

Audit of Financial Statements Report

Denbighshire County Council

Audit year: 2013-14

Issued: September 2014

Document reference: 549A2014

Purpose of this document

This document is a draft supplied in confidence solely for the purpose of verifying the accuracy and completeness of the information contained in it and to obtain views on the conclusions reached.

Handling prior to publication

This document and the copyright comprised therein is and remains the property of the Auditor General for Wales and/or the Appointed Auditor. It contains information, which has been obtained under statutory functions solely to discharge statutory functions and has been prepared as the basis for an official document that may be issued or published in due course. It may also contain information the unauthorised disclosure of which may be an offence under section 54 of the Public Audit (Wales) Act 2004. Except as expressly permitted by law, neither the document nor any of its content may be reproduced, stored in a retrieval system and/or transmitted in any form or by any means, or disclosed to any person other than the original recipient without the prior written permission of the relevant Engagement Director. It must be safeguarded at all times to prevent publication or other improper use of its content. Unauthorised use or disclosure may result in legal proceedings.

Status of report

This document has been prepared for the internal use of Denbighshire County Council as part of work performed in accordance with the statutory functions.

No responsibility is taken by the Auditor General, the staff of the Wales Audit Office or, where applicable, the appointed auditor in relation to any member, director, officer or other employee in their individual capacity, or to any third party.

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, the Wales Audit Office and, where applicable, the appointed auditor are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at infoofficer@wao.gov.uk.

The team who delivered the work comprised Derwyn Owen, Anthony Veale, Nick Raynor and members of the audit team.

Contents

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

Summary report

Introduction	4
Status of the audit	4
Proposed audit report	5
Significant issues arising from the audit	5
Independence and objectivity	9

Appendices

Final Letter of Representation	10
Proposed audit report of the Appointed Auditor to the Members of Denbighshire County Council	13
Summary of corrections made to the draft financial statements which should be drawn to the attention of the Corporate Governance Committee	15

Summary report

Introduction

1. The Appointed Auditor is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of Denbighshire County Council as at 31 March 2014 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 result in a reader of the accounts being misled.
3. The quantitative level at which we judge such misstatements to be material for Denbighshire County Council are £3,628,000 for income and expenditure items and working capital balances; and £4,551,000 for other balances. Whether an item is judged to be 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 Denbighshire County Council, for 2013-14, that require reporting under ISA 260.

Status of the audit

6. We received the draft financial statements for the year ended 31 March 2014 on 30 June 2014 and at the date of our presentation of this report the following areas of audit work were outstanding:
 - finalisation of the adjustments to asset valuations;
 - work on the segmental analysis;
 - completion of our work in respect of the treatment of internal charges within the Comprehensive Income and Expenditure Statement (CI&ES); and
 - completion procedures and review of the final financial statements.We will update the Corporate Governance Committee on the progress of these matters verbally on 28 September 2014.
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 Council officers, including the Head of Finance and Assets.

Proposed audit report

8. It is the Appointed Auditor'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

Uncorrected misstatements

10. There are no misstatements identified in the financial statements, which remain uncorrected.

Corrected misstatements

11. 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](#).

Audit risks

12. In our Financial Audit Strategy, we set out information regarding audit risks that were identified during the audit planning process. The table below sets out the outcome of our audit procedures in respect of those risks:

Risks	Action taken
Control environment risks	
Management override of controls The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk. In addition, the Council continues to face significant financial pressures, including funding cuts. The current financial pressures on the Council increase the risk that management judgements and estimates could be biased in an effort to meet its financial challenges.	<ul style="list-style-type: none">• We understood and evaluated internal control processes and procedures as part of our planning work.• We reviewed and tested the appropriateness of a sample of year-end journals.• We looked carefully at management estimations and considered if they were subject to bias.• We understood the business rationale for significant transactions which appeared out of the normal course of business.• Our audit procedures also included an unpredictable element that varies year on year. We have not identified any material misstatements as a result of our audit work.

