



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Audit of Financial Statements Report

Denbighshire County Council

Audit year: 2012-13

Issued: September 2013

Document reference: 520A2013

Purpose of this document

This document is a draft supplied in confidence solely for the purpose of verifying the accuracy and completeness of the information contained in it and to obtain views on the conclusions reached.

Handling prior to publication

This document and the copyright comprised therein is and remains the property of the Auditor General for Wales. It contains information which has been obtained by the Wales Audit Office under statutory functions solely to discharge statutory functions and has been prepared as the basis for an official document that may be issued or published in due course. It may also contain information the unauthorised disclosure of which may be an offence under section 54 of the Public Audit (Wales) Act 2004. Except as expressly permitted by law, neither the document nor any of its content may be reproduced, stored in a retrieval system and/or transmitted in any form or by any means, or disclosed to any person other than the original recipient without the prior written permission of the Wales Audit Office. It must be safeguarded at all times to prevent publication or other improper use of its content. Unauthorised use or disclosure may result in legal proceedings.

Status of report

This document has been prepared for the internal use of Denbighshire County Council as part of work performed in accordance with statutory functions, the Code of Audit Practice and the Statement of Responsibilities issued by the Auditor General for Wales.

No responsibility is taken by the Wales Audit Office (the Auditor General and his staff) and, where applicable, the appointed auditor in relation to any member, director, officer or other employee in their individual capacity, or to any third party.

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, where applicable, his appointed auditor) is a relevant third party. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at infoofficer@wao.gov.uk.

The team who delivered the work comprised Derwyn Owen, Anthony Veale, Nick Raynor and members of the North Wales financial audit team.

Contents

The Appointed Auditor 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

Final Letter of Representation	7
Proposed audit report of the Appointed Auditor to Denbighshire County Council	10
Summary of corrections made to the draft financial statements	12

Summary report

Introduction

1. The Appointed Auditor 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 2013 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 £3.7 million for income and expenditure items and working capital balances; and £4.6 million for other balances such as property, plant and equipment. 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. This report sets out for consideration the matters arising from the audit of the financial statements of the Council, for 2012-13, that require reporting under ISA 260.

Status of the audit

5. We received the draft financial statements for the year ended 31 March 2013 on 28 June 2013, prior to the agreed deadline. The Corporate Governance Committee considered the draft financial statements at its meeting on 3 July 2013.
6. We have now substantially completed our work at the time of compiling this report. We will update the Corporate Governance Committee on any significant issues that arise in respect of remaining audit work at its meeting on 27 September 2013.
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 Head of Finance and Assets and his team.

Proposed audit report

8. It is the Appointed Auditor's intention to issue an unqualified audit report on the financial statements once you have provided us with a Letter of Representation based on that set out in [Appendix 1](#).
9. The proposed audit report is set out in [Appendix 2](#).

Significant issues arising from the audit

Uncorrected misstatements

10. There are no misstatements identified in the financial statements, which remain uncorrected.

Corrected misstatements

11. There are misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process. They are set out with explanations in [Appendix 3](#)

Other significant issues arising from the audit

12. In the course of the audit we consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you. There were no issues arising in these areas this year.

We have no concerns about the qualitative aspects of your accounting practices and financial reporting and the draft financial statements were prepared to a high standard

13. The Head of Finance and Assets and his team also maintained open and constructive dialogue with the audit team throughout the audit which supported the audit process.
14. We found the information provided in the draft financial statements to be relevant, reliable, and was easy to understand. The draft financial statements were prepared to a good standard and were supported by comprehensive and timely working papers.
15. We also concluded that your accounting policies and estimates are appropriate and that the financial statement disclosures are unbiased, fair and clear.

We did not encounter any significant difficulties during the audit

16. We were not restricted in our work and we received the vast majority of the information that we required for our audit in a timely and helpful manner. The team responsible for preparing the accounts and providing responses to audit queries were responsive and supportive throughout the audit process.

