



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Audit of Financial Statements Report – **Denbighshire County Council**

Audit year: 2016-17

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We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

Mae'r ddogfen hon hefyd ar gael yn Gymraeg. This document is also available in Welsh.

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

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This document summarises the conclusions on the 2016-17 audit. 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 Denbighshire County Council (the Council) at 31 March 2017 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 £3.336 million for income and expenditure items and working capital balances, and £3.336 million 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 the Council, for 2016-17 that require reporting under ISA 260.

Status of the audit

- 6 We received the draft financial statements for the year ended 31 March 2017 on 13 June 2017, 17 days prior to the agreed deadline of 30 June 2017, and have now substantially completed the audit work.
- 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 Chief Accountant and 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

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 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.**
- **There are other matters significant to the oversight of the financial reporting process that we need to report to you:**

Fixed asset register –the Council continues to maintain complex spreadsheets to support the fixed assets disclosed within the financial statements. As previously reported, the fixed asset register spreadsheets are well maintained and support the preparation of the statement accounts. However, we remain of the view that the Council should prioritise investing in 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 onset of earlier closure of local authority accounts in future years should be a key driver in respect of the Council's consideration. We understand that there has been some delay in implementing a new fixed asset register due to the Council also considering its options for a new general ledger system, however, we reiterate our recommendation made in 2014-15 and 2015-16 that this is considered by the Council going forward.

Fixed assets valuations – Appendix 3 details the amendments made to the draft financial statements following our audit. The more significant amendments relate to the revaluation of fixed assets during the year, ie the calculation of the revaluations and the accounting treatment applied to bring these revaluations into the financial statements. In order to improve the process, we recommend that:

- the valuation exercise prepared by the Council Valuer is undertaken earlier (pre year-end).
 - the Finance Department reviews the valuations to ensure they appear reasonable.
 - the revaluations are subject to an earlier external audit (ideally pre year-end). The earlier completion and checking of the valuation exercise, supplemented by an earlier external audit review, will have the added benefit of supporting the earlier closure of the financial statements which will start to impact on the 2018-19 accounts.
- **We did not identify any material weaknesses in your internal controls.**
 - **There are no other matters specifically required by auditing standards to be communicated to those charged with governance.**

Independence and objectivity

- 13 As part of the finalisation process, we are required to provide you with representations concerning our independence. We can confirm that with the exception of one member of staff, there are no known threats to the independence of the Auditor General for Wales or on the independence of staff or contractors working on his behalf.
- 14 With regards to the exception noted above, one member of the audit team is connected to a member of the Council's staff. We have therefore taken additional steps to safeguard our independence and objectivity.
- 15 We have therefore complied with ethical standards and in our professional judgment, we are independent and our objectivity is not compromised.

Appendix 1

Final Letter of Representation

Denbighshire County Council

Auditor General for Wales

Wales Audit Office

24 Cathedral Road

Cardiff

CF11 9LJ

27 September 2017

Representations regarding the 2016-17 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 2017 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 CIPFA Code of Practice on Local Authority Accounting; in particular the financial statements give a true and fair view in accordance therewith; and
- 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 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.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements for 2016-17 were approved by Denbighshire County Council on 27 September 2017.

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: 27 September 2017

Signed by:

Councillor Barry Mellor

Date: 27 September 2017

Appendix 2

Proposed audit report of the Auditor General for Wales to the Members of Denbighshire County Council

Auditor General for Wales' report 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 2017 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 2016-17 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 and Annual Governance Statement 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 2017 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 2016-17.

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

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.

Exhibit 1: summary of corrections made to the draft financial statements

Value of correction	Nature of correction	Reason for correction
£4,059,000 (net)	<p>Property Plant & Equipment</p> <p>The Gross Book Value of Surplus Assets has been increased by £4,333,000 and Council Dwellings decreased by an equivalent amount to account for the transfer of a number of existing and newly acquired assets that were not operational at 31 March 2017.</p> <p>This adjustment has impacted on the following areas within the 2016-17 financial statements:</p> <ul style="list-style-type: none"> • Balance Sheet • Note 15 Property Plant & Equipment 	To ensure that assets are classified in accordance with the requirements of the Code of Practice on Local Authority Accounting.
£4,009,000 (net)	<p>Property Plant & Equipment</p> <p>Other Land & Buildings have increased by £9,139,000, Assets Under Construction decreased by £12,949,000 and the revaluation reserve decreased by £199,000 to account for the recognition of an asset becoming operational and to account for the revaluation of this asset.</p> <p>There is a corresponding increase in the 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> <p>This has impacted on the following areas:</p> <ul style="list-style-type: none"> • Comprehensive Income & Expenditure Statement • Movement in Reserves Statement • Balance Sheet • Cash Flow Statement • Expenditure & Funding Analysis 	To bring the accounting treatment in line with the requirements of the Code of Practice on Local Authority Accounting.

