

Audit of Accounts Report – Denbighshire County Council

Audit year: 2020-21

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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.

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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 2020-21 group accounts in this report. We have already discussed these issues with the Head of Finance and Property and his team.
- 2 This was the first year that Denbighshire County Council (the Council) was required to prepare group accounts. The process for preparing the group accounts involved consolidating the Council's accounts with its new subsidiary, Denbighshire Leisure Ltd (that became operational on 1 April 2020).
- 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 £3.8 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:
 - Senior officer remuneration £1,000
 - Related party transactions £10,000
- 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 family members of two audit team members being employed 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

Timetable	Officers provided us with the draft group accounts on 2 August 2021 which is line with the agreed timetable. We expect your audit report to be signed following the Governance and Audit Committee on 24 November 2021, which is again in line with the timetable.
Electronic signatures	Given current social distancing requirements, it will be difficult for signing and certification of the accounts in hard copy again this year. We will accept electronic signatures from you.
Conducting the audit approach and obtaining audit evidence	<p>Due to social distancing measures, Audit Wales and the majority of the Authority’s staff are currently working remotely from home. As a result, we adopted remote ways of working, building on our experience last year, by:</p> <ul style="list-style-type: none">• updating our audit deliverables to clarify working paper requirements;• holding weekly Microsoft Teams meetings with officers throughout the audit to discuss progress and emerging issues;• using a secure remote file transfer portal to safely share information; and• arranging remote access to financial systems.

- 9 We will be reviewing what we have learned for our audit process from the COVID-19 pandemic 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 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards.
- 13 Our proposed audit report is set out in **Appendix 2**.

Significant issues arising from the audit

Uncorrected misstatements

- 14 Where we identify misstatements 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. Exhibit 2 sets out the misstatements we have identified in the financial statements, which have been discussed with management, but which they have chosen not to amend.

Exhibit 2 – uncorrected misstatements

Uncorrected misstatements in Note 13 'Property, Plant and Equipment'	
'Other Land & Buildings' is understated by £1.063 million due to the misclassification of disposed equipment to a newly formed subsidiary company.	<p>On establishing the new subsidiary company, Denbighshire Leisure Ltd, equipment was transferred from the Council to the company totalling £2.716 million, £1.063 million of which was misclassified as a transfer from 'Other Land & Buildings'.</p> <p>The overall result is that the Council's 'Other Land and Buildings' is understated by £1.063 million and corresponding adjustment are required in the Deferred Capital Receipts Reserve and the Capital Adjustment Account in Note 22 'Unusable Reserves'.</p> <p>Officers have confirmed that the matter will be resolved for 2021-22.</p>
'Other Land & Buildings' is overstated by £528,000 due to the inclusion of a Residential Home in error.	<p>We identified that 'Other Land & Buildings' within the Balance Sheet is overstated by £528,000. This is due to the erroneous inclusion of a Residential Home which was closed in March 2019 and later demolished. Given the restricted future use and development of the site a nominal value should have been included within the Balance Sheet.</p> <p>The asset should also have been reclassified from 'Other, Land and Buildings' to 'Surplus Assets'.</p> <p>The error also impacts upon corresponding entries within the Revaluation Reserve, Capital Adjustment Account and the Comprehensive Income and Expenditure account through the Movement in Reserves Statement.</p> <p>Officers have confirmed that the matter will be resolved for 2021-22.</p>

<p>The revaluation of leisure centres ‘Other, Land and Buildings’ is overstated by £436,000.</p>	<p>We identified that the revaluation of capital work at two leisure centres in year was not correctly reflected in the revaluation of ‘Other land and Buildings’. This resulted in the assets being overstated by £436,000. Officers have confirmed that the matter will be resolved for 2021-22.</p>
<p>The value of two Council car parks in ‘Other, Land and Buildings’ is understated by at least £33,000.</p>	<p>Our audit identified that the valuation of two car parks is understated as an incorrect valuation basis had been used. The Council has been unable to fully quantify the impact of the misstatement, but we are satisfied that it will not be material to the financial statements. Officers have confirmed that the matter will be resolved for 2021-22.</p>
<p>The value of additions to ‘Council Dwellings’ is overstated by £326,000.</p>	<p>We identified that equipment of £326,000 had been incorrectly added to the value of council dwellings in Note 13. The equipment had not been received by the year-end and therefore should not have been included as an addition to council dwellings. This amount should have been included as a prepayment in Note 15 ‘Debtors’, which is therefore understated by a corresponding amount. Officers have confirmed that the matter will be resolved for 2021-22.</p>
<p>Revaluation of ‘Surplus Assets’ is understated by £329,000.</p>	<p>Revaluation of HRA council dwellings classified as ‘Surplus Assets’ were omitted from the Fixed Asset Register and the value ‘Surplus Assets’ in Note 13. This resulted in the value of ‘Surplus Assets’ being understated by £329,000. Officers have confirmed that the matter will be resolved for 2021-22.</p>
<p>Uncorrected misstatements in Note 34 ‘Leases’</p>	
<p>The Council has been unable to fully verify the classification of future lease payments receivable.</p>	<p>A disclosure note is required to be included within the accounts setting out the future minimum lease payments receivable under non-cancellable leases. The note is included within the accounts at Note 34, but the Council has been unable to demonstrate that the classification of lease payments is correct. Officers have confirmed that the matter will be resolved for 2021-22.</p>

