

# Audit of Accounts Report – Denbighshire County Council

Audit year: 2019-20

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

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We intend to issue an unqualified audit report on your Accounts. There are some issues to report to you prior to their approval.

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# Audit of accounts report

## Introduction

- 1 We summarise the main findings from our audit of your 2019-20 accounts in this report. We have already discussed these issues with Head of Finance and Property and his team.
- 2 You are required to prepare accounts and we have now substantially completed this year's audit, despite the challenges posed by the COVID-19 pandemic. It is of considerable testament to the commitment of your officers that you have succeeded in doing so this year in the face of the challenges posed by this pandemic. To help overcome these challenges we adopted new ways of working such as establishing a secure remote file transfer portal. We are extremely grateful to the professionalism of officers in producing the financial statements and supporting us to complete our audit in such challenging circumstances. We will be reviewing what we have learned from the impact of the pandemic on our audit and whether there are innovative practices that we might adopt in the future to enhance our work.
- 3 Auditors can never give complete assurance that accounts are correctly stated. Instead, we work to a level of 'materiality'. This level of materiality is set to try to identify and correct misstatements that might otherwise cause a user of the accounts into being misled.
- 4 We set this level at £3.7 million for this year's audit.
- 5 There are some areas of the accounts that may be of more importance to the reader and we have set a lower materiality level for these, as follows:
  - Related Party Disclosures £100,000
  - Senior officer remuneration £1,000
- 6 In our professional view, we have complied with the ethical standards that apply to our work; remain independent of yourselves; and, our objectivity has not been compromised in any way. There are no relationships between ourselves and yourselves that we believe could undermine our objectivity and independence. We have previously notified you of a potential threat to auditor independence and objectivity arising from a member of the audit team's family being employed as a teacher by the Council. We can confirm that the planned safeguards set out in our Audit Plan have operated as intended.

## Impact of COVID-19 on this year's audit

- 7 The COVID-19 pandemic has had a significant impact on all aspects of our society and continues to do so. You are required by law to prepare accounts and it is of considerable testament to the commitment of your accounts team that you have succeeded in doing so this year in the face of the challenges posed by this pandemic. We are extremely grateful to the professionalism of the team in supporting us to complete our audit in such difficult circumstances.

- 8 The pandemic has unsurprisingly affected our audit and we summarise in **Exhibit 1** the main impacts. Other than where we specifically make recommendations, the detail in **Exhibit 1** is provided for information purposes only to help you understand the impact of the COVID-19 pandemic on this year's audit process.

#### Exhibit 1 – impact of COVID-19 on this year's audit

<b>Timetable</b>	Officers provided us with good-quality draft accounts on 15 June 2020 as planned. This is in line with last year and complies with regulatory deadlines. We expect your audit report to be signed by 15 September 2020.
<b>Electronic signatures</b>	Given current social distancing requirements, it may be difficult for signing and certification of the accounts in hard copy this year. We may need to use electronic signatures for this purpose. We will accept electronic signatures from you though understand it is not your intention to use them. We will liaise with management to ensure arrangements are in place irrespective of the approach taken.
<b>Conducting the audit approach and obtaining audit evidence</b>	<p>Due to social distancing measures, Audit Wales staff and the majority of the council are currently working remotely from home. As a result, we adopted new ways of working:</p> <ul style="list-style-type: none"> <li>• refined our audit deliverables to clarify working paper requirement;</li> <li>• held weekly Webex meetings with the Head of Finance and Property and his team throughout the audit to discuss progress and emerging issues;</li> <li>• secured remote access to enable the audit team to access the Council's financial systems; and</li> <li>• established a secure remote file transfer portal to safely share information.</li> </ul>

- 9 We will be reviewing what we have learned for our audit process from the COVID-19 pandemic (both locally and nationally) and whether there are innovative practices that we might adopt in the future to enhance that process.

## Proposed audit opinion

- 10 We intend to issue an unqualified audit opinion on this year's accounts once you have provided us with a Letter of Representation based on that set out in **Appendix 1**.

- 11 We issue a 'qualified' audit opinion where we have material concerns about some aspects of your accounts; otherwise we issue an unqualified opinion.
- 12 Our proposed audit report is set out in **Appendix 2**. The audit report also includes an Emphasis of Matter which draws attention to uncertainties arising from circumstances caused by the Covid-19 pandemic:
- Note 13 'Property Plant and Equipment' which describes an estimation uncertainty at the end of the reporting period, that has a significant risk of resulting in a material adjustment to the carrying amounts of the Council's property; and
  - Note 36 'Defined Benefit Pension Schemes' which describes material valuation uncertainty clauses in the valuation reports on Pooled Property Funds held by the Clwyd Pension Fund.
- My opinion is not modified in respect of these matters.
- 13 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards along with confirmation of other specific information you have provided to us during our audit.

## Significant issues arising from the audit

### Uncorrected misstatements

- 14 Where we identify misstatements that are not trivial but have no impact on our opinion, we raise them with management who have the option to amend for them. Where management decide not to amend, their decision needs to be ratified by those charged with governance to ensure they agree. We set out below the two misstatements we identified in the financial statements, which have been discussed with management, but which they have chosen not to amend. Management inform us that these matters will be resolved for 2020-21. We do not consider this to be material to our audit opinion.

