



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

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

Audit year: 2018-19

Date issued: August 2019

Document reference: 1452A2019-20



This document has been prepared as part of work performed in accordance with statutory functions.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000.

The section 45 code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales and the Wales Audit Office are relevant third parties. Any enquiries regarding

disclosure or re-use of this document should be sent to the Wales Audit Office at

infoofficer@audit.wales.

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.

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	6

Appendices

Appendix 1 – Final Letter of Representation	8
Appendix 2 – Proposed audit report of the Auditor General to the Members of Denbighshire County Council	11
Appendix 3 – Summary of corrections made to the draft financial statements which should be drawn to the attention of the Members	14

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 the Denbighshire County Council (the Authority) at 31 March 2019 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 Authority are £3.623 million for income and expenditure items and 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 Authority, for 2019 that require reporting under ISA 260.

Status of the audit

- 6 We received the draft financial statements for the year ended 31 March 2019 on 4 June 2019 in advance of the earlier statutory deadline for the Authority of 15 June 2019. We 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 finance team.

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](#) which includes one material amendment made to the accounts as summarised below.
- 12 In December 2018, the Court of Appeal ruled against the Government, upholding the changes made to pension schemes discriminated against a group of public officers on the grounds of age. The changes surrounded a move from a final salary to a career average basis. On 27 June 2019, the Supreme Court denied the Government's application to appeal the decision. This series of events is referred to as the McCloud judgement.
- 13 The cost of providing a remedy to affected employees is likely to be significant. We have concluded that the McCloud judgement gives rise to a past service cost and liability within the scope of accounting for pensions within local authorities which should be accounted for as an increased liability where a reasonable estimate can be made.
- 14 The financial impact of this legal judgement has been calculated by the Authority in conjunction with the Clwyd Pension Fund Actuary, based on assumptions provided by the Governments Actuary Department (GAD). The actuary's recalculation increased the net pension liability for the Local Government Pension Scheme from £276.3 million to £285.3 million.

Other significant issues arising from the audit

- 15 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 no issues arising in these areas this year:

We have no concerns about the qualitative aspects of your accounting practices and financial reporting. 2018-19 was the first year the Authority was required to produce its draft financial statements by the earlier statutory deadline of 15 June 2019. Despite the earlier timescales, the draft financial statements were received in advance of the earlier deadline on 4 June 2019 and were produced to a good standard. We also concluded that accounting

policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear.

The Authority is well placed for meeting the earlier production of the financial statements by 31 May from 2020-21 building on the work it has undertaken during the year in revising the format of the financial statements and agreeing audit deliverables setting out working paper requirements.

- **We did not encounter any significant difficulties during the audit.** We concluded our fieldwork in accordance with our reporting timetable and we are grateful for the assistance and co-operation from the finance team.
- **There were no significant matters discussed and corresponded upon with management which we need to report to you.**
- **There are no other matters significant to the oversight of the financial reporting process that we need to report to you.**

We have reported to you in the last four years that the Authority continues to maintain complex spreadsheets to support the fixed assets disclosed in the financial statements. Whilst 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.

We have previously recommended 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, and
- 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.

Although some progress has been made in recent years, improvements are still needed to ensure that the Property, Plant and Equipment adjustments and valuations are correctly reported within the draft financial statements.

- **We did not identify any material weaknesses in your internal controls.**
- **There are not any other matters specifically required by auditing standards to be communicated to those charged with governance.**

Independence and objectivity

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

- 17 We can confirm that with exceptions noted below, there are no known threats to the independence of the Auditor General for Wales or the staff working on his behalf.
- 18 Two members of the audit team have relatives employed by the Authority. We have taken appropriate steps to ensure that they have not been involved in any work that would compromise their independence or objectivity during the audit.
- 19 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

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

11 September 2019

Representations regarding the 2018-19 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 2019 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 of the Code of Practice on Local Authority Accounting in the United Kingdom 2018-19; 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
 - 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. 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.

The financial statements are free of material misstatements, including omissions.

Representations by Denbighshire County Council

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 11 September 2019.

The financial statements are free of material misstatements, including omissions.

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:

Steve Gadd

Acting S151 Officer

11 September 2019

Signed by:

Councillor Barry Mellor

Chair of the Corporate Governance Committee

11 September 2019

Appendix 2

Proposed audit report of the Auditor General 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 31 March 2019 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 2018-19 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial position of Denbighshire County Council as at 31 March 2019 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 2018-19.

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 2018-19;
- 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 and 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 set out on page 11, 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
13 September 2019

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 Members

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.

