

Archwilydd Cyffredinol Cymru
Auditor General for Wales



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Audit of Financial Statements Report

The City of Cardiff Council

Audit year: 2014-15

Issued: September 2015

Document reference: 495A2015

Status of report

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The Auditor General intends to issue an unqualified audit report on your financial statements. There are some issues to report to you prior to their approval.

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Summary report

Introduction

1. The Auditor General is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of the City of Cardiff Council (the Council) at 31 March 2015 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 level at which we judge such misstatements to be material for the Council's accounts is £11,402,000. 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, for example, the remuneration note.
4. International Standard on Auditing (ISA) 260 requires us to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
5. This report sets out for consideration the matters arising from the audit of the financial statements of the Council, for 2014-15, that require reporting under ISA 260.

Status of the audit

6. We received the draft financial statements for the year ended 31 March 2015 on 15 June, in line with the agreed deadline, and 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 officers.

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 non-trivial 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 quantitative and qualitative relating to the accounts and report any significant issues arising to you. There were some issues arising in these areas this year:
 - **The Council has incorrectly capitalised some revenue expenditure on council dwellings in the statement of accounts:** From our testing of council dwelling capital additions we identified that revenue expenditure had been incorrectly capitalised in the accounts. We requested additional information to assess the potential implications for the accounts. Based on further work we have concluded that although significant (a potential error of £5.1 million extrapolated across the total population) the potential misstatement is not material to the accounts and does not therefore require amendment. However, it is important that improvements to the processes in place for identifying and capitalising relevant council dwelling expenditure are introduced to ensure we do not have a similar issue in 2015-16.
 - **We have the following observations to make about the qualitative aspects of your accounting practices and financial reporting.** We found the information provided to be, in the most part, relevant, reliable, comparable, material and easy to understand. We concluded that estimates are appropriate and financial statement disclosures unbiased, fair and clear. We requested that some additional information be added to your accounting policies to reflect the current practices being applied by the Council.
 - **We did not encounter any significant difficulties during the audit.** We received information in a timely and helpful manner in the main and were not restricted in our work. The audit process took longer than it has in previous years, with a contributory factor being the number of experienced staff leaving the Council and officers having to take on new roles at a crucial time in the audit process. We will work with officers to improve the closure process from both our and the Council's perspective in 2015-16.
 - **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 did not identify any material weaknesses in your internal controls that we have not reported to you already.**

-
- **There are no 'other matters' specifically required by auditing standards to be communicated to those charged with governance.**

Independence and objectivity

- 13.** As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 14.** 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 City of Cardiff Council that we consider to bear on our objectivity and independence.

Appendix 1

Final Letter of Representation

Huw Vaughan Thomas
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

[Date]

Representations regarding the 2014-15 financial statements

This letter is provided in connection with your audit of the financial statements of the City of Cardiff Council (the Council) for the year ended 31 March 2015 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 CIPFA Code of Practice on Local Authority Accounting in the UK 2014-15; 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 the 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.
- Our knowledge of all known partnerships and joint working/collaborative arrangements that would impact on the financial statements.

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 Council has complied with all conditions imposed by relevant grant paying organisations and can reasonably expect to receive the amounts of grant included within the accounts.

The Council has complied with all aspects of contractual agreements that would require adjustment to, or disclosure in, the accounting statements and related notes.

The reserves of the Council have been reviewed and are properly treated within the final accounts in accordance with the CIPFA guidance.

The provisions of the Council have been reviewed and have been properly treated within the final accounts in accordance with IAS 37.

The Council has accounted for and disclosed its partnership and joint/collaborative working arrangements in accordance with accounting standards and the CIPFA Code.

The agreed recommendations set out in the 2013-14 Wales Audit Office financial accounts reports have been satisfactorily implemented.

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:

- [xxxx]

Representations by the 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 City of Cardiff Council on [insert date].

Signed by:

[Officer who signs on behalf of management]

Date:

Signed by:

[Officer or Member who signs on behalf of those charged with governance]

Date:

Appendix 2

Proposed audit report of the Auditor General to the Members of the City of Cardiff Council

I have audited the accounting statements and related notes of:

- the City of Cardiff Council
- the City of Cardiff Council Group
- the Cardiff and Vale of Glamorgan Pension Fund

for the year ended 31 March 2015 under the Public Audit (Wales) Act 2004.

The City of Cardiff 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 City of Cardiff Council Group accounting 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.

The Cardiff and the Vale of Glamorgan Pension Fund's accounting statements comprise the Fund Account and the Net Assets 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 2014-15 based on International Financial Reporting Standards (IFRSs).

