



WALES **AUDIT** OFFICE  

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# MCC / WAO Joint Progress Document

## **Monmouthshire County Council**

**Audit year:** 2015-16

**Issued:** February 2017

# Status of report

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# Summary

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## Introduction

1. Our *2015-16 - Audit of Financial Statements report*, which we presented to the September 2016 Audit Committee, summarised the matters arising from the audit including highlighting corrected and uncorrected misstatements and other issues for the Council's attention. None of the issues in that report prevented the Auditor General from issuing an unqualified opinion on the financial statements. However, action is required by the Council to address some of these issues when preparing the 2016-17 financial statements. These are summarised in Exhibit 1.
2. We also identified other matters during our audit that were not reported to the Audit Committee within our *2015-16 Audit of Financial Statements report*. These issues are summarised in Exhibit 2.
3. In addition, in completing our audit, we reviewed the progress made by management in implementing the agreed issues that we reported in our *2014-15 Joint Progress report*. *Although* we are pleased to report that the Council has implemented the majority of the agreed actions, there are a small number of areas that remain outstanding. These are included in the report within Exhibit 3.
4. The Council needs to address each of these issues during 2016-17 and we shall monitor implementation during the forthcoming audit. We also recommend that management update the Audit Committee with progress made in implementing the agreed actions when presenting the draft 2016-17 Financial Statements. The issues raised in this report have already been discussed with the Head of Finance and her team.
5. The deadlines to produce and certify accounts remain unchanged for 2016-17. Discussions are ongoing with Welsh Government as to when the deadline will be brought forward although, in readiness, several Welsh Council's piloted early closure and production of accounts in 2015-16 with final accounts being certified by 31 July 2016. The Council was able to present its accounts for audit by mid June 2016, so is not that far off the anticipated deadline of the end of May. This deadline will not become mandatory until 2020 but the intervening years will be important as we work towards this. It will also be 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 is 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. Classification of Creditor balances (Priority - Medium)</b></p> <p>We identified several Creditor payment transactions that were misclassified in Note 13.6 (Creditor payments analysis) as a result of incorrect ledger codes being used in the period 2015-13 that resulted in Central Government Creditors being included in the Other Creditors category.</p> <p>No amendment was made to the accounts as we were not able to identify the extent of the issue without significant additional resources being committed to do so. We were satisfied that the Creditors balance overall was complete and the error related to potential reclassification within the note</p> <p><b>Recommendation</b></p> <p>Creditors should be coded appropriately to enable the correct classification within the accounts.</p>	<p>The Systems &amp; Control Team is currently identifying the most appropriate coding structure to capture this data fully. Revised structure to be in place for 2016/17 year end.</p>	<p>To be implemented as part of 2016/17 accounts closure work.</p>

**Exhibit 2 Summary of issues arising not previously reported**

<b>Issue/Recommendation</b>	<b>Agreed Action/Date</b>	<b>Progress</b>
<p><b>2. Production of Accounts/Quality assurance (Priority – High)</b></p> <p>The accounts were produced by mid-June in 2015-16 and the supporting working papers were adequate to support our audit work. With earlier closure of the accounts there will be a greater need to use estimation and to have good quality working papers to enable our audit to progress quickly. We have highlighted some areas where the information provided could be improved:</p> <ul style="list-style-type: none"> <li>• Some of disclosures required for Note 16.5 (Trust Funds) and Note 16.6 (Related businesses) were excluded from the draft accounts;</li> <li>• An amendment was required to Note 12.6 (Capital Commitments) for some £2.5m as the commitment value included amounts that had already been expended. The working papers did not provide a clear audit trail from the contract value to the outstanding commitment after taking account of expenditure incurred to date; and</li> <li>• Working papers relating to S106 agreements (Developer contributions) did not clearly state what conditions needed be satisfied so that the income outstanding against each scheme could be recognised.</li> </ul> <p><b>Recommendation</b></p> <p>The Council can improve its closedown process further in readiness for earlier accounts deadlines by:</p> <ul style="list-style-type: none"> <li>• improving some working papers through its own internal quality review processes; and</li> <li>• ensuring tasks are included in the closedown plan for all agreed actions in this report.</li> </ul>	<p>Certain Trust funds and related party information is problematic to obtain in a timely fashion consistent with reporting deadlines. This is likely to be one area where the use of estimates rather than actuals is advocated as it has no bearing on the main accounting statements of the Council. Also there are no plans to produce more detailed notes in relation to S106 agreements.</p>	<p>To be implemented in part as part of 2016/17 accounts closure work.</p>

