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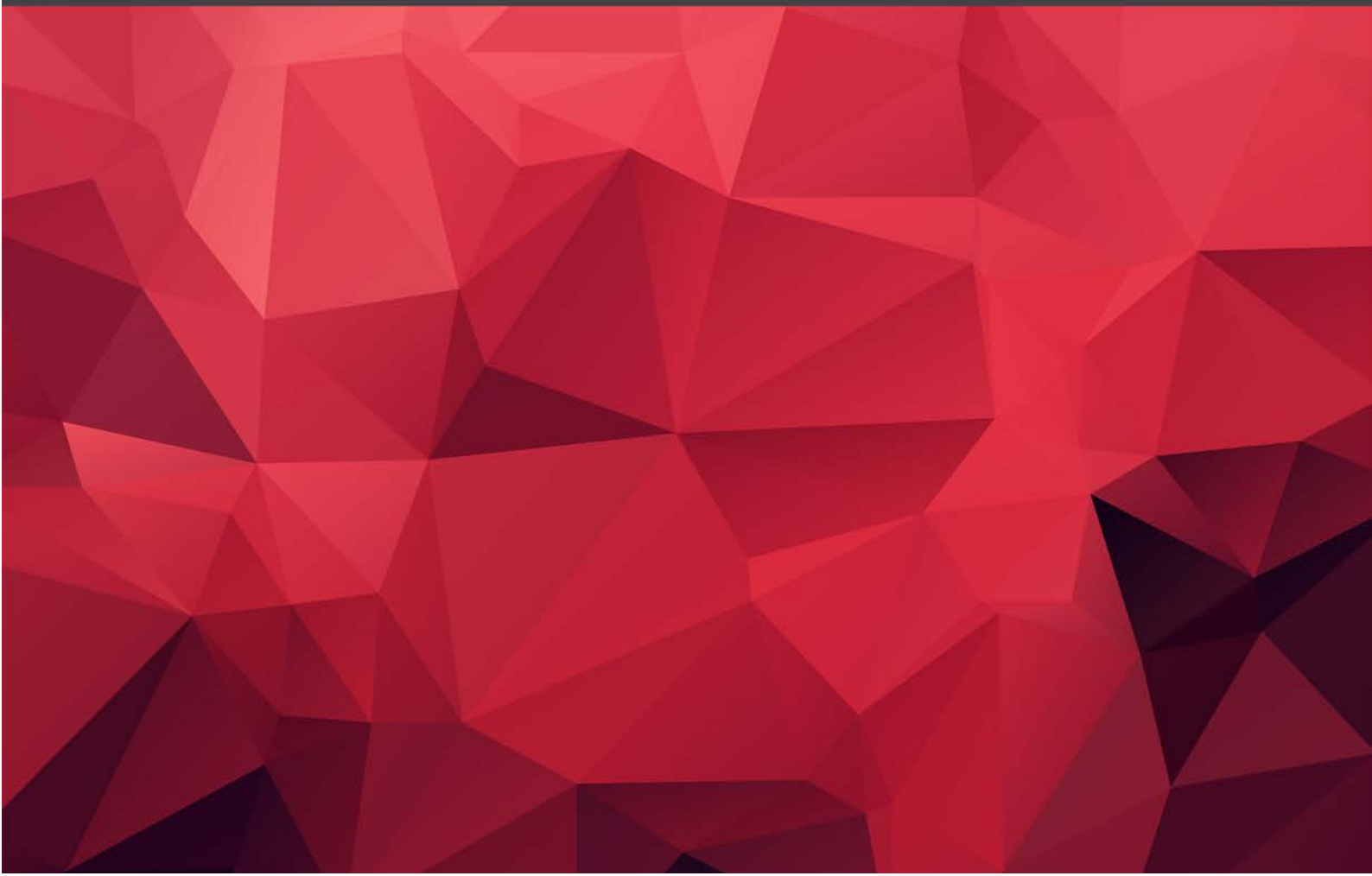
Archwilydd Cyffredinol Cymru
Auditor General for Wales

Audit of Financial Statements Report – **The County Council of the City and County of Cardiff**

Audit year: 2017-18

Date issued: September 2018

Document reference: 802A2018-19



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

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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 County Council of the City and County of Cardiff (the Council) at 31 March 2018 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 £12,429,000. 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.
- 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 2017-18, that require reporting under ISA 260.

Status of the audit

- 6 We received the draft financial statements for the year ended 31 March 2018 on 15 June 2018, in line with the agreed deadline which is almost two weeks in advance of the statutory deadline of 30 June 2018.
- 7 We have now substantially completed the audit work and 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 Corporate Director Resources and Head of Finance.

