



WALES AUDIT OFFICE
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Archwilydd Cyffredinol Cymru
Auditor General for Wales

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

Audit year: 2017-18

Date issued: September 2018

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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.

This document is also available in Welsh.

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

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This document summarises the conclusions on the 2017-18 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 2018 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 £3.537 million for income and expenditure items and working capital balances, and £3.537 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 2017-18, that require reporting under ISA 260.
- 6 We are particularly grateful to the officers of the Council for the assistance provided during the course of the audit.

Status of the audit

- 7 We received the draft financial statements for the year ended 31 March 2018 on 15 June, being two weeks earlier than the agreed deadline of 30 June 2018. We have now substantially completed the audit work although there are a small number of audit procedures outstanding including our final review of our audit work.
- 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 Chief Accountant and Head of Finance.

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 We set out below the misstatements identified in the financial statements, which have been discussed with management but remain uncorrected, and request that they are corrected. If you decide not to correct the misstatements, we ask that you provide us with the reasons for non-correction. The misstatements relate to accounting treatments and disclosures within Property Plant and Equipment (Note 14). The misstatements do not impact on the Council's General Fund.

Property Plant and Equipment is, in total, understated by £135,176 due to the following misstatements:

- an asset has been incorrectly written out of Other Land and Buildings which has resulted in an understatement of Other Land and Buildings of £82,162.
- an asset comprising of land and buildings has been revalued in the year, but this valuation has not been updated within the fixed asset register or the accounts. Other Land and buildings has been understated by £14,008.
- an asset held within Assets Held for Sale has been incorrectly revalued to nil and the revaluation loss charged to the Comprehensive Income and Expenditure. The asset should have been transferred out of Assets Held for Sale into Surplus assets. Assets Held for Sale has been understated by £39,000.

Further misclassifications have been identified:

- assets held in trust by the Council, but not owned by the Council, were previously incorrectly held within the Authority's balance sheet as non-current assets within Other Land and Buildings. This error was identified in 2017-18 and was incorrectly accounted for as a revaluation loss when it should have been treated as derecognition of the assets. This has resulted in a classification misstatement within Note 14 of £98,685 from 'Revaluation decrease recognised in the Surplus/Deficit on the Provision of Services' to 'Derecognition Other'.
- the treatment of a prior year disposal, previously not recorded in the fixed asset register, as a revaluation loss is incorrect. Expenditure on the provision of services is overstated by £21,800 while Note 9 'Other Operating Expenditure': Loss on Held for Sale Assets and the disposal of non-current assets has been understated by £60,000.
- property plant and equipment is overstated by a net value of £447,000 and Assets Held for Sale is understated by £450,000, including a revaluation gain of £3,000, due to an asset that is currently on sale included within operational assets in error.

- the Gross Cost and Gross Accumulated Depreciation of Surplus Assets have been overstated by £192,500. Although the NBV of the asset is correctly stated the gross position should be correctly reflected within the Property, Plant and Equipment Note.

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.**
- **There is one other matter 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 in the financial statements. We have reported to you during the last 3 years that, although these spreadsheets are well maintained and support the preparation of the accounts, we have concerns over the ability of the system to support a more streamlined accounts closure process, in particular the ease at which the accounting for revaluations is accomplished.

[Appendix 3](#) details amendments made to the draft financial statements following our audit. The vast majority of these relate to corrections made to the accounting treatment and disclosures of Property, Plant and Equipment (PPE).

Last year we recommended:

- 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 (see paragraphs 17 to 20 below).

Although some progress has been made in recent years regarding the above, there are still improvements needed to ensure that the PPE movements and valuations are correctly reported within the draft accounts. This has the benefit of reducing the additional time spent on this aspect of the account by the audit team. It also reduces officer time required to correct the financial statements for any audit adjustments.

- **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

- 14 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.
- 15 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.
- 16 We have therefore complied with ethical standards and in our professional judgment, we are independent and our objectivity is not compromised.

The financial statements and audit deadlines going forward

- 17 Under the Accounts and Audit (Wales) (Amendments) Regulations 2018¹, in the future the Council and the Auditor General are required to meet earlier statutory deadlines. Under the amended regulations the new deadlines are due to change in stages, with the final change taking effect from 2020-21. **Exhibit 1** sets out the new dates.

¹ www.legislation.gov.uk/wsi/2018/91/contents/made

Exhibit 1: changes introduced by the amended regulations

Annual financial statements	Financial statements signed by the responsible finance officer (Section 151 Officer)	Financial statements approved by the Council and published (with the signed audit certificate or an explanation for its absence)
2017-18	30 June 2018	30 September 2018
2018-19	15 June 2019	15 September 2019
2019-20	15 June 2020	15 September 2020
2020-21 and thereafter	31 May 2021	31 July 2021

- 18 For the 2017-18 financial statements, management have made some progress in producing the Council's draft financial statements earlier. After submitting the statements for audit, Council officers were present and available, and they engaged with us responsively and knowledgeably. These attributes were crucial in enabling us to conclude the majority of our main testing before the end of August.
- 19 This year management retained the Corporate Governance Committee (to consider and approve the audited financial statements) in September 2018, because the preparation and audit of the financial statements may not have met the earlier target dates that had been set. However, in the context of the revised deadlines set out above, the Council needs to consider the timings of the Corporate Governance Committee for the approval of the 2018-19 financial statements.
- 20 This coming Autumn, we will continue to work closely with officers to ensure that further improvements are made to the preparation and audit of the 2018-19 financial statements. A key aspect of these improvements will be to bring more of our audit work forward, so that where possible it is completed before we receive the draft financial statements.