Exhibit 2 Summary of issues arising not previously reported

Issue/Recommendation	Agreed Action/Date	Progress
<p><b>3. Retention of payroll records (Priority – Medium)</b></p> <p>In testing payroll records, we identified two payroll transactions where evidence was not provided to support the payslip entries. Both transactions related to enhancements of pay as summarised below:</p> <ul style="list-style-type: none"> <li>• Employee number 502993 was paid for 12 enhanced hours, which had been input into payroll via a spreadsheet upload, with no documentation retained to support it; and</li> <li>• Employee number 502534 included 1 hour of additional time which we were informed was initiated by the school’s head teacher authorising the timesheet which was then archived in the school.</li> </ul> <p><b>Recommendation</b></p> <p>Staff need to reminded of the need retain documentation in line with the Council's document retention policy.</p>	<p>Agreed.</p>	<p>To be implemented as part of 2016/17 accounts closure work.</p>

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

Issue/Recommendation	2015-16 Audit Finding	Agreed Action/Date
<p><b>4. Osbaston School – transfer of legal title</b></p> <p>The Council needs to formally complete the transfer of legal title for Osbaston School prior to closing the 2015-16 accounts.</p>	<p><b>Partially implemented (Priority – High)</b></p> <p>We noted the Council had begun the process to transfer legal title but had not been able to complete it by the time the accounts were produced.</p> <p><b>Recommendation to be addressed in 2016-17</b></p>	<p>The Accounts correctly reflect the substance of the transaction, however legal capacity and ongoing ‘diocese’ engagement continues to make it unlikely that the retrospective conveyance will be completed by March 2017. The Accounts will still continue to report correctly substance over form.</p>
<p><b>5. Agency income and Expenditure</b></p> <p>The Council needs to ensure it excludes the amounts of income and expenditure relating to other bodies in 2015-16.</p>	<p><b>Partially implemented (Priority – High)</b></p> <p>During the 2015-16 audit we identified that the draft accounts included Trunk Road agency (SWTRA) income and expenditure for which an adjustment was required to remove the amounts from the accounts. We reported a similar issue in 2014-15 which the Council undertook to correct.</p> <p><b>Recommendation</b></p> <p>The Council needs to:</p> <ul style="list-style-type: none"> <li>• Ensure that SWTRA income and expenditure is correctly identified at the year end to enable it to be excluded from the accounts.</li> <li>• Update the closedown plan to ensure this exercise takes place each year end.</li> </ul>	<p>For the 2016-17 closedown plan Finance teams will ensure the correct exclusion of the SWTRA transactions.</p>

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

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<b>Issue/Recommendation</b>	<b>2015-16 Audit Finding</b>	<b>Agreed Action/Date</b>
<p><b>6. Cashflow statement</b></p> <p>In 2014-15 we reported that the Cashflow Statement and supporting working papers needed to be improved in 2015-16 to ensure movements were linked more clearly to movements in the accounts.</p>	<p><b>Partially implemented (Priority – Medium)</b></p> <p>Whilst some enhancements had been made to the working papers for 2015-16, they did not fully reconcile the Cashflow figures to movements in the balance sheet.</p> <p><b>Repeat Recommendation for 2016-17</b></p>	<p>More complete working papers to be prepared for 2016-17 closure.</p>



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

Issue/Recommendation	2015-16 Audit Finding	Agreed Action/Date
<p><b>7. Removal of nil value assets from the fixed asset register (FAR)</b></p> <p>The fixed asset register needs to be reviewed to ensure all assets in use that are fully depreciated and still owned by the Council are allocated a £1 nominal value.</p> <p>The Council needs to review its working papers supporting note 12.1c to ensure that there are clear links to the fixed asset register.</p>	<p><b>Partially implemented (Priority – Medium)</b></p> <p>Whilst we noted that the FAR had been updated to remove nil value assets, we noted that:</p> <ul style="list-style-type: none"> <li>• a number of vehicles that had been included in the FAR that were not owned by the Council but held on operating leases; and</li> <li>• other assets (tractors etc.) had been included in the FAR at a nominal value of £1 instead of the purchase price. This arose as the initial purchase price had not been recorded by Fleet Administration before commencing the reconciliation process. No depreciation was therefore charged on these assets.</li> </ul> <p><b>Recommendation</b></p> <p>The Council needs to:</p> <ul style="list-style-type: none"> <li>• ensure assets held on operating leases are excluded from the FAR; and</li> <li>• formalise procedures with the Fleet Administration department that ensures vehicle data is complete and accurate for inclusion in the FAR.</li> </ul>	<p>FAR to be assessed for extent of vehicles held under operating lease. Logotech to be amended following rollover in January 2017</p> <p>The only assets held at £1 are ones which were not purchased from capital and were therefore held only for reconciliation of numbers of owned vehicles. They could not be held at cost and depreciated if not capitalised.</p> <p>NFA required relating to procedures with fleet administration.</p>