Anthony Ford, Jane Thomas, Martin Hall, Jane Davies and Geoff Woolley.

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The Auditor General intends to issue an unqualified audit report on your financial statements. There are some issues to report to you prior to their approval.

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Summary report

Introduction

1. The Auditor General is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of Monmouthshire County Council (the Council) at 31 March 2016 and its income and expenditure for the year then ended.
2. We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might mislead a reader of the accounts.
3. The quantitative levels at which we judge such misstatements to be material for the Council are £2.59 million. Whether an item is judged material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity.
4. International Standard on Auditing (ISA) 260 requires us to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
5. This report sets out for consideration the matters arising from the audit of the financial statements of the Council, for 2015-16, that require reporting under ISA 260.

Status of the audit

6. We received the draft financial statements for the year ended 31 March 2016 on 27 June 2016, which met the 30 June 2016 deadline and have now substantially completed the audit work on them.
7. We are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. The audit team has already discussed these issues with the Head of Finance and Assistant Head of Finance.

Proposed audit report

8. It is the Auditor General's intention to issue an unqualified audit report on the financial statements once you have provided us with a Letter of Representation based on that set out in [Appendix 1](#).
9. The proposed audit report is set out in [Appendix 2](#).

Significant issues arising from the audit

10. We set out below the one issue that we identified in the financial statements, which has been discussed with management but remains uncorrected. The misstatement is not material.

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11. **Classification of Creditors in Note 13.6** – we identified a sample of Creditors that should have been classified as Central Government Bodies. We discussed this matter with Council staff which highlighted that it was not possible to easily identify the further transactions that had been similarly misclassified without significant additional work. Corrective measures will be needed in 2016-17 to ensure all transactions are correctly coded so that they can be identified and analysed correctly in this note.
 12. There are misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process. They are set out with explanations in [Appendix 3](#).

Other significant issues arising from the audit

13. In the course of the audit, we consider a number of matters both qualitative and quantitative relating to the accounts, and report any significant issues arising to you. In doing so we have undertaken audit procedures to address those risks that we communicated within our 2015-16 Audit Plan and are also able to confirm that we have found no instances of deliberate error or omission.
14. There were some issues arising in these areas this year:
 - **We have no concerns about the qualitative aspects of your accounting practices and financial reporting.** There are no significant matters arising that need to be reported. Our audit identified a number of amendments and additional disclosures which have been included in the accounts. Going forward there will be an increased challenge for the Council to meet the compressed accounts certification window planned for future years. We have made some progress this year but need to reflect, and work together, to consider future changes to the accounts production process and the timing of our audit work. We will issue a final accounts memorandum for discussion with the Head of Finance and her team, which will include recommendations where we believe the accounts production process can be improved and will work closely with the Council to produce a revised Audit Deliverables document for agreement and adoption in 2016-17.
 - **We did not encounter any significant difficulties during the audit but will look to discuss with Council staff how we can improve the profiling of our work in certain areas of the audit with a view to bringing more work forward.**
 - **There were no significant matters discussed and corresponded upon with management which we need to report to you.**
 - **There are no other matters significant to the oversight of the financial reporting process that we need to report to you.**
 - **We did not identify any material weaknesses in your internal controls.**
 - **There are not any other matters specifically required by auditing standards to be communicated to those charged with governance.**

Independence and objectivity

15. As part of the finalisation process, we are required to provide you with representations concerning our independence.
16. We have complied with ethical standards and in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between the Wales Audit Office and the Council that we consider to bear on our objectivity and independence.

Appendix 1

Final Letter of Representation (Council's letterhead)

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

22 September 2016

Representations regarding the 2015-16 financial statements

This letter is provided in connection with your audit of the financial statements of Monmouthshire County Council for the year ended 31 March 2016 for the purpose of expressing an opinion on their truth and fairness.

We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

Management representations

Responsibilities

We have fulfilled our responsibilities for the preparation of the financial statements in accordance with legislative requirements and the Code of Audit Practice on Local Authority Accounting in the United Kingdom for 2015-16; in particular the financial statements give a true and fair view in accordance therewith.

We have fulfilled our responsibilities for:

- The preparation of the financial statements in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16; 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:

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- 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.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

The financial statements are free of material misstatements, including omissions. The effects of uncorrected misstatements identified during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Representations by Members of Monmouthshire County Council

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

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by Monmouthshire County Council on 22 September 2016.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Signed by:

Officer who signs on behalf of management

Date:

Signed by:

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

Date:

Appendix 2

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

I have audited the accounting statements and related notes of Monmouthshire County Council for the year ended 31 March 2016 under the Public Audit (Wales) Act 2004.

Monmouthshire County Council's accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 based on International Financial Reporting Standards (IFRSs).

Respective responsibilities of the responsible financial officer and the Auditor General for Wales

As explained more fully in the Statement of Responsibilities for the statement of accounts set out on page 6, the responsible financial officer is responsible for the preparation of the statement of accounts, which gives a true and fair view.

My responsibility is to audit the accounting statements and related notes in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the accounting statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements and related notes sufficient to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to Monmouthshire County Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the responsible financial officer and the overall presentation of the accounting statements and related notes.

In addition, I read all the financial and non-financial information in the narrative report to identify material inconsistencies with the audited accounting statements and related notes and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Opinion on the accounting statements of Monmouthshire County Council

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Monmouthshire County Council at 31 March 2016 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16.

Opinion on other matters

In my opinion, the information contained in the narrative report for the financial year for which the accounting statements and related notes are prepared is consistent with the accounting statements and related notes.

Matters on which I report by exception

I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

- adequate accounting records have not been kept;
- the accounting statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit;
- the Governance Statement contains material misstatements of fact or is inconsistent with other information I am aware of from my audit.

Certificate of completion of audit

I certify that I have completed the audit of the accounts of Monmouthshire County Council in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Code of Audit Practice issued by the Auditor General for Wales.

For and on behalf of

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

xx September 2016

Appendix 3

Summary of corrections made to the draft financial statements

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.

Nature and value of correction

Comprehensive Income and Expenditure Statement (p29) - reduction of SWTRA Income and Expenditure of some £365,000 which related to Cardiff Council transactions

Note 12.6 - reduction of some £2.86million of capital expenditure from the Capital Commitments note which included expenditure already paid.

Note 15.3 - reclassification of some £98,000 (£100,000 for 2014-15) within the note from Bank Current Accounts line to Cash Held by the Authority line.

Note 13.5/13.6 – reduction of £1.7million from both the Creditors and Debtors notes to correct the accounting entries for the cattle market sales proceeds. A further correction was made to correct the VAT for the above transaction of some £280,000 which was incorrectly disclosed at year-end.

Amendments made to the following notes in relation to CMC2:

Note 13.7d

- Reduce existing provision of £122K to nil;
- Include additional narrative explaining a potential liability of a further 90K exists

Note 16.6iv

- Restating the reported profit of CMC from £122K to nil
- Include additional narrative relating to the funding of £140K provided by the Council to CMC2.