Risks	Action taken
Financial systems risks	
<p>Risk that the Council's procedures high-level financial controls are not designed or operating effectively to prevent and detect material misstatements in the financial statements.</p>	<p>We reviewed the design and tested the operation of high-level controls in the:</p> <ul style="list-style-type: none"> • main accounting system; • budgetary control system; and • the accounts preparation process. <p>Our audit work confirmed that the controls were operating effectively.</p>
Preparation of accounts risks	
<p>Risk that the Council did not incorporate changes to the financial statements identified within the 2013-14 Code of Practice on Local Authority Accounting in the UK (the Code) into the financial statements.</p>	<p>We reviewed the draft financial statements to ensure that they have been prepared, in all material respects, in accordance with the Code. We have not identified any material misstatements as a result of this work, although we have made a number of adjustments which we have referred to in Appendix 3.</p>
<p>The preparation of the financial statements will involve the estimation of a number of account figures such as provisions for the Council's liabilities (eg, equal pay claims, and insurance provisions).</p>	<p>We reviewed:</p> <ul style="list-style-type: none"> • the annual assessment made by officers of the basis on which estimates are made and revised in line with the latest information; and • documentation held to support estimates derived and judgements made, and made reference to papers provided in support of them. <p>Our work covered key estimates such as the provision for equal pay back pay and accumulated absences provision.</p> <p>We have not identified any material misstatements as a result of this work, although we have made a number of adjustments which we have referred to in Appendix 3.</p>
<p>Risk of material misstatement in the financial statements arising from the revaluation of property including council houses.</p>	<p>We assessed the revaluation process ensuring that the revaluation has been conducted in line with accounting policies and that it has been, in material respects, accurately reflected in the financial statements.</p> <p>We also reviewed the discount factor in respect of council house valuations to ensure that it is reasonable and has been properly applied to the council house valuations recorded within the 2013-14 financial statements.</p> <p>We have not identified any material misstatements as a result of this work, although we have made a number of adjustments which we</p>

Risks	Action taken
	have referred to in Appendix 3 .
<p>I have identified a number of disclosures as being material by nature. These include the disclosure of Related Parties, Remuneration note and Members Allowances.</p> <p>There is a risk that exit packages paid by the Council do not fully comply with the requirements of the Code and Council policy. We have considered such payments as sensitive items of expenditure and therefore material by nature.</p>	<p>We designed detailed testing to obtain the required assurance that disclosures identified as material by nature have not been misstated.</p> <p>We have not identified any material misstatements as a result of this work, although we have made a number of adjustments which we have referred to in Appendix 3.</p>
<p>Risk of material misstatement in the financial statements arising from error or omission of transactions, balances and disclosure.</p>	<p>On receipt of the 2013-14 draft financial statements in June 2014, we undertook a review of the statements and updated our risk assessment accordingly. We designed audit testing programmes to focus our work on material balances and transactions. We have not identified any material misstatements as a result of this work, although we have made a number of adjustments which we have referred to in Appendix 3.</p>

Other significant issues arising from the audit

13. **We have no concerns about the qualitative aspects of your accounting practices and financial reporting.** We found the information provided to be relevant, reliable, comparable, material and easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear.
14. **We did not encounter any significant difficulties during the audit.** We received information in a timely and helpful manner and were not restricted in our work.
15. **There were no significant matters discussed and corresponded upon with management which we need to report to you.**
16. **There are some matters significant to the oversight of the financial reporting process that we need to report to you.**

Timeliness of the valuation process - the annual financial statements are heavily dependent on the provision of timely and accurate information from the Council's Property Services Department. Our audit identified that the valuation information provided to the Finance Department was received late. In our view, the receipt of this information can result in an increased risk of error when the valuation information is transferred into the fixed asset register, financial ledger and the financial statements.

Whilst our audit did not identify any material misstatements in this respect, nor did it identify any issues in respect of the quality of information provided by the Property Services Department, we would recommend that the Council reviews its current valuation processes to ensure the Finance Department is in receipt of timely valuation information to assist in the production of the year-end financial statements and the Whole of Government Accounts exercise.

Annual fair value assessments - the Council revalued a proportion of its fixed asset portfolio at 31 March 2014 in accordance with its accounting policy to revalue assets on a rolling five year basis. Our audit focused on the robustness of the calculations performed by the Council's qualified internal valuer and the assumptions used in the valuation. As part of our work, we sought evidence from the valuer in respect of their assessment as to whether the value of those significant categories of land and property not formally valued in the year to 31 March 2014, may have been materially misstated. We received this information on request, but recommend that this assessment is formally incorporated into the annual valuation exercises undertaken by the valuer. The annual assessments need to be submitted to the Finance Department and external audit as part of the working papers supporting the valuation process.