Value of correction	Nature of correction	Reason for correction
	<p>Property Plant & Equipment (continued)</p> <ul style="list-style-type: none"> • Note 7 Note to the Expenditure and Funding Analysis Note 8 Expenditure and Income Analysed by nature • Note 9 Adjustments between Accounting Basis and Funding Basis under Regulation • Note 15 Property Plant & Equipment • Note 25 Unusable Reserves • Note 26 Cash flow statement – operating activities 	<p>To bring the accounting treatment in line with the requirements of the Code of Practice on Local Authority Accounting.</p>
£1,804,000	<p>Property Plant & Equipment</p> <p>Decrease in the valuation of Other Land & Buildings of £1,804,000 to account for an error in the valuation of a school and a corresponding movement within the Comprehensive Income & Expenditure Statement (£299,000) and the revaluation reserve (£1,505,000). The overall impact on the Council fund is nil as the adjustment is transferred into the Capital Adjustment Account.</p> <p>This adjustment has impacted on the following areas:</p> <ul style="list-style-type: none"> • Comprehensive Income & Expenditure Statement • Movement in Reserves Statement • Balance Sheet • Cash Flow Statement • Expenditure & Funding Analysis • Note 7 Note to the Expenditure and Funding Analysis • Note 8 Expenditure and Income Analysed by nature • Note 9 Adjustments between Accounting Basis and Funding Basis under Regulation • Note 15 Property Plant & Equipment • Note 25 Unusable Reserves • Note 26 Cash flow statement – operating activities 	<p>To ensure that the assets are carried at the correct valuation and in accordance with the requirements of the Code of Practice on Local Authority accounts.</p>

Value of correction	Nature of correction	Reason for correction
£738,000	<p>Property Plant & Equipment</p> <p>An adjustment has been made to amend the incorrect apportionment of cost on disposal of part of an asset. As a result of this amendment, the loss on disposal has reduced by £738,000 (from £967,000 to £229,000).</p> <p>This adjustment has impacted on the following areas:</p> <ul style="list-style-type: none"> • Comprehensive Income & Expenditure Statement • Movement in Reserves Statement • Balance Sheet • Cash Flow Statement • Expenditure & Funding Analysis • Note 7 Note to the Expenditure and Funding Analysis • Note 8 Expenditure and Income Analysed by nature • Note 9 Adjustments between Accounting Basis and Funding Basis under Regulation • Note 10 Other Operating Expenditure • Note 15 Property Plant & Equipment • Note 25 Unusable Reserves • Note 26 Cash flow statement – operating activities 	<p>To ensure that the asset valuation had been correctly applied to each respective element of retained land, appropriated land and land disposed of in accordance with the requirements of the Code of Practice on Local Authority accounting.</p>
£405,000 (£157,000 after social housing adjustment factor applied)	<p>Property Plant & Equipment</p> <p>The valuation of Council Dwellings has decreased by £157,000 to correct an error in the calculation applied to an element of the council dwellings revaluation. The overall impact on the Council Fund is nil.</p> <p>This adjustment has impacted on the following areas within the 2016-17 financial statements:</p> <ul style="list-style-type: none"> • Comprehensive Income & Expenditure Statement • Movement in Reserves Statement • Balance Sheet • Note 15 Property Plant & Equipment • Note 25 Unusable Reserves 	<p>To ensure that all of the council dwellings are valued consistently and in line with the requirements of the Code of Practice on Local Authority Accounting.</p>

Value of correction	Nature of correction	Reason for correction
£211,000 (net)	<p>Property Plant & Equipment</p> <p>An adjustment has been made to remove all parts of a property disposed in the year from fixed assets. This has decreased the gain recognised on disposal.</p> <p>This adjustment has impacted on the following areas within the 2016-17 financial statements:</p> <ul style="list-style-type: none"> • Comprehensive Income & Expenditure Statement • Movement in Reserves Statement • Balance Sheet • Cash Flow Statement • Expenditure & Funding Analysis • Note 7 Note to the Expenditure and Funding Analysis • Note 8 Expenditure and Income Analysed by nature • Note 9 Adjustments between Accounting Basis and Funding Basis under Regulation • Note 10 Other Operating Expenditure • Note 15 Property Plant & Equipment • Note 25 Unusable Reserves • Note 26 Cash flow statement – operating activities 	To bring the accounting treatment in line with the requirements of the Code of Practice on Local Authority Accounting.
£5,127,000 narrative	<p>National Non Domestic Rates (NNDR)</p> <p>A narrative adjustment has been made to the total year-end rateable value disclosed in Note 14 National Non Domestic Rates.</p>	To correct Note 14 narrative disclosure in respect of National Non Domestic Rates.

Value of correction	Nature of correction	Reason for correction
Various	<p>A number of below material, narrative, presentational and other amendments have been made to the accounts.</p> <p>The disclosures affected:</p> <ul style="list-style-type: none"> • Narrative Report • Comprehensive Income & Expenditure Account • Movement in Reserves Statement • Balance Sheet • Expenditure & Funding Analysis • Cash Flow Statement • Accounting Policies • Note 4 Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty • Note 7 Expenditure & Funding Analysis • Note 8 Expenditure and Income Analysed by Nature • Note 15 Property Plant & Equipment • Note 23 Movements in Earmarked Reserves • Note 25 Unusable Reserves • Note 26 Cash Flow Statement – Operating Activities • Note 29 Partnership Arrangements • Note 32 Officer Remuneration • Note 35 Related Parties • Note 40 Contingent Liabilities • Housing Revenue Account 	<p>To ensure full compliance with the Code of Practice on Local Authority Accounting, ensure presentational accuracy in line with International Financial Reporting Standards and improve or correct narrative disclosures.</p>

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