- 15 We ask that the Audit Committee consider these misstatements and decide whether they wish them to be amended.

Corrected misstatements

- 16 The misstatement in the accounts that has now been corrected by management is set out with an explanation in **Appendix 3**.

Other significant issues arising from the audit

- 17 In the course of the audit, we consider a number of matters relating to the accounts and report any significant issues arising to you. We have one issue to report to you.

Working papers to support fixed asset disclosures

- 18 As previously reported the Council maintains complex spreadsheets and working papers to support the fixed assets disclosed in the financial statements.
- 19 The multiple spreadsheets used by the Council to support the fixed assets disclosures in your financial statements are maintained and support the preparation of the accounts. However, we continue to have concerns on the extent of manual input required to update supporting records and the ability of the system to support an efficient and effective accounts closure process, in particular the ease at which accounting changes arising during the year are captured.

Appendix 1

Final Letter of Representation

Audited body's letterhead

Auditor General for Wales

Wales Audit Office

24 Cathedral Road

Cardiff

CF11 9LJ

24 November 2021

Representations regarding the 2020-21 financial statements

This letter is provided in connection with your audit of the financial statements of Denbighshire County Council and its group for the year ended 31 March 2021 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 2020-21; 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 its group 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.

There are uncorrected misstatements in the financial statements. It has been decided not to adjust for the errors as misstatements are not material to the financial statements.

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 Governance and Audit Committee on 24 November 2021.

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

24 November 2021

Signed by:

Councillor Barry Mellor

Chair of the Corporate Governance and Audit
Committee

24 November 2021

Appendix 2

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

Opinion on the financial statements

I have audited the financial statements of:

- Denbighshire County Council; and
- Denbighshire County Council's Group.

for the year ended 31 March 2021 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, the Housing Revenue Account Income and Expenditure and the Movement on the Housing Revenue Account Statement and the related notes, including a summary of significant accounting policies.

Denbighshire County Council's Group financial statements comprise the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet and the Group Cash Flow Statement and the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21.

In my opinion the financial statements:

- give a true and fair view of the financial position of Denbighshire County Council and Denbighshire County Council's Group as at 31 March 2021 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with legislative requirements and international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. 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 and its group 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

In auditing the financial statements, I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the responsible financial officer with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the Statement of Accounts other than the financial statements and my auditor's report thereon. The Responsible Financial Officer is responsible for the other information contained within the Statement of Accounts. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon. My responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

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 2020-21; 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 the Council and the group 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, or returns adequate for my audit have not been received from branches not visited by my team;
- 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.

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 13, the responsible financial officer is responsible for the preparation of the statement of accounts, including Denbighshire County Council's group financial statement, 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 the Council and group'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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

My procedures included the following:

- enquiring of management, the Council's Head of Internal Audit and those charged with governance, including obtaining and reviewing supporting documentation relating to Denbighshire County Council's policies and procedures concerned with:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- considering as an audit team how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the following areas: posting of unusual journals, reviewing accounting estimates for biases and evaluated the rationale for any significant transactions outside the normal course of business.
- obtaining an understanding of Denbighshire County Council's framework of authority as well as other legal and regulatory frameworks that the Council operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of Denbighshire County Council.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Corporate Governance and Audit Committee and legal advisors about actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; and
- I also communicated relevant identified laws and regulations and potential fraud risks to all the audit team and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of Denbighshire County Council's controls, and the nature, timing and extent of the audit procedures performed.

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.

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.

Adrian Crompton
Auditor General for Wales
November 2021

24 Cathedral Road
Cardiff
CF11 9LJ

Summary of corrections made

During our audit we identified the following misstatement that has been corrected by management, but which we consider should be drawn to your attention due to its relevance to your responsibilities over the financial reporting process.

Exhibit 3: summary of corrections made

Nature of correction	Reason for correction	Impact
Note 32 'Related Parties' was amended to include an additional Elected Member related party transaction of £8,000.	A related party transaction for a payment as part of a grant award to St Asaph City Council was excluded in error.	The correction had no other impact on the financial statements. Presentational correction only.



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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.