

Audit of Accounts Report – The County Council of the City and County of Cardiff

Audit year: 2021-22

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We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

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

Contents

We intend to issue an unqualified audit report on your Accounts. There are some issues to report to you prior to their approval

Audit of Accounts Report

Introduction	4
Infrastructure Assets	4
Proposed audit opinion	5
Significant issues arising from the audit	6
Recommendations	7
Appendices	
Appendix 1 – Final Letter of Representation	8
Appendix 2 – Proposed Audit Report	11
Appendix 3 – Summary of Corrections Made	16

Introduction

- 1 We summarise the main findings from our audit of your 2021-22 statement of accounts in this report.
- 2 We have already discussed these issues with Corporate Director of Resources and Head of Finance.
- 3 Auditors can never give complete assurance that accounts are correctly stated. Instead, we work to a level of 'materiality'. This level of materiality is set to try to identify and correct misstatements that might otherwise cause a user of the accounts into being misled.
- 4 We set this level at £14.5million for this year's audit.
- 5 There are some areas of the accounts that may be of more importance to the reader and we have set a lower materiality level for these, as follows:
 - Senior officer remuneration £1,000
 - Senior officer exit packages £20,000 (bandings)
 - Related party transactions (non-corporate only) £10,000
- 6 We have now substantially completed this year's audit. In our professional view, we have complied with the ethical standards that apply to our work; remain independent of yourselves; and our objectivity has not been compromised in any way.
- 7 However, in our Audit Plan dated July 2022, we brought to your attention one potential conflict of interest. This relates to the Financial Audit Manager who is a former colleague and friend of the Council's Operational Manager for Information Governance, Transactional Finance and Programme Management within the Resources Directorate. I can confirm that planned safeguards set out in the Audit Plan have operated as intended in respect of this matter. I can also confirm that, all other members of my team are independent of the Council and its senior officers.

Accounting for Infrastructure Assets

- 8 In common with all Welsh other local authorities and following discussion with Audit Wales, the Council has taken advantage of a recent and temporary statutory relief for reduced disclosures related to infrastructure assets. This relief is permitted as a result of an update to the Accounting Code and Specifications for Future Codes for Infrastructure Assets and the 2022 amendments to the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003.
- 9 In applying the relief the Council has not disclosed gross cost and accumulated depreciation for infrastructure assets, because historical reporting practices and resultant information deficits mean gross cost and accumulated depreciation are not measured accurately, and would not faithfully represent the asset position to the users of the financial statements.

- 10 The relief is a temporary expedient that is intended to allow authorities to address the information deficits and prepare robust information to support the carrying value of infrastructure assets. The temporary reliefs are only applicable for financial years up to and including 2024-25.
- 11 The **Exhibit 1** shows the impact of this issue on the audit timetable and financial statements.

Exhibit 1 – impact of infrastructure issues

Timetable	<p>Given the continuing slippage arising from the COVID-19 pandemic and national issues relating to the audit of infrastructure assets, the Welsh Government provided flexibility in terms of both the accounts preparation deadlines and the audit deadlines:</p> <ul style="list-style-type: none"> • The timescale for completing your accounts was revised by the Welsh Government from 31 May 2022 to 31 August 2022. • We received the draft accounts on 22 June 2022. • Our deadline for completing our audit was changed from 31 July 2022 to 31 January 2023. • The revised deadline of 31 January 2023 was not able to be met due to there being outstanding information from the Council’s external valuer’s in relation to the revaluation of Council Dwellings and schools which was received in February 2023 (see paras 19 – 23 below). • We expect your audit report to be signed on 31 March 2023.
Financial statement disclosures	<p>The historic cost and accumulated depreciation balances relating to infrastructure assets have been removed from the accounts. This means the infrastructure column has been removed from note 14 and the net book value of infrastructure assets is shown in the balance sheet.</p> <p>Additional narrative has been added to note 14 in relation to this adjustment.</p>

Proposed audit opinion

- 12 We intend to issue an unqualified audit opinion on this year’s accounts once you have provided us with a Letter of Representation based on that set out in **Appendix 1**.
- 13 We issue a ‘qualified’ audit opinion where we have material concerns about some aspects of your accounts; otherwise we issue an unqualified opinion.