Pension fund information - International Accounting Standard 19 (Employee Benefits) requires Employer bodies to disclose in their accounts the assets, liabilities and transactions, together with certain information regarding underlying assumptions, in respect of retirement benefits. The actuary prepares both a triennial funding valuation and an annual valuation of the pension fund liabilities, on an IAS19 basis, which provides both revenue and balance sheet disclosures for inclusion in the financial statements. This is prepared using a range of data, provided by the administering authority, and actuarial assumptions. It is critical therefore that the administering authority's membership records are up to date and accurately record data for active, deferred and pensioner records. Both the employer body (via its payroll team) and the administering authority need to work together to ensure that membership records are kept up to date. This not only has implications for the IAS19 disclosures in the financial statements, but also for the individuals concerned.

Whilst the administering authority process changes notified to them by the employer throughout the year, the employer also submits an annual contributions return. This allows for the data to be reconciled and often identifies changes, e.g. starters, leavers or additional roles, for which the administering authority has not been notified. The administering authority are keen to move to a monthly process and whilst we appreciate that there are resource implications for both the administering authority and the employer bodies, we would encourage this move as it is critical that membership data is accurate.

- 17. We did not identify any material weaknesses in your internal controls.** However, our audit work identified a potential risk of income and expenditure being potentially double counted within the Consolidated Income and Expenditure Statement (particularly in respect of recharges). The Council has a process for accounting for internal recharges for central support services such as HR, legal and accountancy. This ensures that the expenditure on these services only appears once in the

accounts. The Council also has processes for internal invoicing where one service provides a service to another or one element of a service provides services to other elements within the same service. These processes are reasonable for budgetary control purposes at a service level but mean that, at a Council level, there is the potential for income and expenditure to be recorded twice in net cost of services in the statement of accounts. We worked with the Council to identify and eliminate any double counting of income and expenditure. The result of this work resulted in an adjustment of £3.4 million being eliminated from the consolidated income and expenditure statement within the financial statements (see [Appendix 3](#)). For future years' accounts, the Council has agreed to review their current arrangements to ensure that they eliminate these transactions from the draft accounts presented for audit.

- 18. There are no other matters specifically required by auditing standards to be communicated to those charged with governance.**

Independence and objectivity

- 19.** As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 20.** 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 Denbighshire County Council that we consider to bear on our objectivity and independence.

Appendix 1

Final Letter of Representation

[Audited body's letterhead]

Appointed Auditor
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

29 September 2014

Representations regarding the 2013-14 financial statements

This letter is provided in connection with your audit of the financial statements of Denbighshire County Council for the year ended 31 March 2014 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 2013-14 Code of Practice on Local Authority Accounting; in particular the financial statements give a true and fair view in accordance therewith.

We acknowledge our responsibility for 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 Denbighshire County Council's 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. There are no misstatements identified in the financial statements that remain uncorrected.

We confirm that we have identified to you all members of key management, as defined by IAS 24, and included their remuneration in the disclosures of key management compensation.

We confirm that we are satisfied that the figures given in respect of Fixed Assets and Investment Properties in the Statements of Account represent our best estimate of the value of those assets and that the valuation methods used are appropriate.

The underlying assumptions and membership data used in the actuarial valuation of the pension scheme are appropriate for Denbighshire County Council.

The Council has no plans or intentions that may materially alter the carrying value and where relevant the fair value measurements or classification of assets and liabilities reflected in the financial statements.

Representations by those charges with governance

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 Corporate Governance Committee on 28 September 2014.

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:

Paul McGrady
Section 151 Officer

Signed by:

Councillor Jason McLellan
Chair of the Corporate Governance
Committee

Date: 29 September 2014

Date: 29 September 2014

Appendix 2

Proposed audit report of the Appointed Auditor to the Members of Denbighshire County Council

I have audited the accounting statements and related notes of Denbighshire County Council for the year ended 31 March 2014 under the Public Audit (Wales) Act 2004.

Denbighshire 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 Movement on the Housing Revenue Account Statement and the Housing Revenue Account Income and Expenditure 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 2013-14 based on International Financial Reporting Standards (IFRSs).

Respective responsibilities of the responsible financial officer and the independent auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 9, 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 Denbighshire 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 Explanatory Foreword 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 Denbighshire County Council

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Denbighshire County Council as at 31 March 2014 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 2013-14.