Respective responsibilities of the responsible financial officer and the Auditor General for Wales

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page xx, the responsible financial officer is responsible for the preparation of the statement of accounts, including the City of Cardiff Council's Group accounting statements and the Cardiff and Vale of Glamorgan Pension Fund's accounting statements, 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 Financial Reporting Council'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 the City of Cardiff Council's, the City of Cardiff Council's Group's and the Cardiff and Vale of Glamorgan Pension Fund'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 Foreword to identify material inconsistencies with the audited accounting statements and related notes 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.

Opinion on the accounting statements of the City of Cardiff Council

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of the City of Cardiff Council as at 31 March 2015 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 2014-15.

Opinion on the accounting statements of the City of Cardiff Council Group

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of the City of Cardiff Council Group as at 31 March 2015 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 2014-15.

Opinion on the accounting statements of the Cardiff and Vale of Glamorgan Pension Fund

In my opinion, the pension fund accounts and related notes:

- give a true and fair view of the financial transactions of the Cardiff and Vale of Glamorgan Pension Fund during the year ended 31 March 2015 and of the amount and disposition of the fund's assets and liabilities as at that date, other than liabilities to pay pensions and benefits after the end of the scheme year; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014-15.

Opinion on other matters

In my opinion, the information contained in the Foreword 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 following matters, which I report to you, if, in my opinion:

- adequate accounting records have not been kept;
- the accounting 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;
- the Governance Statement contains material misstatements of fact or is inconsistent with other information I am aware of from my audit.

Certificate of completion of audit

I certify that I have completed the audit of the accounts of the City of Cardiff Council in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

For and on behalf of
Huw Vaughan Thomas
Auditor General for Wales
Wales Audit Office
24 Cathedral Road
Cardiff CF11 9LJ
XX September 2015

Appendix 3

Summary of corrections made to the draft financial statements which should be drawn to the attention of those charged with governance

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

	Value of correction, £	Nature of correction	Reason for correction
1	63,049,000	To account for the voluntary-aided and voluntary controlled (VA/VC) schools as required by LAAP101.	Voluntary-aided and voluntary-controlled schools had been included in the accounts as a result of the changes to 'The Code'. However, LAAP101, issued by CIPFA stated that a prior period adjustment was required, as the change in accounting for schools was a change in accounting policy. This had not been actioned by the Council; the assets had been brought onto the balance sheet on 1 April 2014 rather than 1 April 2013.
2	14,685,001	Change the classification of assets from the surplus asset category to the investment property category within the Non Current Assets note (Note 20).	Five International Sports Village (ISV) Assets were included in the surplus asset category within Note 20, however, on further review it was deemed that the Council was holding the properties/land for capital appreciation. Where assets are held for capital appreciation, 'The Code' deems the assets to be investment properties.

	Value of correction, £	Nature of correction	Reason for correction
3	442,706	To correctly reflect the revaluation loss for the reclassification of ISV assets (CIES and Note 30).	As a result of the re-classification of ISV assets from surplus to investment properties, a different treatment for the revaluation loss is required. For surplus assets, revaluation losses are first taken to the revaluation reserve and matched against any prior year revaluations with the difference being charged to the income and expenditure account. However, for investment properties the revaluation element is taken directly to the income and expenditure account.
4	4,324,593	Removal of a school from the balance sheet as it has now closed and is being demolished in 2015-16. (Note 20).	Although Llanederyn High School has been closed and was no longer in use at 31 March 2015 a balance was included in the property, plant and equipment note (Note 20) within the accounts.
5	2,087,488	Removal of internal income from Note 4 reconciliation to subjective analysis.	Note 4: reconciliation to subjective analysis: Internal income had been incorrectly included within the government grants and contributions line, this has been removed from that line and the corresponding expenditure has been removed from the other services expenses line, this does not have any effect on the bottom line.
6	1,507,000	Reduction in capital commitments disclosure (Note 20).	Two contracts within the capital commitments disclosure were overstated.
7	1,356,000	Removal of the interest element for the Glamorgan Cricket Club Loan (Note 21).	Although the loan had been impaired to zero in 2013-14, the interest element still remained within Note 21 and within the bad debt impairment figure within debtors.

