



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Audit of Financial Statements Report – **Cardiff Council**

Audit year: 2018-19

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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 2019 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 is £12,840,000. 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, these can include for example remuneration and related party disclosures.
- 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 2018-19, that require reporting under ISA 260.

Status of the audit

- 6 We received the draft financial statements for the year ended 31 March 2019 on 13 June 2019, in advance of the statutory deadline of 15 June 2019.
- 7 At the time of drafting this report, we have substantially completed the audit work with the exception of our review of the revised financial statements.
- 8 Our Audit Plan issued in March 2019, highlighted that we aimed to provide our Audit of Financial Statements Report which included our proposed audit opinion in August 2019. This has been achieved 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

- 9 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](#).
- 10 The proposed audit report is set out in [Appendix 2](#).

Significant issues arising from the audit

Uncorrected misstatements

- 11 There are no misstatements identified in financial statements which remain uncorrected.

Corrected misstatements

- 12 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

- 13 During 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 some issues arising in these areas this year:

We have no concerns about the qualitative aspects of your accounting practices and financial reporting

- 14 Generally, 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.
- 15 The quality of the draft financial statements presented to us for audit was generally of a good standard. However, we noted that a number of the prior-year comparators included in the draft financial statements differed in a number of cases from balances included in last year's audited accounts. These changes had been made as a result of late adjustments to the 2017-18 accounts of a Joint Committee. Our review of these adjustments identified that they were not material (therefore there was no requirement to restate the prior-year figures) and that they had not been reflected consistently throughout the draft accounts. Consequently, the 2017-18 figures have been reinstated.

We did not encounter any significant difficulties during the audit

- 16 To facilitate the audit process, we agreed an 'Audit Deliverables' schedule with management in March 2019 which set the initial information required by the audit team. This schedule helped to ensure that all key deliverables were produced and audited in accordance with the agreed timetable. We are grateful to the Finance Team for their help and support throughout the audit process.

- 17 We did not encounter any significant difficulties during the audit, and we were not restricted in our work. The general quality of working papers continues to improve. In addition, it is also pleasing to note that the Council has looked to address issues raised in our 2017-18 Accounts Memorandum which has led to noticeable improvements in the timeliness and quality of the information provided to support transactions selected for audit.
- 18 As identified in our Audit Plan, a significant proportion of the Council's property assets have been subject to revaluation during the year. Generally, we found that the Council's processes and assumptions for the revaluation exercise and the work of the management expert was satisfactory. The Council's response to our requests for information in respect of the revaluation exercise and other accounting matters in relation to its fixed assets was timely. There were, however, a few occasions where we experienced lengthy delays in responses being provided for the technical accounting treatment which led to amendments to the draft financial statements as outlined in [Appendix 3](#), specifically relating to the:
- revaluation of some Land & Building assets; and
 - ownership of assets.
- 19 Given that the 2020-21 statutory deadline for the preparation and certification of local authority financial statements will move forward to 31 May and 31 July respectively from 2020-21 onwards, it is important that matters of a technical nature are addressed at an early stage.
- 20 The Council also faces some challenges in bringing forward its accounts closure process to meet these deadlines and should also look to identify additional opportunities to bring forward elements of its accounts production process to earlier in the year. One key area relates to its accounting for fixed assets where currently most of the work is done post year-end.

There were two significant matters discussed and corresponded upon with management which we need to report to you

McCloud Judgement

- 21 The draft financial statements were prepared before the Supreme Court denied the Government's application for leave to appeal the legal judgement about age discrimination in a number of public sector pension schemes, including the local government pension scheme. The judgement related to a decision to move from a 'final salary' to a 'career average' basis for the calculation of pension benefits and is referred to as the McCloud Judgement.
- 22 The cost of providing a remedy to affected employees is likely to be significant. We have concluded that the McCloud Judgement gives rise to a past service cost and liability within the scope of accounting for pensions within local authorities which should be accounted for as an increased liability where a reasonable estimate can be made.