There were no significant matters discussed and corresponded upon with management which we need to report to you

17. No significant matters were discussed or corresponded upon during our audit.

There are no other matters significant to the oversight of the financial reporting process that we need to report to you

18. No other matters significant to the oversight of the financial reporting process at the Council were identified during our audit that we need to report to you.

We did not identify any material weaknesses in your internal controls

19. No material weaknesses in the Council's internal controls were identified during our audit.

We did not identify any other matters specifically required by auditing standards to be communicated to those charged with governance

20. No other matters such as issues relating to fraud and failures in compliance with laws and regulations were identified during our audit.

We are unable to certify the completion of the audit due to correspondence with members of the public remaining open at the date we intend to provide our audit opinion

21. Under the Public Audit (Wales) Act 2004, members of the public have the right to inspect the Council's accounts and to ask the auditor questions about the accounts. Electors of the Council may also make objections to the auditor:
- as to any matter in respect of which the auditor has a power to apply for a declaration that an item of account is unlawful; and
 - any other matter in respect of which the auditor has the power to make an immediate or other report in the public interest.
22. During August 2013, we received correspondence from several members of the public in relation to the Council's draft accounts. Whilst we have undertaken sufficient work to satisfy ourselves that the accounts are true and fair in all material respects, we are unable to certify the closure of the audit until we have formally responded to all correspondence.

Independence and objectivity

23. As part of the finalisation process, we are required to provide you with representations concerning our independence.
24. We have complied with ethical standards and in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between the Wales Audit Office and the Council that we consider to bear on our objectivity and independence.

Appendix 1

Final Letter of Representation

Mr Anthony Barrett
Appointed Auditor
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ
27 September 2013

Representations regarding the 2012-13 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 2013 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 Code of Practice on Local Authority Accounting in the United Kingdom 2012-13; in particular the financial statements give a true and fair view in accordance therewith.

We acknowledge our responsibility for 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:

Specific representations

We are satisfied that the provision in relation to equal pay back pay included in the accounting statements is a reasonable estimate, based on the best information available at this time.

There are no instances of any material impairment of fixed assets under the control of related companies nor are there any 'going concern' issues associated with those companies, which are likely to have a material effect on the Authority's financial statements.

Representations by those charged with governance

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 27 September 2013.

Signed by:
Paul McGrady
Section 151 Officer

27 September 2013

Signed by:
Councillor Jason McLellan
Chair of the Corporate Governance
Committee

27 September 2013

Appendix 2

Proposed audit report of the Appointed Auditor to Denbighshire County Council

I have audited the accounting statements and related notes of Denbighshire County Council for the year ended 31 March 2013 under the Public Audit (Wales) Act 2004.

Denbighshire County Council's accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Movement on the Housing Revenue Account Statement and the Housing Revenue Account Income and Expenditure Statement.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2012-13 based on International Financial Reporting Standards (IFRSs).

Respective responsibilities of the responsible financial officer and the independent auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on pages 10-11, the responsible financial officer is responsible for the preparation of the statement of accounts, which gives a true and fair view.

My responsibility is to audit the accounting statements and related notes in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the accounting statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements and related notes sufficient to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to Denbighshire County Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the responsible financial officer and the overall presentation of the accounting statements and related notes.

In addition, I read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited accounting statements and related notes. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Opinion on the accounting statements of Denbighshire County Council

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Denbighshire County Council as at 31 March 2013 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012-13.

Opinion on other matters

In my opinion, the information contained in the Explanatory Foreword for the financial year for which the accounting statements and related notes are prepared is consistent with the accounting statements and related notes.

Matters on which I report by exception

I have nothing to report in respect of the Governance Statement on which I report to you if, in my opinion, it does not reflect compliance with 'Delivering Good Governance in Local Government: Framework' published by CIPFA/SOLACE in June 2007, or if the statement is misleading or inconsistent with other information I am aware of from my audit.