- 14 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards along with confirmation of other specific information you have provided to us during our audit.
- 15 Our proposed audit report is set out in **Appendix 2**.

Significant issues arising from the audit

Uncorrected misstatements

- 16 There are no misstatements identified in the accounts, which remain uncorrected.

Corrected misstatements

- 17 There were initially misstatements in the accounts that have now been corrected by management. However, we believe that these should be drawn to your attention and they are set out with explanations in **Appendix 3**.

Other significant issues arising from the audit

- 18 In the course of the audit, we consider a number of matters relating to the accounts and report any significant issues arising to you. There is one matter to bring to your attention.

Valuations of Property, Plant and Equipment

- 19 Audited bodies across all sectors are required to account for property, plant and equipment (PPE assets) in accordance with IAS 16 Property, Plant and Equipment or FRS102 for UK GAAP, except where adaptations to fit the public sector are detailed in the respective accounting code (FReM, CIPFA/LASAAC Code, Charities SoRP etc).
- 20 The audit of asset valuations has been an area of focus across the audit profession for some time. This focus increased in 2021-22, highlighting that it may no longer be appropriate for audited bodies to rely on valuations of assets carried out in previous financial years to demonstrate that carrying values remain materially consistent with current values at 31 March 2022. This means that audited bodies need to have sufficient procedures in place to ensure that carrying values are not materially different from current value at 31 March 2022.
- 21 To address this issue, the Council instructed its external valuers to provide updated valuations for its Council Dwellings and School assets impacted by this to identify whether there were any potential material movements that would be required to be considered for inclusion within the draft financial statements. The Council's external valuers undertook a full professional valuation over the period June to

December 2022 which identified decreases in asset valuations of £61.37million, on a gross basis. This information was subsequently passed to us for audit testing.

- 22 Our audit work involved a high-level check of the valuation against our expectation as well as detailed testing of a sample of items. This resulted in additional enquiries being made with the external valuers to confirm how they had calculated the valuation figures and some of the assumptions upon which these calculations were based. These additional enquiries led to further work being undertaken by the valuer which ultimately identified further changes to the original valuation, reducing the decreases by £9.27million on a gross basis.
- 23 The overall change was a decrease in the valuation of £52.1million, on a gross basis (£15.49million on a net book value basis).

New Fixed Asset Register

- 24 One of the key risks referred to in our 2021-22 Audit Plan, issued in July 2022, referred to the fact that the Council had introduced a new Fixed Asset Register System during the year which would be used for the production of all of the figures relating to Property, Plant & Equipment in the 2021-22 financial statements. Our review of the implementation of the new system and the migration of the data did not identify any significant issues or concerns and we were satisfied that the migration of data and implementation of the new system had been appropriately managed. We are content that the balances transferred from the old system to the new system produced opening balances that were consistent with expectations.

Recommendations

- 25 Following the audit certification by the Auditor General, we will issue a separate report to management, the Audit of Accounts Addendum Report. This will set out some key findings and recommendations, as well as management's responses to those recommendations with the aim of continuing to work with the Council's finance team to further improve the accounts production process for 2022-23.

Appendix 1

Final Letter of Representation

The County Council of the City and County of Cardiff Letterhead

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

30 March 2023

Representations regarding the 2021-22 financial statements

This letter is provided in connection with your audit of the financial statements of the County Council of the City of Cardiff for the year ended 31 March 2022 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 United Kingdom 2021-22; 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.

The methods, the data and the significant assumptions used in making accounting estimates, and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework.

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 the County Council of the City and County of Cardiff

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 Members of the County Council of the City and County of Cardiff on 30 March 2023.

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:
Corporate Director Resources

Date: 30 March 2023

Signed by:
Chair of the Council – signed on behalf of
those charged with governance

Date: 30 March 2023

Appendix 2

Proposed Audit Report

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

Opinion on financial statements

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 2022 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, 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, 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 UK adopted international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2021-22.

