



Audit of Financial Statements Report

The County Council of the City and County of Cardiff

Audit year: 2015-16

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Status of report

This document has been prepared as part of work performed in accordance with statutory functions.

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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 County Council of the City and County of Cardiff (the Council) at 31 March 2016 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's accounts is £12.6 million. 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 2015-16, that require reporting under ISA 260.

Status of the audit

6. We received the draft financial statements for the year ended 31 March 2016 on 15 June 2016 in line with our 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 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 was one issue arising in these areas this year:
- **We have no significant concerns about the qualitative aspects of your accounting practices and financial reporting but you need to clear old creditors balances from the ledger.** Overall we found the information provided to be relevant, reliable, comparable, material and easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear. However, our testing did identify a number of prior years' creditors balances which hadn't been cleared when payments or adjustments had been made. Extended testing provided assurance that these balances were matched by debit entries to other codes and therefore the creditors balance in the accounts was materially correct. But, by not matching creditors and clearing, you increase the complexity of the year end reconciliation process and the testing required to verify figures in the accounts. You also increase the risk that transactions may be included which are not true creditors.
 - **We did not encounter any significant difficulties during the audit.** We received information in a timely and helpful manner and were not restricted in our work.
 - **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**
 - **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 Auditor General, 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)

Huw Vaughan Thomas
Auditor General for Wales
24 Cathedral Road
Cardiff
CF11 9LJ
[Date]

Representations regarding the 2015-16 financial statements

This letter is provided in connection with your audit of the financial statements of the County Council of the City and County of Cardiff (the Council) for the year ended 31 March 2016 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 CIPFA Code of Practice on Local Authority Accounting in the UK 2015-16; in particular the financial statements give a true and fair view in accordance therewith.
- the design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

Information provided

We have provided you with:

- Full access to:
 - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;
 - additional information that you have requested from us for the purpose of the audit; and

- unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
- The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- Our knowledge of fraud or suspected fraud that we are aware of and that affects 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 2014-15 WAO financial accounts reports have been satisfactorily implemented.

The financial statements are free of material misstatements, including omissions.

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 County Council of the City and County of Cardiff 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 County Council of the City and County of Cardiff

I have audited the accounting statements and related notes of:

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

for the year ended 31 March 2016 under the Public Audit (Wales) Act 2004.

The County Council of the City and County of Cardiff'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 County Council of the City and County of Cardiff's 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 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 2015-16 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 County Council of the City and County of Cardiff'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 County Council of the City and County of Cardiff; the County Council of the City and County of Cardiff Group 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 Narrative Report 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 County Council of the City and County of Cardiff

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of the County Council of the City and County of Cardiff as at 31 March 2016 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 2015-16.

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

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of the County Council of the City and County of Cardiff Group as at 31 March 2016 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 2015-16.

Opinion on the accounting statements of 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 2016 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 2015-16.

Opinion on other matters

In my opinion, the information contained in the Narrative Report 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 does not reflect compliance with guidance.

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.

For and on behalf of

Huw Vaughan Thomas

Auditor General for Wales

24 Cathedral Road

CARDIFF

CF11 9LJ

30 September 2016

Appendix 3

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

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	£441,000	Increase in Long-Term Investment balance at 31 March 16 on Balance Sheet.	Disclosure on Balance Sheet disagreed to supporting working paper analysis. Net nil impact, misclassification of balance as opposed to misstatement of balance.
2	£12,000	Increase in Short-Term Debtors balance at 31 March 16 on Balance Sheet, resulting in further amendments to Note 23 analysis.	As above.
3	(£453,000)	Decrease in Long-Term Debtors balance at 31 March 16 on Balance Sheet.	As above.
4	(£927,000)	Increase in Short-Term Provisions balance at 31 March 16 on Balance Sheet, resulting in further amendments to Note 27.	Formula error identified in analysis of Cardiff Insurance provision classification between Long-Term and Short-Term elements. Net nil impact, misclassification of balance as opposed to misstatement of balance.
5	£927,000	Decrease in Long-Term Provisions balance at 31 March 16 on Balance Sheet, resulting in further amendments to Note 27.	As above.
6	£2,364,000	Increase in Short-Term Creditors balance at 31 March 16 on Balance Sheet, resulting in further amendments to Note 25 and Note 34.	Number of credit balances included incorrectly in Short-Term Debtors as opposed to Short-Term Creditors. Net nil impact on bottom line.

	Value of correction	Nature of correction	Reason for correction
7	£2,364,000	Increase in Short-Term Debtors balance at 31 March 16 on Balance Sheet, resulting in further amendments to Note 23 and Note 34.	As above.
8	£3,051,000	Increase in carrying value of three community centres (Plasnewydd, Pentrebane and Butetown) to reflect reclassification from Investment Properties to Operational Buildings.	Adjustment to classification of buildings identified for Community Asset Transfer (CAT) to reflect the CIPFA Code of Practice. Correction of classification necessitates changing carrying value.
9	Various Remuneration disclosures in Note 11.1, Note 11.2 and Note 11.3	Amendments to the Note 11.3 table disclosing Senior Officer Remuneration required to correctly reclassify £20,000 Payments in Lieu of Notice (PILON) received by 1 Director, and include £252,000 pension strain costs incurred for 2 Directors early access to pensions. In addition, a number of minor corrections and adjustments were made to record correct start dates, accurate median remuneration and to adjust the separate Exit Packages table to record PILON costs incurred.	Amendments to disclosures in the accounts – highlighted as material by nature.
10	Various Related Parties disclosures in Note 13	Amendment to reclassify £18,500 grants paid to voluntary organisations in which members had an interest, from incorrect inclusion under payments for goods and services procured from the same voluntary organisations. Also amended to recognise that there were goods and services of £1,423 commissioned from 1 company in which a Chief Officer had an interest as a representative of the Council.	Amendments to disclosures in the accounts – highlighted as material by nature.
	Various	A number of amendments to narratives and notes to the financial statements have been made to correct transposition errors, cross referencing etc.	To ensure that notes are accurate and cross reference within the body of the financial statements.

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