Appendix 1

Final Letter of Representation

Denbighshire County Council

Auditor General for Wales

Wales Audit Office

24 Cathedral Road

Cardiff

CF11 9LJ

26 September 2018

Representations regarding the 2017-18 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 2018 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 UK; 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; and
- 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. The effects of uncorrected misstatements identified during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

A summary of these items is set out below:

- an asset has been incorrectly written out of Other Land and Buildings which has resulted in an understatement of Other Land and Buildings of £82,162.
- an asset comprising of land and buildings has been revalued in the year, but this valuation has not been updated within the fixed asset register or the accounts. Other Land and buildings has been understated by £14,008.
- an asset held within Assets Held for Sale has been incorrectly revalued to nil and the revaluation loss charged to the Comprehensive Income and Expenditure. The asset should have been transferred out of Assets Held for Sale into Surplus assets. Assets Held for Sale has been understated by £39,000.
- assets held in trust by the Council, but not owned by the Council, were previously incorrectly held within the Authority's balance sheet as non-current assets within Other Land and Buildings. This error was identified in 2017-18 and was incorrectly accounted for as a revaluation loss when it should have been treated as derecognition of the assets. This has resulted in a classification misstatement within Note 14 of £98,685 from 'Revaluation decrease recognised in the Surplus/Deficit on the Provision of Services' to 'Derecognition Other'.
- the treatment of a prior year disposal, previously not recorded in the fixed asset register, as a revaluation loss is incorrect. Expenditure on the provision of services is overstated by £21,800 while Note 9 'Other Operating Expenditure': Loss on Held for Sale Assets and the disposal of non-current assets has been understated by £60,000.
- Property, Plant and Equipment is overstated by a net value of £447,000 and Assets Held for Sale is understated by £450,000, including a revaluation gain of £3,000, due to an asset that is currently on sale included within operational assets in error.
- the Gross Cost and Gross Accumulated Depreciation of surplus assets have been overstated by £192,500. Although the NBV of the asset is correctly stated the gross position should be correctly reflected within the Property, Plant and Equipment Note.

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. We approved the financial statements on 26 September 2018.

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

Signed by:

Councillor Barry Mellor

Date: 26 September 2018

Date: 26 September 2018

Appendix 2

Proposed audit report of the Auditor General to Denbighshire County Council

The independent auditor's report of the Auditor General for Wales to the members of Denbighshire County Council

Report on the audit of the financial statements

Opinion

I have audited the financial statements of Denbighshire County Council for the year ended 13 March 2018 under the Public Audit (Wales) Act 2004.

Denbighshire County Council's financial 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 and the related notes, including a summary of significant accounting policies.

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 2018 based on International Financial Reporting Standards (IFRSs).

In my opinion the accounting statement and related notes:

- give a true and fair view of the financial position of Denbighshire County Council as at 31 March 2018 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2018.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of Denbighshire County Council in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the responsible financial officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about Denbighshire County Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The responsible financial officer is responsible for the other information in the annual report and accounts. The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated later in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information to identify material inconsistencies with the audited financial statements 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.

Report on other requirements

Opinion on other matters

In my opinion, based on the work undertaken in the course of my audit:

- the information contained in the Narrative Report for the financial year for which the financial statements are prepared is consistent with the financial statements and the Narrative Report has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and the Annual Governance Statement has been prepared in accordance with guidance.

Matters on which I report by exception

In the light of the knowledge and understanding of Denbighshire County Council and its environment obtained in the course of the audit, I have not identified material misstatements in the Narrative Report or the Annual Governance Statement.

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 financial 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.

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.

Responsibilities

Responsibilities of the responsible financial officer for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the responsible financial officer is responsible for the preparation of the statement of accounts, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of statements of accounts that are free from material misstatement, whether due to fraud or error.

In preparing the statement of accounts, the responsible financial officer is responsible for assessing Denbighshire County Council's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Anthony J Barrett
For and on behalf of the Auditor General for Wales
28 September 2018

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.

