

# Audit of Financial Statements Report

## Denbighshire County Council

**Audit year:** 2015-16

**Issued:** September 2016

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# Status of report

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The team who delivered the work comprised Anthony Veale, Michelle Phoenix and Gareth Evans and the Denbighshire County Council audit team.

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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

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## 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) 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 result in a reader of the accounts being misled.
3. The quantitative levels at which we judge such misstatements to be material for the Council are £3.567m for income and expenditure items, working capital balances and 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 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 21 June 2016, nine days prior to the deadline of 30 June 2016, and have now substantially completed the audit work. At the time of drafting this report, the following areas are outstanding:
  - finalisation of our work on Property Plant and Equipment (PPE);
  - finalisation of our work on Related Parties;
  - completion procedures and review of the final financial statements; and
  - final audit review procedures.
7. We would also like to draw to the attention of the Corporate Governance Committee that we have received notification from an elector regarding a potential objection to the 2015-16 financial statements. We are in the process of confirming the details of this potential objection and whether there are any implications for the 2015-16 financial statements. We will update the Corporate Governance Committee alongside the issues reported in paragraph 6 above at its meeting scheduled for the 28<sup>th</sup> September 2016.
8. 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 Council officers, including the Section 151 Officer.

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## Proposed audit report

9. 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](#).
10. The proposed audit report is set out in [Appendix 2](#).

## Significant issues arising from the audit

### Uncorrected misstatements

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

### Corrected misstatements

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. 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.** 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.
  - **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.
  - **There were no significant matters discussed and corresponded upon with management which we need to report to you.**
  - **We did not identify any material weaknesses in your internal controls.**
  - **There are other 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

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spreadsheets to support its fixed asset register. We reported to you in 2014-15 that 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 to 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. Whilst some progress has been made in terms of option appraisal, the Council has not yet procured an upgrade the fixed asset register. We reiterate our recommendation made in 2014-15 that this is considered by the Council going forward

**Authorisation of invoices** – during our audit we reviewed a sample of expenditure transactions and noted a number of instances where individual's authorisation limits within the electronic invoice purchasing system were exceeded. Further review confirmed there were no issues in respect of the validity of payments being made. However, our work has identified some weaknesses within the internal controls relating to expenditure which the Council is taking steps to address. This primarily involves authorisation levels being reviewed and appropriately set for relevant officers.

**Pension disclosures** - International Accounting Standard 19 (Employee Benefits) requires bodies to disclose in their annual financial statements the assets, liabilities and transactions, together with certain information regarding underlying assumptions, in respect of retirement benefits.

The figures disclosed within the financial statements are based on 'Pension Scheme Accounting Figures' prepared annually by the Clwyd Pension Fund actuary, Mercer ('the Actuary'). In turn, the figures provided by the Actuary rely on accurate data supplied to them by the administering authority of Clwyd Pension Fund ('the Fund').

The auditors of the Fund identified that information provided to the Actuary in respect of the Council's membership data was not fully up to date. Although we are satisfied that this does not have a material impact on the 2015-16 accounts, inaccurate data does risk having a significant effect on the annual accounting figures and the triennial valuation prepared by the Actuary.

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 this is the case. In doing so, this will ensure that the Actuary can prepare the annual IAS19 disclosures, and triennial valuation, based on robust data.

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

## Independence and objectivity

14. As part of the finalisation process, we are required to provide you with representations concerning our independence.
15. 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

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## Final Letter of Representation

Denbighshire County Council

Auditor General for Wales

Wales Audit Office

24 Cathedral Road

Cardiff

CF11 9LJ

28 September 2016

## Representations regarding the 2015-16 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 2016 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 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:
  - 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 Denbighshire 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. There are no misstatements identified in the financial statements that remain uncorrected.

## Representations by the Corporate Governance Committee

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

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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 Denbighshire County Council on 28 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:

Richard Weigh (S151 Officer)

Date: 28 September 2016

Signed by:

Councillor Jason McClellan (Chair of the  
Corporate Governance Committee)

Date: 28 September 2016

# Appendix 2

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## Proposed audit report of the Auditor General 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 2016 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 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 8, 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 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 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 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.

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**Opinion on other matters**

In my opinion, the information contained in the Narrative Report 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 Annual Governance Statement does not reflect compliance with guidance.