Certificate of completion of audit

The audit cannot be formally concluded and an audit certificate issued until enquiries arising from matters raised by members of the public have been formally completed.

Anthony Barrett
Appointed Auditor

Wales Audit Office
Unit 4, Evolution
Lakeside Business Village
St David's Park
Ewloe
CH5 3XP

27 September 2013

Appendix 3

Summary of corrections made to the draft financial statements

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
Note 21 'Provisions' Amounts provided at the year-end were amended from £3.2 million to £2.1 million.	The provision was amended to reflect the Council's current estimate in respect of potential equal pay back pay liabilities.	The adjustment reduced the total equal pay back pay balance by £1.1 million, with a corresponding increase in the level of general fund balance. The adjustment has an impact on the reported financial position of the Council in that it increased the level of general fund reserves by £1.1 million.
Note 18 'Cash and cash equivalents' was amended to include foreign currency deposits amounting to 253,000 Euros (£213,000)	At 31 March 2013, the Council held 230,000 Euros (£213,000) in a Council bank account which had not been incorporated in the draft financial statements. The note and the accounts were amended to account for these monies.	Note 18 'Cash and Cash Equivalents' was amended to reflect the cash held by the Council. Appropriate corresponding adjustments were incorporated into the primary statements and supporting notes. The adjustment has an impact on the reported financial position of the Council in that it increased the level of general fund balances by £2,000.
Note 13 'Council Dwellings' net book value was amended by £843,000.	The net book value of council house dwellings included £843,000 that had not been allocated to specific properties or areas. Where the area to which the expenditure related has been subsequently revalued, then the expenditure needs to be written out of the fixed asset register.	Note 13 'Council Dwellings' was amended with corresponding adjustments made to the revaluation reserve. The adjustment has no impact on the general fund balances of the Council.
Note 13 'Property Plant and Equipment' - £5,059,000 of property, plant and equipment depreciation presented in Note 13 was incorrectly classified. £132,000 of property, plant and equipment 'depreciation' was reclassified as 'impairment	Note 13 was amended to reflect the appropriate classification of depreciation.	The adjustments had no other impact on the Council's financial statements. Presentational disclosure only.

Nature of correction	Reason for correction	Impact
losses recognised in the provision of services’.		
<p>Note 13 ‘Property, Plant and Equipment’ – the PPE opening balance was incorrectly adjusted by £9,987,000 during the production of the financial statements to account for fully depreciated assets being written out of the fixed register.</p>	<p>Opening balances should agree to the closing balances of the prior year. The opening balance has been amended to reflect the actual position as at 31 March 2012, with the adjustment included in the financial statements as an in-year transaction. A narrative disclosure has been included as a footnote to Note 13 explaining the in year transaction.</p>	<p>The adjustment had no other impact on the Council’s financial statements. Presentational disclosure only.</p>
<p>Note 33 ‘Officers’ Remuneration’ was amended to include an additional column to include: <i>‘the total remuneration and employer’s pension contribution’</i> for each senior officer.</p>	<p>The note was amended to ensure transparency, clarity and comparability in respect of the remuneration disclosure.</p>	<p>The adjustment had no other impact on the Council’s financial statements. Presentational disclosure only.</p>
<p>Note 32 ‘Members Allowances’ was amended from £846,000 to £839,000.</p>	<p>The note was amended to account for an overpayment made in respect of members’ allowances which has subsequently been recovered.</p>	<p>Note 32 ‘Members Allowances’ was amended to reflect the overpayment. Appropriate corresponding adjustments were incorporated into the primary statements and supporting notes. The adjustment has an impact on the reported financial position of the Council in that it increased the level of general fund balances by £7,000.</p>

A number of other disclosure amendments were made to the financial statements to enhance the presentational impact of a number of disclosure notes.





WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Wales Audit Office
24 Cathedral Road
Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

E-mail: info@wao.gov.uk

Website: www.wao.gov.uk

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: info@wao.gov.uk

Gwefan: www.wao.gov.uk