Value of correction	Nature of correction	Reason for correction
£1,067,000	<p>Note 14 Property Plant and Equipment: Infrastructure Assets</p> <p>Expenditure on infrastructure assets had been incorrectly classified as Council Dwellings and the expenditure fully impaired to the Comprehensive Income and Expenditure Statement (CI&ES). To correct this position, infrastructure assets have been increased by £1,067,000 and the expenditure within the CI&ES reduced by the same amount</p> <p>This amendment has also impacted on the following statements and notes:</p> <ul style="list-style-type: none">• Expenditure and Funding Analysis• Movement in Reserves Statement• Cash Flow Statement (including Note 23)• Note 7 Expenditure and Income Analysed by Nature• Note 8 Adjustment between Accounting Basis and Funding Basis under Regulations• Housing Revenue Account CI&ES	<p>To correctly disclose the assets and ensure full compliance with the Code of Practice on Local Authority Accounting.</p>

Value of correction	Nature of correction	Reason for correction
	<ul style="list-style-type: none"> • Housing Revenue Account Movement in Reserves Statement • Housing Revenue Account Note 5 	
£455,000	<p>Note 14 Property Plant and Equipment: Council Dwellings.</p> <p>Non-operational assets had been incorrectly included within Council Dwellings. To correct the position these assets have been transferred to Surplus Assets and have been impaired to the CI&Es (£506,000) & Revaluation Reserve (£36,000).</p> <p>In addition, IT assets not yet in use had been included within Council Dwellings and fully impaired to the CI&ES. The assets have been moved to Assets Under Construction and the impairment charge removed from Expenditure within the CI&E (£87,000).</p> <p>This amendment has also impacted on the following statements and notes:</p> <ul style="list-style-type: none"> • Expenditure and Funding Analysis • Movement in Reserves Statement • Cash Flow Statement (including Note 23) • Note 7 Expenditure and Income Analysed by Nature • Note 8 Adjustment between Accounting Basis and Funding Basis under Regulations • Note 9 Other Operating Expenditure • Note 22 Unusable Reserves 	To correctly disclose the assets and ensure full compliance with the Code of Practice on Local Authority Accounting.

Value of correction	Nature of correction	Reason for correction
	<ul style="list-style-type: none"> • HRA CI&ES • HRA Movement in Reserves Statement • HRA Note 5 	
£2,248,000	<p>Note 14 Property Plant and Equipment: Other Land and Building.</p> <p>Valuations applied to some of the car parks owned by the Council were incorrect. These changes have impacted on the following statements and notes:</p> <ul style="list-style-type: none"> • Expenditure and Funding Analysis • Comprehensive Income and Expenditure Account • Movement in Reserves Statement • Note 7 Expenditure and Income Analysed by Nature • Note 9 Other Operating expenditure • Note 22 Unusable reserves: Revaluation Reserve and Capital Adjustment account • Note 23 Cash Flow Statement 	To correctly disclose the assets and ensure full compliance with the Code of Practice on Local Authority Accounting.
£10,000	<p>Note 14 Property Plant and Equipment: Other Land and Building.</p> <p>Valuations applied to some of the car parks owned by the Council were incorrect. One car park valuation was understated by £140,000, others were understated by a total of £150,000</p> <p>These changes have impacted on the following statements and notes:</p> <ul style="list-style-type: none"> • Expenditure and Funding Analysis 	To correctly disclose the assets and ensure full compliance with the Code of Practice on Local Authority Accounting.

Value of correction	Nature of correction	Reason for correction
	<ul style="list-style-type: none"> • Comprehensive Income and Expenditure Account • Movement in Reserves Statement • Balance Sheet • Cash Flow Statement (including note 23) • Note 7 Expenditure and Income Analysed by Nature • Note 8 Adjustment between Accounting Basis and Funding Basis under Regulations • Note 9 Other Operating expenditure • Note 22 Unusable reserves: Revaluation Reserve and Capital Adjustment account 	
£303,000 Various	<p>Note 14 Property Plant and Equipment</p> <p>Further adjustments have been made to correctly account for infrastructure assets, and Community Asset equipment with corresponding entries within the following areas:</p> <ul style="list-style-type: none"> • Expenditure and Funding Analysis • Comprehensive Income and Expenditure Account • Movement in Reserves Statement • Note 8 Adjustment between Accounting Basis and Funding Basis under Regulations • Note 22 Unusable reserves: Revaluation Reserve and Capital Adjustment account 	To correctly disclose the assets and ensure full compliance with the Code of Practice on Local Authority Accounting.
£ Various	A number of below material narrative, presentational and other amendments were made to the accounts.	To ensure full compliance with the Code of Practice on Local Authority Accounting, ensure

Value of correction	Nature of correction	Reason for correction
	<p>The disclosures affected were:</p> <ul style="list-style-type: none"> • The Narrative Report • Accounting Policies • Comprehensive Income and Expenditure Account • Movement in Reserves Statement • Balance sheet • Cash Flow Statement • Note 7 Expenditure and Income Analysed by Nature • Note 8 Adjustments between Accounting Basis • Note 14 Capital Commitments • Note 15 Financial Instruments • Note 17 Debtors • Note 19 Short Term Creditors • Note 20 Movements in Earmarked reserves • Note 21 Usable Reserves • Note 22 Unusable Reserves • Note 23 Cash Flow Statement • Note 29 Grant Income • Note 30 Related Parties • Note 36 Heritage Assets 	<p>presentational accuracy in line with International Financial Reporting Standards, and improve or correct narrative disclosures.</p>

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