**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 on behalf of  
Huw Vaughan Thomas  
Auditor General for Wales

24 Cathedral Road  
Cardiff, CF11 9LJ

30 September 2016

## 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
£1,326,000	<p>An adjustment has been made to decrease the valuation of Council Dwellings following a revised valuation for the period 2011-2016 using the correct valuation methodology.</p> <p>This has impacted on the following areas within the 2015-16 financial statements:</p> <ul style="list-style-type: none"> <li>• Note 13 PPE and balance sheet: Council dwellings net book value (NBV)</li> <li>• Note 22 Usable Reserves – Council fund</li> <li>• Note 23 Unusable Reserves - revaluation reserve</li> <li>• Note 27 Amounts reported for resource allocation decisions</li> <li>• Balance sheet</li> <li>• Cash flow statement</li> <li>• Cost of services</li> <li>• Total comprehensive I&amp;E</li> <li>• Movement in reserves statement</li> <li>• Note 7 – Adjustments between accounting basis and funding basis under regulation</li> <li>• HRA statements</li> </ul>	<p>To bring the valuation of Council Dwellings in line with the basis of Existing Use Value for Social Housing (EVU-SH) as required by the Royal Institution of Chartered Surveyors Valuations Standards, in line with CIPFA and Treasury guidance</p>
£3,305,000	<p>Amendments to Assets Under Construction (AUC) net book value within note 13 Property, Plant and Equipment (PPE) to remove incorrectly charged impairment.</p>	<p>To bring the accounting treatment of AUC in line with the requirements of the Code of Practice.</p>

	<p>This has also impacted on the Cost of Services, reducing the costs charged to services by a corresponding amount.</p> <p>The overall impact on the Council Fund is nil as the adjustment is ultimately transferred into the Capital Adjustment Account.</p>	
£3,768,000	<p>Investment Properties increased by £586,000 and Assets Under Construction decreased by £4,354,000 to account for the recognition of an asset becoming operational and to account for the revaluation on this asset.</p> <p>There is a corresponding increase in Cost of Services.</p> <p>The overall impact on the Council Fund is nil as the adjustment is transferred into the Capital Adjustment Account.</p>	To bring the accounting treatment in line with the requirements of the Code of Practice.
£720,000	<p>Decrease in the valuation of Assets Held for Sale and corresponding movement within the surplus / deficit on provision of services and the capital adjustment account.</p>	To amend the valuation of Assets Held for Sales in line with the valuation undertaken in the year.
Various: nil overall impact on the reported results	<p>Amendments to disclosures within note 13 (Property Plant and Equipment - PPE) and note 14 (Investment Properties) as summarised:</p> <ul style="list-style-type: none"> <li>• Further narrative provided under the PPE note to explain the 'Other movements in cost or valuation'.</li> <li>• Further narrative provided to explain the depreciation accounting policy applied to Surplus Assets.</li> <li>• Assets under Construction (AUC) accumulated depreciation decreased and Other Land &amp; Buildings cost of Assets reclassified increased by £976,000 to show the gross cost of assets transferred during the year. These assets were subsequently revalued and accounted for through the</li> </ul>	To ensure full compliance with the Code of Practice and improve the clarity of the disclosures.

	<p>surplus / deficit on provision of services, the capital adjustment account and the revaluation reserve.</p> <ul style="list-style-type: none"> <li>• Capital Commitments – further narrative provided to explain the disclosures.</li> <li>• Reclassification between surplus assets, investment properties and other land and buildings totalling £997,000 clarified and corrected.</li> <li>• Net increase in the value of Investment Properties to reflect an understatement in revaluations recorded within the fixed asset register of £23,000. This has corresponding adjustments in the surplus / deficit on provision of services and the capital adjustment account.</li> <li>• Derecognition of nil NBV assets re-classified within note 13 as 'derecognition other' instead of as 'other movements in cost or valuation'.</li> </ul>	
Various	<p>A number of minor narrative, presentational and other amendments were made to the accounts. The main notes affected were:</p> <ul style="list-style-type: none"> <li>• Narrative Report</li> <li>• Note 11 Council tax properties</li> <li>• Note 21 Earmarked reserves</li> <li>• Note 28 Partnership arrangements</li> <li>• Note 31 Remuneration Report</li> <li>• Note 33 Grants</li> <li>• Note 34 Related Companies</li> </ul>	<p>To ensure full compliance with the Code, ensure presentational accuracy in line with International Financial Reporting Standards, and improve or correct narrative disclosures.</p>

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