

Archwilydd Cyffredinol Cymru
Auditor General for Wales



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Audit of Financial Statements Report

Denbighshire County Council

Audit year: 2014-15

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Status of report

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Contents

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.

Summary report

Introduction	4
Status of the audit	4
Proposed audit report	4
Significant issues arising from the audit	5
Independence and objectivity	7

Appendices

Final Letter of Representation	7
Proposed audit report of the Auditor General for Wales	10
Summary of corrections made to the draft financial statements	12

Appendix 1

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 Denbighshire County Council (the Council) as at 31 March 2015 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 the Council is £3.5 million. 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 the Council, for 2014-15, that require reporting under ISA 260.

Status of the audit

6. We received the draft financial statements for the year ended 31 March 2015 on 29 June 2015 and at the date of our presentation of this report the following areas of audit work were outstanding:
 - finalisation of our work on related party disclosures and subsequent events;
 - confirmation of appropriate assurances from the Clwyd Pension Fund auditor regarding pension disclosures within the financial statements; and
 - completion procedures and review of the final financial statements.We will update the Corporate Governance Committee on the progress of these matters on 28 September 2015.
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 Section 151 Officer.

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

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](#).

Other significant issues arising from the audit

12. **We have no concerns about the qualitative aspects of your accounting practices and financial reporting and the draft financial statements were prepared to a good standard.** 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. As in previous years, the draft financial statements were prepared to a good standard and were supported by comprehensive and timely working papers, helping us to achieve the overall completion timetable on a timely basis. The Finance team maintained open and constructive dialogue with the audit team throughout the audit and, as a result, the audit process has progressed smoothly.
13. **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.
14. **There were no significant matters discussed and corresponded upon with management which we need to report to you.**
15. **There are some matters significant to the oversight of the financial reporting process that we need to report to you.**

Fixed asset register – given the value and range of assets held by the Council, it is important that the Council maintains a comprehensive and accurate fixed asset register. The Council has for many years maintained complex spreadsheets to support its fixed asset register. Whilst the fixed asset register spreadsheets are well maintained and support the preparation of the statement accounts, we are of the view that the Council should consider upgrading to an integrated fixed asset register. This will support a more streamlined accounts closure process, facilitate the annual valuation exercises and improve the linkage between the accounting function (Finance Department) and the stewardship function which resides with the various Services. The on-set of earlier closure of local authority accounts in future years should be a key driver in respect of the Council's consideration.

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. Last year, we reported that the valuation information provided to the Finance Department was received late which increased the risk of error when the valuation information is transferred into the fixed asset register, financial ledger and the financial statements. We are pleased to report that this process was much improved in 2014-15. The Council need to ensure that this process is maintained and given the on-set of earlier closure of local authority accounts in future years, valuation information will be required even earlier.

Annual fair value assessments in respect of council dwellings - the Council re-valued a proportion of its fixed asset portfolio at 1 April 2014 in accordance with its accounting policy to revalue assets on a rolling five year basis. Our review of the draft accounts identified that the Council's valuation of its council dwellings had fallen by £13 million (we also identified a significant downward revaluation in the previous year). As part of our work, we sought evidence from the valuer seeking assurance as to whether the impact of the downward revaluations in council dwellings over the last two years had a significant potential impact on those council dwellings not yet formally valued as part of the five year valuation cycle. We received this information on request from the valuer to support our audit process.

In future years, we recommend that this assessment is formally incorporated into the annual valuation exercises undertaken by the valuer and is concluded upon prior to the preparation of the financial statements. The annual assessments need to be submitted to the Finance Department and external audit as part of the working papers supporting the valuation process.

Review of reserves – our audit of the financial statements confirmed that the Council reviews its level of reserves and provisions in respect of both earmarked and general reserves. This has been incorporated into the budget setting processes and incorporated into member workshops. However, we recommend that this process is now formally completed at the year-end accounts stage also. In addition, we recommend that a formal policy be developed to facilitate the maintenance and review of the general reserves position.

16. **We did not identify any material weaknesses in your internal controls.** No material weaknesses in the Council's internal controls were identified during our audit.
17. **There are no other matters specifically required by auditing standards to be communicated to those charged with governance.**

Independence and objectivity

18. As part of the finalisation process, we are required to provide you with representations concerning our independence.
19. 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]

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

28 September 2015

Representations regarding the 2014-15 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 2015 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 Code of Practice on Local Authority Accounting in the United Kingdom 2014-15; 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;

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- 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.

Specific representations

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 included 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 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.