#### **The value of Other Land & Buildings within the Balance Sheet is understated by £1,885,372**

- 15 Testing of in-year revaluations for Primary and Secondary Schools found an error in the supporting spreadsheet calculating the area of land at a number of schools. As a consequence, land areas were misstated leading to an understatement in the value on the balance sheet of £1,885,372. The error also impacts upon corresponding entries within the Revaluation Reserve and associated notes.

**The value of Surplus Assets within the Balance Sheet is overstated by £203,000**

- 16 Testing of depreciation in Note 13 found that there were a number of assets within the Surplus Asset category which had not been assigned an asset life within the asset register, contrary to the Council's accounting policy. As a consequence, depreciation was not calculated against the assets leading to an overstatement in the value of the assets within the balance sheet of £203,000. The error also impacts upon corresponding entries; Gross Expenditure for Local Authority Housing in the Comprehensive Income and Expenditure Statement, the 'Expenditure and Funding Analysis', the 'Capital Adjustment Account' and associated notes.

### Corrected misstatements

- 17 There were initially misstatements in the accounts that have now been corrected by management. However, we believe that these should be drawn to your attention and they are set out with explanations in **Appendix 3**.

### Other Significant Issues arising from the audit

- 18 In the course of the audit, we consider a number of matters relating to the accounts and report any significant issues arising to you. There remains one issue arising that we have previously reported to you as the Council 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 continue to 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.
- 19 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.
  - 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 preparation of the financial statements.
- 20 Although some progress has been made in recent years, the planned improvements are still needed to ensure that the Property, Plant and Equipment adjustments and valuations are correctly reported within the draft financial statements.

# Appendix 1

## Final Letter of Representation

Audited body's letterhead

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

9 September 2020

## Representations regarding the 2019-20 financial statements

This letter is provided in connection with your audit of the financial statements (including that part of the Remuneration Report that is subject to audit) of Denbighshire County Council for the year ended 31 March 2020 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 2019-20; 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;



- 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. 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.

## 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 Corporate Governance and Audit Committee on 9 September 2020.

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

Head of Finance and Property

9 September 2020

Signed by:

Councillor Barry Mellor

Chair of the Corporate Governance and Audit  
Committee

9 September 2020

# Appendix 2

## Proposed 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 31 March 2020 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 accounting policies, 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 2019-2020 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 2020 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 2019-20.

#### 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 the 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.

#### Emphasis of Matter – effects of Covid-19 on the Council's assets and pooled property pension fund valuations

I draw attention to Notes 13 and 36 to the financial statements, which describe material valuation uncertainty clauses in the valuation reports on the Council's property and on

Pooled Property Funds held by the Clwyd Pension Fund arising from circumstances caused by the Covid-19 pandemic. My opinion is not modified in respect of these matters.

## **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 Statement of Accounts. The other information comprises the information included in the Statement of Accounts 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 2019-20;
- 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 the 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:

- proper 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 12, 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](http://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  
15 September 2020

24 Cathedral Road  
Cardiff  
CF11 9LJ

# Appendix 3

## Summary of Corrections Made

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 2: summary of corrections made

Nature of correction	Reason for correction	Impact
<p><b>Note 13 ‘Property, Plant and Equipment – Other, Land &amp; Buildings – Revaluations’</b> was amended from £(15,122,000) to £(11,943,000).</p>	<p>Testing of Secondary School revaluations identified an error in the supporting valuation calculations as it incorrectly excluded pupil numbers which forms the basis for valuing such assets.</p>	<p>The Change increased the Net Book Value of ‘Other Land &amp; Buildings’ at 31 March 2020 by a corresponding amount.</p>
<p><b>Note 34 ‘Leases – Authority as lessor – Operating leases’</b> total future minimum lease payments receivable was amended from £16,894,000 to £16,612,000.</p>	<p>The disclosure note was amended as it did not agree to the Council’s supporting records.</p>	<p>Appropriate corresponding adjustments were also reflected in the analysis of receivables under non-cancellable leases in futures years:</p> <ul style="list-style-type: none"> <li>• ‘Not later than 1 year’ from £943,000 to £1,199,000</li> <li>• ‘Later than 1 year and not later than 5 years’ from £3,337,000 to £4,516,000.</li> <li>• ‘Later than 5 years’ from £12,614,000 to £10,896,000.</li> </ul> <p>The adjustments have no overall impact on the in-year financial position of the Council.</p> <p><b>Presentation disclosure only.</b></p>
<p><b>Comprehensive Income and Expenditure Account – Actuarial (gains) or losses on pension assets and liabilities’</b></p>	<p>To account for the financial impact of the Covid-19 on pandemic on the pension fund valuations at 31 March</p>	<p>The adjustment impacted upon the ‘Net liability arising from defined benefit’ and ‘the Pension reserve’ on the</p>

was amended from  
£(23,791,000) to (17,192,000).

2020 and the impact on the  
Authority's pension liability.

Balance sheet by  
corresponding amounts.

Appropriate corresponding  
adjustments were also  
reflected in:

- 'Expenditure and Funding  
Analysis';
- the 'Movement in reserves  
Statement; and
- Note 36 'Defined Benefit  
Pension Schemes'.

The adjustments have no  
overall impact on the in-year  
financial position of the  
Authority.







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We welcome correspondence and telephone calls in Welsh and English.  
Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.