Opinion on other matters

In my opinion, the information contained in the Explanatory Foreword 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 Governance Statement on which I report to you if, in my opinion, it does not reflect compliance with 'Delivering Good Governance in Local Government: Framework' published by CIPFA/SOLACE in June 2007, or if the statement is misleading or 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 Denbighshire 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.

Anthony Barrett
Appointed Auditor

Wales Audit Office
Unit 4, Evolution
Lakeside Business Village
St David's Park
Ewloe
CH5 3XP

30 September 2014

Appendix 3

Summary of corrections made to the draft financial statements which should be drawn to the attention of the Corporate Governance Committee

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.

	Value of correction	Nature of correction	Reason for correction
1	£3,395,000	In year expenditure relating to the Foryd Harbour scheme was incorrectly classified as assets under construction. This is a classification adjustment and has no impact on the Council Fund presented in the draft statement of accounts.	To ensure that infrastructure assets and assets under construction, disclosed in Note 13 (Property, Plant and Equipment), are correctly stated.
2	£2,586,000	Amendments required to the presentation of the cash flow statement and related notes 25, 26 and 27. This is a classification adjustment and has no impact on the Council Fund presented in the draft statement of accounts.	To ensure that the presentation of the cash flow statement and related disclosures are recorded in accordance with the CIPFA Code.
3	£3,400,000	Amendments required to Consolidated Income and Expenditure Statement to eliminate income and expenditure (relating to fleet managements costs) recorded twice within this primarily financial statement. This adjustment has no impact on the Council Fund presented in the draft statement of accounts.	To ensure that the income recorded in the consolidated income and expenditure account is correctly recorded.
4	£4,994,000	Amendments required to Note 28 ensure that the income and expenditure disclosed in the segmental analysis note, agrees to the income and expenditure within the Comprehensive Income and Expenditure Statement. This is a disclosure adjustment and has no impact on the Council Fund presented in the draft statement of accounts.	To ensure that the presentation of Note 28 agrees to the disclosure included within the Comprehensive Income and Expenditure Account.
5	£138,000	Amendment required to the classification of the provision for welfare reform from non-current to current	To ensure that the presentation of provisions note correctly reflects the disclosure split between current and

	Value of correction	Nature of correction	Reason for correction
		within Note 21 (Provisions). This is a classification adjustment and has no impact on the Council Fund presented in the draft statement of accounts.	non-current.
6	£40,000	Adjustment required to the fixed asset register to reflect the correct valuation of the Rhyl Recycling Centre (originally included as £nil). This adjustment has no impact on the Council Fund presented in the draft statement of accounts.	To ensure that the financial statements record the correct in year revaluation.
7	£4,000	Adjustment to reflect the full year amount of performance related pay awarded to the Chief Executive.	To ensure Note 3 (officers' remuneration) is correctly stated by ensuring the amount is accounted for on an accruals rather than a cash basis.
8	£29,000	Adjustment to reflect the decrease in actual audit fees in respect of external audit.	To ensure Note 34 reflects: <ul style="list-style-type: none"> the external audit fee payable for the 2013-14 financial year; and the payment from the Wales Audit Office as a result of a redistribution of reserves to local government bodies.
9	£24,000	Adjustment to reflect an over-valuation of stocks held at Aberwheeler Nurseries.	To ensure Note 16 (Inventories) are recorded at the lower of cost or net realisable value.
10		In addition to the above, a number of other adjustments were made to the draft financial statements which included: <ul style="list-style-type: none"> minor adjustments to Note 13 (property plant and equipment) to reflect a small number of fixed asset disposals, minor adjustments as a result of in-year revaluations and minor adjustments to ensure that the fixed asset register reconciled to the ledger and the financial statements; minor adjustments to Note 24 (Unusable reserves – the capital adjustment account) to reflect the correct value for revaluation losses on Property, Plant and Equipment; disclosure amendments made to related companies and partnerships with the Council; disclosure adjustments made to the Housing Revenue Account to reflect the correct disclosure of arrears and accounting policies; and a number of other disclosure amendments were made to the financial statements. 	

Wales Audit Office
24 Cathedral Road
Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

E-mail: info@wao.gov.uk

Website: www.wao.gov.uk

Swyddfa Archwilio Cymru
24 Heol y Gadeirlan
Caerdydd CF11 9LJ

Ffôn: 029 2032 0500

Ffacs: 029 2032 0600

Ffôn Testun: 029 2032 0660

E-bost: info@wao.gov.uk

Gwefan: www.wao.gov.uk