Proposed audit report

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

Significant issues arising from the audit

Uncorrected misstatements

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

Corrected misstatements

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

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. We comment below on significant matters that arose, and also on matters that we are required to report to you:

- **The Council has generally sound accounting and financial reporting practices although there is scope for continued improvement to the quality and timeliness of some of the working papers submitted to us to support the draft financial statements.** Overall, we found that the quality of the draft financial statements presented to us for audit was good. We were particularly grateful to the Council for bringing forward some elements of the final accounts preparation work (eg a review of investment properties, accounting policies, disclosure checklist and a skeleton version of the accounts, median remuneration calculation) which meant that we were able to commence our year-end audit work earlier. However, further improvements can be made to the quality and timeliness of some of the working papers compiled to support the draft financial statements. In April 2018, we agreed a 'Schedule of Deliverables' with the finance team with the aim of ensuring that appropriate working papers were available at the commencement of the audit. With a few exceptions (analytical review, Precepts & Levies, Council Tax, NDR and Group PPE consolidation) most of these working papers were available at the agreed time, although not all were located in the expected electronic working paper folder. We agreed that both parties would assess the success of introducing this schedule and that we would look to refine and improve the clarity of the 'deliverables' going forward.

- **We did not encounter any significant difficulties during the audit, however we experienced some delays in receiving supporting documentation requested during the audit process.** We are grateful for the help and assistance provided to us by the staff of the Finance and other departments throughout our audit and we were not restricted in our work. However, we continued to experience some lengthy delays in obtaining appropriate evidence (eg invoices and other documents) to support our expenditure testing during our interim audit. For example, information for over 60% of our sample was not provided within a week of being requested and there were numerous occasions where the initial information provided was not of the required standard resulting in further information requests/ delays. Following a workshop with a number of the Group Accountants in May, the Council took action to try and improve this position for the final audit, nominating a single point of contact who was responsible for contacting departments to obtain information in respect of our cut-off, debtor and creditor testing. This action achieved some improvement, but the quality of the initial information provided by departments can be further improved upon.

It was also evident that whilst information requested directly from finance staff was received in a timely manner this was not always the case where information was requested from other parts of the organisation. To achieve the early closure deadlines going forward, it will be important for the Council to ensure that all directorates provide information that is both timely and of appropriate quality and that the final accounts production process is seen as a corporate priority and not just the responsibility of Finance.

We also continue to experience some difficulty in identifying individual debtor and creditor transactions for testing as a result of the content and manner in which the transaction reports are produced.

We will work with the Council going forward to explore ways in which some of the difficulties experienced can be resolved more quickly in future years.
- **There was one significant matter discussed and corresponded upon with management which we need to report to you.** The Council have brought one further matter to our attention that has emerged following the completion of the draft financial statements. This issue relates to potentially significant liabilities arising from a purportedly undeclared landfill tax assessment which is disclosed in Note 31 to the accounts 'Contingent Assets/Liabilities'. At the time of writing this report, this would appear to be the most appropriate accounting treatment. However, we understand that the Council continue to discuss the issue with HMRC and so it is possible that the accounting treatment will need to change based on more up to date information. We will provide the Audit Committee with a further update at its meeting on 18 September 2018.

- **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.**
- **There are not any other matters specifically required by auditing standards to be communicated to those charged with governance**

Amendments to the accounts and audit deadlines going forward

- 13 Under the Accounts and Audit (Wales) (Amendments) Regulations 2018¹, in the future the Council and the Auditor General are required to meet earlier statutory deadlines. Under the amended regulations the new deadlines are due to change in stages, with the final change taking effect from 2020-21. **Exhibit 1** sets out the new deadlines.

Exhibit 1: changes in deadlines introduced by the amended regulations

Annual financial statements year	Financial statements signed by the responsible finance officer (Section 151 Officer)	Financial statements approved by the Council and published (with the signed audit certificate or an explanation for its absence)
2017-18	30 June 2018	30 September 2018
2018-19	15 June 2019	15 September 2019
2019-20	15 June 2020	15 September 2020
2020-21 and thereafter	31 May 2021	31 July 2021