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 and the County Council of the City and County of Cardiff's Group as at 31 March 2022 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with legislative requirements and UK adopted international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2021-22.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. 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

In auditing the financial statements, I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the responsible financial officer with respect to going concern are described in the relevant sections of this report.

Other Information

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

My responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

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 2021-22;

- 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:

- adequate accounting records have not been kept, or returns adequate for my audit have not been received from branches not visited by my team;
- 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.

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 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

My procedures included the following:

- enquiring of management and those charged with governance, including obtaining and reviewing supporting documentation relating to the County Council of the City and County of Cardiff's policies and procedures concerned with:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- considering as an audit team how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the following areas: revenue recognition, posting of unusual journals; and
- obtaining an understanding of the County Council of the City and County of Cardiff's framework of authority as well as other legal and regulatory frameworks that Cardiff Council operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of Cardiff Council.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Governance and Audit Committee about actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance, the Cabinet and Council; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

I also communicated relevant identified laws and regulations and potential fraud risks to all audit team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the County Council of the City and County of Cardiff's controls, and the nature, timing and extent of the audit procedures performed.

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.

Certificate of completion of audit

I certify that I have completed the audit of the accounts 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.

Adrian Crompton
Auditor General for Wales
March 2023

24 Cathedral Road
Cardiff
CF11 9LJ

Appendix 3

Summary of Corrections Made

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 3: summary of corrections made

Value of correction	Nature of correction	Reason for correction
£6.86million	<p>Note 13 Property, Plant & Equipment</p> <p>School assets valued on a depreciated replacement cost basis had not been revalued in the year to reflect significant changes since the last valuation.</p> <p>Decrease in the gross cost of Schools land and buildings £34.15million</p> <p>Decrease in the gross accumulated depreciation of Schools land and buildings of £27.29million</p>	<p>To correctly disclose the value of Schools land and buildings in line with the Code requirements.</p>
£8.63million	<p>Note 13 Property, Plant & Equipment</p> <p>Council Dwellings assets valued on an Existing Use Value for Social Housing basis had not been revalued in the year to reflect significant changes since the last valuation.</p> <p>Decrease in the gross cost of Council Dwellings buildings £17.95million</p>	<p>To correctly disclose the value of Council Dwellings land and buildings in line with the Code requirements.</p>

	Decrease in the gross accumulated depreciation of Council Dwellings buildings of £9.32million	
Narrative Disclosure	<p>Note 13 Property, Plant & Equipment</p> <p>The Council has taken advantage of temporary reliefs for reduced disclosures related to infrastructure assets allowed for in the Update to the Code and Specifications for Future Codes for Infrastructure Assets and the 2022 amendments to the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003</p> <p>As a result the Infrastructure assets figures have been removed from the main table in Note 13 and replaced with a narrative disclosure</p>	To comply with the temporary disclosures required by the Code
£26.30 million	<p>Note 17 Short Term Debtors</p> <p>Decrease in Other Entities and Individuals including Public Corporations of £25.63million, decrease in Other Local Authorities & NHS Bodies of £0.67million and increase in Central Government of £26.30million</p>	This amendment corrects an error in the classification of short-term debtors
£5.10 million	<p>Note 24 Grant Income</p> <p>Increase in Other Local Authorities & NHS Bodies and decrease in Other Entities and Individuals including Public Corporations</p>	This amendment corrects an error in the classification of grant income

£1.29 million	Note 14 Non-Current Assets Reduction in additions for Vehicles, Plant & Equipment	This amendment updates an estimate in the accounts with an actual figure.
Various	Note 10 Related Parties Three material related party disclosures were omitted from the financial statements	The amendments have been made to comply with the CIPFA Code and to provide clarification to the reader of the financial statements
Various	Note 8.3 Remuneration Inclusion of details for comparative figures	To ensure this Note is fully compliant with the Code.

There have also been a number of minor amendments and disclosure updates as a result of our work which include for example to contingent assets, Annual Governance Statement, Cashflow Statement, Remuneration bandings and Group accounts.



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We welcome correspondence and telephone calls in Welsh and English.
Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.