Nature of correction	Reason for correction	Impact
<p>Note 13 'Property, Plant and Equipment' was amended to include additional rows for:</p> <ul style="list-style-type: none"> 'Depreciation – other movements'; and 'Impairment – other movements'. 	<p>Additional lines were required in Note 13 to enable the reader to fully understand the composition of the figures included in the closing Depreciation and Impairment rows.</p>	<p>The change had no other impact on the Authority's financial statements.</p> <p>Presentation disclosure only.</p>
<p>'Balance Sheet - Surplus Assets not Held for Sale' was amended from £5,316,000 to £5,666,000.</p>	<p>To include an Authority Asset valued at £350,000 that was excluded from the Balance Sheet.</p>	<p>The change increased the revaluation of Surplus Assets in Note 13 and the Net Book value at 31 March 2019 by £350,000.</p>
<p>'Note 22 Unusable Reserves - Capital Adjustment Account' was amended from £163,369,000 to £161,780,000:</p> <ul style="list-style-type: none"> 'Adjustments to Revenue Resources' from £18,552,000 to £19,685,000. 'Other Movements' from £(5,038,000) to £(4,582,000). 	<p>To account correctly for repayable funding that had been treated as if it were a non repayable capital grant.</p>	<p>Appropriate corresponding adjustments were also incorporated in:</p> <ul style="list-style-type: none"> Expenditure and Funding Analysis Comprehensive Income and Expenditure statement Movement in Reserves statement Cash Flow statement and corresponding notes. Narrative Report Note 6 'Expenditure and Income analysed by nature'. Note 7 'Adjustments between accounting basis and funding basis under regulation'. Note 10 Taxation and Non-Specific Grant Income Note 17 Financial Instruments Note 21 Usable Reserves Note 22 Unusable Reserves

Nature of correction	Reason for correction	Impact
		<ul style="list-style-type: none"> • Note 30 Grant Income • Note 32 Capital Expenditure and Capital Financing <p>The adjustments have no overall impact on the in-year financial position of the Authority.</p>
<p>Note 30 ‘Grant Income - credited to services’ was amended:</p> <ul style="list-style-type: none"> • ‘Education Improvement Grant’ from £(3,175,000) to £(4,132,000); and • ‘Other Government Grants’ from £(3,587,000) to £(2,630,000). 	<p>The disclosure note was amended as an ‘Education Improvement grant’ of £957,708 was misclassified as ‘Other Government Grants’ due to a miscoding.</p>	<p>The change had no impact on the total grant income credited to services in Note 30 or the Authority’s financial statements.</p> <p>Presentation disclosure only.</p>
<p>Note 33 ‘Leases – Authority as Lessor – Operating Leases’ was amended:</p> <ul style="list-style-type: none"> • ‘Not later than 1 year’ from £1,003,000 to £945,000. • ‘Later than 1 year and not later than 5 years’ from £2,271,000 to £2,041,000. • ‘Later than 5 years’ from £12,916,000 to £13,307,000. <p>The amendments increased the total future minimum lease payments receivable from £16,190,000 to £16,293,000.</p>	<p>Testing identified a number of errors when calculating the value of minimum leases payments receivable under non-cancellable leases in future years.</p>	<p>The change had no other impact on the Authority’s financial statements.</p> <p>Presentation disclosure only.</p> <p>The forthcoming changes to the International Financial Reporting Standard 16 on leases will also have a significant impact on the accounting treatment of leases. Given the amendments identified and the large volume of leases held by the Authority, existing arrangements need to be strengthened to ensure compliance with the requirements of the new standard from 1 January 2019.</p>
<p>Note 35 ‘Defined Benefit Pension Schemes – Pension Assets and Liabilities Recognised in the Balance Sheet – Local Government Pension Scheme’ was amended:</p> <ul style="list-style-type: none"> • ‘Present Value of the defined benefit obligation’ from £709,597,000 to £717,246,000. • ‘Fair value of plan assets’ from £(433,336,000) to £(431,909,000). • ‘Net Liability arising from defined benefit from 	<p>To account for the financial impact of this McCloud judgement as set out in paragraphs 12 to 14 of this report on the Authority’s pension liability.</p>	<p>The additional liability increased the ‘Net liability arising from defined benefit’ and ‘the Pension reserve’ on the Balance sheet by corresponding amounts.</p> <p>Appropriate corresponding adjustments were also incorporated in:</p> <ul style="list-style-type: none"> • Comprehensive Income and Expenditure Statement. • Remeasurement of the Net Defined benefit liability. • Expenditure and Funding Analysis • Note 6 ‘Expenditure and Income analysed by nature’.

Nature of correction	Reason for correction	Impact
£276,261,000 to £285,537,000.		<ul style="list-style-type: none"> • Note 7 'Adjustments between accounting basis and funding basis under regulation'. • Note 22 'Unusable Reserves' • Cash Flow statement and corresponding notes. <p>The adjustments have no overall impact on the in-year financial position of the Authority. Whilst it increases the Authority's overall pension liability, it will be addressed by the next triennial actuarial valuation.</p>

Wales Audit Office
24 Cathedral Road
Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone.: 029 2032 0660

E-mail: info@audit.wales

Website: www.audit.wales

Swyddfa Archwilio Cymru
24 Heol y Gadeirlan
Caerdydd CF11 9LJ

Ffôn: 029 2032 0500

Ffacs: 029 2032 0600

Ffôn testun: 029 2032 0660

E-bost: post@archwilio.cymru

Gwefan: www.archwilio.cymru