- 14 In terms of the 2017-18 financial statements, the Council has made good progress in producing its draft financial statements almost two weeks earlier than the current statutory deadline without sacrificing the quality of the draft financial statements. The date of the Audit Committee meeting at which the audited financial statements are to be considered remains in line with the 2016-17 timetable (ie 18 September). Going forward the Council will need to review its governance arrangements and proposed dates of meetings at which the final accounts are to be approved.
- 15 Given this year's successful outcome, discussions with officers have highlighted their intent to work towards producing the 2018-19 draft financial statements in early June 2019 which will be closer to the statutory deadline that the Council will be required to meet going forward. We will also aim to have our audit substantially complete by early August. To achieve these earlier timescales, we will continue to

¹ <http://www.legislation.gov.uk/wsi/2018/91/contents/made>

work closely with officers throughout the autumn to ensure that the further improvements required to the accounts production process are implemented. A key aspect of these improvements will be to continue to look for opportunities to bring additional audit work forward.

- 16 In addition, we plan to issue a separate Accounts Memorandum report in the autumn which will contain other recommendations arising from the results of our audit work for management to consider where further improvements could be made for 2018-19.

Independence and objectivity

- 17 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 18 We have complied with ethical standards and in our professional judgment, we are independent, and our objectivity is not compromised. As reported in our Audit Plan dated March 2018, there are some potential conflicts of interest that were brought to your attention. The Audit Manager is a former colleague and friend of the Council's Programme Manager within the Corporate Resources Directorate. In addition, one member of the team's wife works within the Council's Housing Development & Enabling Department and another member of the team's close relatives work within the Council's Electoral Division. I can confirm that appropriate arrangements were introduced to ensure that these officers did not undertake any audit work in respect of the area of the Council's operations where potential conflicts of interest could be perceived to exist. With the exceptions of the above, all other members of my team are independent of the Council and your officers. perceived to exist and 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

[Audited body's letterhead]

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

27 September 2018

Representations regarding the 2017-18 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 the County Council of the City and County of Cardiff (the Council) for the year ended 31 March 2018 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 [insert relevant code]; 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.

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. There are no uncorrected misstatements.

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 ensuring that the Council maintains adequate accounting records.

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 Council on 27 September 2018.

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:

[Officer who signs on behalf of management]

Date: 27 September 2018

Signed by:

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

Date: 27 September 2018

Appendix 2

The independent auditor's report of the Auditor General for Wales to the Members of the County Council of the City and County of Cardiff

Report on the audit of the financial statements

Opinion

I have audited the financial statements of:

- The County Council of the City and County of Cardiff; and
- The County Council of the City and County of Cardiff Group

for the year ended 31 March 2018 under the Public Audit (Wales) Act 2004.

The County Council of the City and County of Cardiff's financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Movement on the Housing Revenue Account Statement and the Housing Revenue Account Income and Expenditure Statement and the related notes, including a summary of significant accounting policies.

The County Council of the City and County of Cardiff'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, 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 2017-18 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial position of the County Council of the City and County of Cardiff's and the County Council of the City and County of Cardiff's Group as at 31 March 2018 and of their 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 2017-18.

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 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

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 the council's or group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The responsible financial officer is responsible for the other information in the annual report and accounts. The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated later in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Report on other requirements

Opinion on other matters

In my opinion, based on the work undertaken in the course of my audit:

- the information contained in the Narrative Report for the financial year for which the financial statements are prepared is consistent with the financial statements and the Narrative Report has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18;
- The information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and the 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 Governance Statement.

I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

- adequate accounting records have not been kept;
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit.

Certificate of completion of audit

I certify that I have completed the audit of the accounts of the County Council of the City and County of Cardiff 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, the responsible financial officer is responsible for the preparation of the statement of accounts, including the County Council of the City and County of Cardiff's Group financial statements, 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's 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.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Anthony J Barrett
For and on behalf of the Auditor General for Wales
September 2018

24 Cathedral Road
Cardiff
CF11 9LJ

Appendix 3

Summary of corrections made to the draft financial statements which should be drawn to the attention of 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.

Exhibit 2: summary of corrections made to the draft financial statements

Note number and value of correction	Nature of correction	Reason for correction
Expenditure and Funding Analysis Note 4.2 – Expenditure and Income Analysed by Nature	Several amendments to income and expenditure disclosures on the draft note. Prior year figures restated for consistency.	The note did not agree to CIES, plus a number of balances were disclosed as net balances as opposed to having the relevant income and expenditure elements disclosed separately.
Note 6 Participation in Joint Committees £5,744,000	Additional disclosure of capital contribution relating to Cardiff Capital Region City Deal.	This capital contribution was omitted from Note 6.
Note 10.2 Remuneration banding	One employee moved from band £75,000-£79,999 to £105,000-£109,999.	Due to a redundancy payment being processed through the creditor payment system which was omitted from initial salary information.
Note 12 Related Parties £15,990,000	Additional disclosure of income received from organisations in which members have declared an interest.	Disclosure omitted from draft financial statements.