- 23 The Council has obtained updated evidence from its actuary on the impact of this legal judgement which estimates an additional pension liability arising of £14.818 million. As this amount is above the Council's materiality threshold for the 2018-19 financial statements, the Council has adjusted the 2018-19 financial statements to include the estimated additional liability. The impact of the adjustment is set out in [Appendix 3](#) of this report.

Contingent Assets / Liabilities

- 24 Our 2017-18 Audit of Financial Statements Report, referred to an issue that the Council had brought to our attention that related to potentially significant liabilities arising from a purportedly undeclared landfill tax assessment. This issue is again referred to in Note 31 of the 2018-19 financial statements 'Contingent Assets/Liabilities'.
- 25 We have continued to discuss the Council's progress in resolving this matter with HMRC throughout the year. At the time of writing this report, the issue remains unresolved and discussions with HMRC are ongoing.
- 26 Note 31 also highlights that the Council has made a payment of £2.452 million to HMRC during the year. The note states that this is not an admission of any liability and the amount will be refunded by HMRC if the assessment is changed or cleared. If there is any further progress on this matter, we will provide the Audit Committee with an update at its meeting on 10 September 2019.

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

- 27 We have not identified any 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, but we have identified some areas for improvement

- 28 We have not identified any matters relating to internal controls, which are material to the accuracy and completeness of the financial statements, or any matters which are significant enough to be brought to your attention. We have however identified some areas for improvement which we will include in our Accounts Memorandum which will be issued shortly after the financial statements have been certified later this year. We will discuss and agree the content of the memorandum with management and will include their response to the issues raised within the final document.

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

- 29 There are no other matters (such as those relating to fraud, compliance with laws and regulations, or subsequent events) that we need to report to you.

Independence and objectivity

- 30 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 31 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 2019, 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. 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.
- 32 With the exceptions of the above, all other members of my team are independent of the Council and your officers 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

12 September 2019

Representations regarding the 2018-19 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 2019 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

We have fulfilled our responsibilities for:

- the preparation of the financial statements in accordance with legislative requirements and the Code of Practice on Local Authority Accounting 2018-19; 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. 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.

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 Council on 12 September 2019.

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: 12 September 2019

Signed by:

[Officer or Member who signs on behalf of those charged with governance (director only for companies)]

Date: 12 September 2019

Appendix 2

Proposed audit report of the Auditor General

The independent auditor's report of the Auditor General for Wales to the members 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 2019 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 [year] 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 2019 and 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 2018-19.

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 12 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 2018-19; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and the Annual Governance Statement has been prepared in accordance with guidance.

Matters on which I report by exception

In the light of the knowledge and understanding of the council and the group and its environment obtained in the course of the audit, I have not identified material misstatements in the Narrative Report or the Annual Governance Statement.

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

- proper 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, 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
13 September 2019

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 1: summary of corrections made to the draft financial statements

Value of correction	Nature of correction	Reason for correction
Balance Sheet Note 18 Non-Current Assets - 'Other Land & Buildings' £26,026,000	The net book value (nbv) of 'Other Land and Buildings' has decreased by £26 million to reflect that the ownership and control of the assets associated with a Voluntary Aided School remain with the trustee.	The nbv of 'Other Land and Buildings' has been reduced to reflect that the control of the assets remains with the trustee and therefore should not have previously been included within the Council's balance sheet.
Note 14 – Leasing Council as Lessee - Operating Leases £8,953,000	Increase in Lessee Operating Lease future minimum lease payments within 'Property' and 'Other Leases'.	To ensure the note discloses total future minimum lease payments as per the requirements of the code and IAS17.
Note 14 – Leasing Council as Lessor – Operating Leases £415,610,000	Increase in the total of Lessor Operating Lease future minimum lease payments receivable. The 2017-18 comparator information has also been restated.	To ensure the note discloses total future minimum lease payments as per the requirements of the code and IAS17.
CIES and Note 18 - Other Land & Buildings £1,768,000	The depreciation charge for 'Other Land & Buildings' has decreased by £1,768,000.	The depreciation charge included within the draft financial statements was overstated by £1,768,000. This was due to an isolated error whereby an incorrect useful life indicator for one specific Land & Building asset was included within the Fixed Asset Register.