	Value of correction, £	Nature of correction	Reason for correction
8	430,234	Reclassification of the Carbon Reduction Commitment (CRC) allowance from provisions (Note 27) to accruals (Note 25).	When purchased under the 'buy to comply' scheme 'the Code' requires the CRC allowance to be recorded as an accrual where the amount and timing are certain.
9	353,000	To correctly reflect all Revenue Expenditure Funded from Capital Under Statute (REFCUS) in Note 20.	The REFCUS element for the Housing Revenue Account had been omitted from the capital financing and expenditure table within Note 20.
10	20,400	Note 11 Remuneration: 'The Code' requirements for remuneration changed in 2014-15, and this was not fully reflected in the accounts.	The remuneration note (Note 11) did not include the median remuneration for all full-time equivalent employees throughout the year.
11	Narrative	To include a Post Balance Sheet Event for the new housing revenue self-financing regime.	Although the foreword included reference to the new housing revenue self-financing regime, no post balance sheet event note had been included in the accounts.
12	Narrative	Note 11 – Remuneration: 'The Code' changes for VA/VC schools (Note 11) required additional disclosures.	A note was needed after the employee remuneration bandings table in note 11.2 to disclose that the table includes employees who are employed by the Governing Body of VA/VC schools rather than the Council; although the salaries are paid by the Council.
13	Narrative	To ensure that the non-current asset ownership table within Note 20 accurately reflects the fixed asset register maintained by the Council.	Note 20 to be amended to reflect the fixed asset register information for the number of: <ul style="list-style-type: none"> • Allotment gardens • Cemeteries • Day centres and clubs • Play centres • Youth and neighbourhood learning centres

	Value of correction, £	Nature of correction	Reason for correction
14	Narrative	To ensure that notes and statements within the accounts contained the correct information.	<p>Narrative changes were made to the following notes and statements within the accounts to ensure that they accurately reflected the supporting evidence provided:</p> <ul style="list-style-type: none"> • Accounting policies: impairment and de minimus • Note 19: Pensions • Note 9: Non-Domestic Rates • Note 21: Financial Instruments • Note 26: Long-term investments • Annual Governance Statement
15	Contingent asset	The Council approved the write-off of 70 per cent of the Glamorgan Cricket Club loan in 2014-15, the potential for recovering the remaining 30 per cent was not reflected in the accounts.	Although the Glamorgan Cricket Club loan had been impaired to zero in 2013-14, the Council has subsequently agreed to write off 70 per cent of the loan, with the expectation that the remaining 30 per cent will be recovered. Given the uncertainty over the timing of the collection of the remaining 30 per cent of the loan, the Council needed to recognise a contingent asset within the accounts (Note 32).
16	Various notes	To ensure that all areas of the accounts cast, cross-cast and are cross-referenced to supporting notes.	The first draft of the accounts had a number of errors in casting, cross-casting and cross-referencing accurately to supporting notes.

	Value of correction, £	Nature of correction	Reason for correction
17	Categorisations within Note 20	To amend Note 20 to ensure it accurately reflects the entries contained within the Revaluation Reserve and Capital Adjustment Account in Note 30.	<p>Within Note 20:</p> <p>Other land and buildings contained a revaluation up of £34,000 in the 'revaluation increases/decreases to SDPS' line which should have been included in the 'revaluations increases/decreases to revaluation reserve' line.</p> <p>Surplus assets contained an impairment of £649,000 in the 'impairment losses/reversals to SDPS' line which should have been split:</p> <ul style="list-style-type: none"> • £389,000 to the line – Impairment to the revaluation reserve; and • £260,000 to the line – Impairment to the SDPS. <p>Investment properties – £1,153,000 was incorrectly included in the 'Impairment losses' line and should have been included in the 'revaluation increases/decreases to SDPS' line.</p>
18	Categorisations within Note 30	To amend Note 30 Capital Adjustment Account to ensure it accurately reflects corresponding entries Note 20.	<p>A number of depreciation and impairment charges had been recorded incorrectly in Note 30.</p> <p>Other Land and Buildings – £1,662,000 was incorrectly included in 'revaluation losses on the property plant and equipment' line and should have been included in the 'charges for depreciation and impairment of non-current assets' line.</p> <p>Surplus assets – £2,552,000 was incorrectly included in the 'charges for depreciation and impairment of non-current assets' line and should have been included in the 'revaluation losses on property plant and equipment' line.</p>

	Value of correction, £	Nature of correction	Reason for correction
19	Narrative	To amend Note 13 Related Parties to ensure it accurately reflects the declarations made by Councillors and the amounts held within the ledger	<p>A number of declarations made by Councillors had not been recorded within the companies in which members' interests are declared line in the related parties note and the members of the Council paragraph.</p> <p>In the Companies in which members' interests declared line, the debtors total has increased by £182,000 and the creditors total has increased by £4,000.</p> <p>In the members of the Council paragraph the goods and services total has increased by £6,342,663 and the grants total has increased by £1,189,196.</p>
Trust fund statements			
	Narrative	To ensure consistency of information in the statement.	Two Trust funds did not have their Charity number recorded.

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