Note number and value of correction	Nature of correction	Reason for correction
<p>Note 18 Non-Current Assets (Non-Current Assets Valuation table)</p> <p>Various</p>	<p>'Surplus Assets' in-year movements revised to record correct signage of 'Reclassified to Held for Sales' ie -£5,975,000 instead of £5,795,000.</p> <p>Associated impact on 'Other Reclassifications' to increase by £11,950,000.</p> <p>Depreciation movements on 'Other Land and Buildings' revised by assorted amounts to record the correct write-outs, de-recognition on disposals and reclassifications.</p> <p>A number of other trivial adjustments relating to specific Non-Current Assets depreciation, revaluation, reclassification and impairment have also been processed.</p>	<p>Incorrect presentation within the Non-Current Asset movement table.</p>
<p>Note 18 Non-Current Assets (Investment properties table)</p> <p>£707,000</p>	<p>Balance impaired by an additional £707,000 to increase impairment to £2,502,000.</p>	<p>Investment property lease reassignment had not been recognised as an impairment.</p>
<p>Note 18 Non-Current Assets (Significant Capital Expenditure Contractual Commitments table)</p> <p>£14,417,000</p>	<p>Value of commitments increased by £14,417,000.</p>	<p>Omission of contracts associated with Cardiff Living new-build housing project from draft financial statements disclosure.</p>

Note number and value of correction	Nature of correction	Reason for correction
<p>Note 21 Debtors analysis and Note 30 Grant Income (Credited to Taxation and Non-Specific Grant Income table) £6,381,000</p> <p>Note 18 Non-Current Assets (Capital Expenditure and Capital Financing table)</p>	<p>'Capital Grants' disclosed in the Note 30 'Credited to Taxation and Non-Specific Grant Income' analysis reduced by £6,361,000, with associated decrease in Note 21 'Central government body' Debtors analysis of £6,381,000.</p> <p>The changes impact on a number of other disclosures - the most significant being the decrease in 'Grant Income' affecting the Closing Capital Financing Requirement to reflect the £6,381,000 increase in borrowing unsupported by government financial assistance.</p>	<p>21st Century schools Welsh Government grant debtor overstated by £6,381,000. This amount should have been recognised as being funded from Welsh Government Local Government Borrowing Initiative.</p>
<p>Note 21 Debtors analysis £907,000</p>	<p>Reclassification of one specific Bad Debt Provision charged against the analysis of Note 21 Debtor balances - increase of £907,000 'Central Government Bodies' and matching decrease within 'Other Entities and Individuals'.</p> <p>One other trivial adjustment relating to a specific Debtor balance has also been processed.</p>	<p>Bad debt provision reclassified between sectors.</p>
<p>Note 22 Cash and Cash Equivalents analysis £19.6 million</p>	<p>Reclassification – 'Bank' increases by £19.6 million, 'Short-term Deposits' decreases by £19.6 million.</p> <p>One other trivial adjustment to year-end Cash balances has also been processed.</p>	<p>Adjustment to cash balance, relating to intra-company cash held by the Council on behalf of bodies it acts as Accountable Body for, was incorrectly classified within the Cash and Cash Equivalents analysis.</p>

Note number and value of correction	Nature of correction	Reason for correction
Note 30 Grant Income (Credited to Taxation and Non-Specific Grant Income table) £5,744,000	Reclassification – ‘Developers’ Contributions’ reduces by £5,744,000. ‘Capital Grants’ increases by £5,744,000.	Consolidation of the Cardiff Capital Region City Deal accounts credited the Council share of the grant income held at year-end to Developers’ Contributions rather than Capital Grants.
Cash Flow Statement and Note 32 Notes to Cash Flow Statement	Some amendments to the Cashflow Statement and supporting Note 32.	Cash Flow Statement and supporting Note were not consistent with other disclosures within the financial statements.
Various narrative amendments throughout the accounts	A number of amendments to narratives and notes to the financial statements have been made to provide additional clarity, correct transposition errors, cross referencing etc.	To ensure correct narrative disclosures and cross references within the body of the financial statements.
Group Accounts - Note 4 Leasing – Finance Leasing table £1,330,000	Disclosure relating to Vehicles, Plant, Furniture and Equipment overstated by £1,330,000.	Error in extracting information from subsidiary accounts.

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