Value of correction	Nature of correction	Reason for correction
CIES Various within Cost of Service Note 18 - Other Land & Buildings .	Decrease in revaluation gains and losses on land and buildings recognised in the CIES and Note 18.	To ensure that the adjustments required to assets as a result of revaluations are accounted for appropriately (ie within the Capital Adjustment Account and the Revaluation Reserve).
Note 17 – Pensions Past Service Cost and Pension Liability £20,698,000	The liability relating to the defined benefit pension scheme analysed in Note 17 has been increased. In addition, the gross expenditure of the Corporate Management in the Comprehensive Income and Expenditure Statement has also been increased. The adjustment has no impact on the Council's usable reserves.	As noted in paragraphs 22-24, this is to record the additional estimated liability and associated past service cost arising from the McCloud Judgement (£14,818,000). A similar adjustment has been made relating to historic Guaranteed Minimum Pensions arrangements (£5,880,000).
CIES Social Services Net Cost of Service - £36,745,000	Gross Income and Gross Expenditure for Social Services are both reduced by £36,745,000. This reflects that where a pooled budget arrangement exists, the costs and contributions of partner organisations are to be excluded from the host bodies financial statements if it is acting in an agency role.	To ensure that the financial statements correctly reflect the nature of the Pooled Budget arrangements.
Note 22 Cash and Cash Equivalents £9,399,000	Increase in 'Short Term deposits with Banks & Building Societies', with a corresponding reduction in 'Bank including cheque book schools'.	To ensure correct classification of the cash and cash equivalent balances.
Note 18 Non Current Assets Investment Properties £1,430,000	To show correct classification of the revaluation of Investment Properties within the Surplus or deficit on provision of service line.	To ensure disclosure of revaluations are in line with the CIPFA Code.
CIES Housing Revenue Account Net Cost of Service - £1,272,000	Increase in both Gross Income and Expenditure within the CIES	To ensure consistent disclosure between the Council's CIES and its Housing Revenue Account.

Value of correction	Nature of correction	Reason for correction
Note 18 Non-Current Assets Surplus Assets £4,966,000	To correctly analyse reclassifications within 'the to and from held for sale' and the 'Other reclassification Transfers' lines.	To ensure the note represents the accounting treatment applied for Surplus Assets.
Note 18 Non-Current Assets Council Dwellings £25,867,000	Reclassifying write back of depreciation from the Revaluation Reserve to the Surplus or Deficit on Provision of Service line.	To ensure the note represents the accounting treatment applied.
CIES Net Cost of Services Net expenditure has decreased £2,597,000	The net cost of services has decreased as a result of revaluations initially being misclassified as Gains within the Revaluation Reserve.	To ensure that the revaluation gains have been accounted for appropriately within the Cost of Services.
Various adjustments to primary statements to ensure the Council includes the correct share of the Cardiff Capital Region City Deal Joint Committee 18-19 accounts, as audited.	The completion of the audit of the Cardiff Capital Region City Deal Joint Committee accounts identified a number of changes from the draft figures which the consolidation of the Council's share was based on. The two highest value changes related to reclassifications within asset categories on the Balance Sheet: <ul style="list-style-type: none"> • reclassification of Short - term debtors to Long-term debtors - £1.178 million; and • reclassification of Long Term-debtor as Cash - £711,000. 	To ensure the financial statements correctly reflect the share of the Joint Committee results attributable to the Council.
Various prior year comparator (eg MIRS and disclosure notes including Group Notes) have been revised to ensure agreement to the 2017-18 audited financial statement balances.	Our review of the prior-year comparator information identified a number of changes had been made to the 2017-18 audited figures which were not required as they were not material and were not as a result of a change in accounting policies.	To ensure that the comparator information agreed to the 2017-18 audited balances.

Value of correction	Nature of correction	Reason for correction
Various minor presentational and narrative changes to the Narrative report and notes to the financial statements.	A number of narrative and presentational changes were made to the 'Narrative Report' and 'Notes to the Financial Statements'.	To provide enhanced disclosures and understanding of the information contained within the narrative report and financial statements.

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