We can confirm that the harbour authority has not yet been constituted as a statutory body on the basis that it has not been granted a Harbour Establishment Order (HEO). There is therefore no requirement to prepare statutory accounts for the year ended 31 March 2015.

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 2015.

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:

Richard Weigh
Section 151 Officer

Signed by:

Councillor Jason McLellan
Chair of the Corporate Governance
Committee

Date: 28 September 2015

Date: 28 September 2015

Appendix 2

Proposed audit report of the Auditor General for Wales 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 2015 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 2014-15 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 pages 9 and 10, 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 Financial Reporting Council'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 2015 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 2014-15.

Opinion on other matters

In my opinion, the information contained in the Explanatory Foreword 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;
- I have not received all the information and explanations I require for my audit; or
- the Annual 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 Denbighshire County Council in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

For and behalf of Huw Vaughan Thomas
Auditor General for Wales

Wales Audit Office
24 Cathedral Road
CF11 9LJ

30 September 2015

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	£4,560,000	Re-instatement of the PFI assets which had been re-valued to £nil as part of the in-year revaluation exercise. The corresponding depreciation adjustment amounts to £68,400.	To ensure that PFI assets included in property, plant and equipment, disclosed in Note 13 (Property, Plant and Equipment), are correctly stated.
2	£972,972	A number of assets were incorrectly included in the Property, Plant and Equipment Note as Community Assets. As a result of re-classifying these assets, depreciation was subsequently charged against these assets which amounted to £631,492.	To ensure that the presentation of the Property, Plant and Equipment Note and related disclosures are recorded in accordance with the CIPFA Code.
3	£825,000	A school extension building was completed in year and should have been included on the fixed asset register and within the financial statements.	To ensure that other land and buildings valuations are correctly reflected within the Property, Plant and Equipment, disclosure in Note 13.
4	£766,013	Our review identified that a number of balances which were incorrectly accounted for as provisions within Note 20. These should be reclassified as reserves.	To ensure that both provisions and reserves are correctly stated within the financial statements and associated notes.
5	£204,000	A number of assets were incorrectly included in the Investment Property Note.	To ensure that the presentation of the Investment Property Note and the Property, Plant and Equipment Note and related disclosures are recorded in accordance with the CIPFA Code.
6	£443,799	A debtor had been incorrectly classified within the Debtors note.	To ensure that the presentation of the Debtors Note is accurately disclosed.
7	£78,633	Our review identified that a provision within the Housing Revenue Account (HRA) which has been incorrectly accounted for.	To ensure the in-year reported HRA Income and Expenditure Statement and the Movement on the HRA statements is correctly stated.

	Value of correction	Nature of correction	Reason for correction
8	£1,025,814	The PFI debtor had been incorrectly classified within the Debtors Note 16.	To ensure that the presentation of the Debtors Note is accurately disclosed.
9	£3,181,000	An adjustment was identified between the total net book value of assets classified within Other Land & Buildings on the asset register and the corresponding values within the draft statement of accounts. The adjustment related to the historical capitalisation and equivalent impairment of non-enhancing capital expenditure and has no impact on the financial statements or the net book value of assets.	To ensure that the values included within Property, Plant and Equipment (Note 13) is supported by the Fixed Asset Register.
10	£1,410,230	An in year impairment was incorrectly charged to the revaluation reserve. This has now been correctly charged to the 'surplus / deficit on the provision of services'.	To ensure the in-year reported HRA Income and Expenditure Statement and the Movement on the HRA statements is correctly stated.

In respect of adjustments 1 to 10 above, all related notes including the impact on the Movement in Reserves Statement, Balance Sheet, Consolidated Income and Expenditure Account and the Cash Flow statement, have been appropriately adjusted within the financial statements.

- 11 A number of amendments and additional disclosures were made to the draft financial statements. The key amendments and disclosures have been included below:
- Officers' Remuneration Note 31 – a number of adjustments were made to remuneration bandings and the disclosure of expenses allowances and the disclosure of the Chief Executive's returning officer allowance;
 - events after the balance sheet date Note 6 – Additional disclosure was included within the accounts in respect of the cessation of the PFI Project Agreement covering County Hall , Ruthin and associated buildings in September 2015;
 - additional disclosure was incorporated within Grant Income (Note 33) and Reconciliation to Subjective Analysis (Note 27) to provide additional clarity in respect of the disclosure in subsidy payments received from the Department of Works and Pension; and
 - a number of additional adjustments were made to the related party disclosure note (Note 34).
- 12 In addition to the above, a number of other adjustments were made to the draft financial statements to ensure that the statements cast and cross cast and appropriate linkages and references were included within the financial statements.

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