



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Update on the External Audit of Financial Statements 2016-17 and 2017-18 - Blaenau Gwent County Borough Council

Date issued: September 2018



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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.

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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 Blaenau Gwent County Borough Council (the Council).
- 2 We have largely completed our audit of your financial statements for 2016-17 and 2017-18. However, due to ongoing audit considerations we are at this stage unable to issue an audit opinion.
- 3 This document is an update to the Audit Committee, summarising the results to date of our 2017-18 audit, and provides some further information on the audit of the 2016-17 financial statements.
- 4 Once we are in a position to provide an audit opinion, we will issue a formal ISA260 report to those charged with governance, as required by the auditing standards.

2016-17 Financial Statements

- 5 We reported to the Audit Committee in September 2017 that correspondence had been received which we are duty bound to consider. We were unable discuss the nature of the correspondence but confirmed that any issues would be considered prior to sign-off of the Accounts by the Auditor General.
- 6 At that time we were not anticipating any significant delay in issuing an audit opinion. However, that hasn't been the case and those matters that were brought to our attention are still being reviewed. Once we are able to conclude on those matters, we will consider what impact, if any, it will have for our audit opinion.
- 7 Our report of September 2017 highlighted the corrected misstatements made to the financial statements which were approved by the Audit Committee at that time. Our work in 2017-18 has identified some further misstatements on the 2016-17 financial statements (unconnected to the wider matters under review) which finance officers have chosen to correct. These are detailed for your information at [Appendix 1](#).

2017-18 Financial Statements

- 8 Our audit testing for 2017-18 is largely complete. At the time this update was prepared we still had some work outstanding on the Related Parties note, and our review processes were still in progress. In addition, and as noted above, we are not yet able to conclude in respect of the matters brought to our attention in September 2017.
- 9 Other than any matters that may arise from the above:
 - there are no misstatements identified in the financial statements, which remain uncorrected.

- 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 1](#).
- 10 The one area we feel could be improved or needs further consideration for future years is:
- **Cut-off testing** - each year we undertake tests on payments and receipts before and after the year-end to assure ourselves that income and expenditure is accounted for in the correct year. Our testing this year identified some payments made in March 2018, that had been accounted for in 2017-18 but actually related to 2018-19. Consequently, with the help of finance staff we undertook additional testing to give a better understanding of the scale of any errors or if our findings were isolated examples. The outcome was that out of 55 payments tested, four had been accounted for in the incorrect year. If this sample were representative of the whole population, it could mean an estimated error of £827,000 with expenditure being overstated. We are content that the error is not material to the financial statements, but the Council should look at why these errors have occurred and take any relevant action required to improve this for future years.

The accounts and audit deadlines going forward

- 11 Under the Accounts and Audit (Wales) (Amendments) Regulations 2018, in the future, local government bodies 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 for councils from 2020-21. [Exhibit 1](#) sets out the new dates.

Exhibit 1: changes introduced by the amended regulations

Annual financial statements	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	31 May 2021	31 July 2021

- 12 For 2017-18, finance staff aimed to produce the draft accounts for audit by 31 May 2018, but they weren't actually presented for audit until 28 June 2018.

- 13 The volume of work that the Council needs to complete to prepare the accounts, and we as auditors need to do to audit them, is significant. Given the volume of work required, the earlier dates for certification will be a significant challenge. This coming autumn we will work closely with officers to ensure that improvements are made to the preparation and audit of the financial statements. Key aspects of this work will include:
- a. a consideration of what audit work we can bring forward, so that wherever possible it is completed before we receive the draft financial statements;
 - b. a joint review of the financial statements to consider whether there are any non-material disclosures that can be removed (and therefore not be subject to audit);
 - c. a joint review to consider whether the accounts are presented in as streamlined and effective a manner as possible; and
 - d. the further development of working papers prepared to support the accounts (as noted above).

We will seek to set up a workshop during the autumn to allow the above to be achieved.

Appendix 1

Summary of corrections made to the financial statements

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 financial statements for 2017/18

Value of correction	Nature of correction	Reason for correction
2017/18		
£5,407,000	Increase of the amounts disclosed within Note 21 (Grants and Contributions) for items that were Grants or Contributions in nature, but had not been classified as such (note: this does not impact on the Comprehensive Income and Expenditure Statement (CIES) as the items were classified correctly within this).	To ensure that items are classified correctly.
£1,216,000	Reclassification of an asset from 'Infrastructure' to 'Other Land and Buildings' within Note 25.1. The asset was revalued in the year – the £1,216,000 refers to the 'Revaluation decreases recognised in the Provision of Services' line within Note 25.1 (Property, Plant & Equipment). The Net Book Value as at 31 March 2018 was £169,000.	To ensure that items of property, plant and equipment are classified correctly.
£1,169,000	This is a reclassification of receipts in advance from both the "Creditors' and 'Receipts in Advance' lines from Note 32 (Current Creditors) into Note 21 (Receipts in Advance).	To ensure that grant receipts in advance are correctly classified as such as per the disclosure notes and the Balance Sheet.

Value of correction	Nature of correction	Reason for correction
2017/18		
£1,118,000	This figure has been incorrectly included as REFCUS (Revenue expenditure funded from capital under statute) in Note 25.5 (Capital Expenditure and Financing), whereas it should have been included as 'Property, Plant & Equipment' Capital Investment.	To ensure that expenditure is classified correctly.
£1,094,000	The disclosure at the bottom of Note 25.4 (Revaluations) states that there has been a net decrease in the Authority's assets of £3.368 million. This should be £4.462 million.	To ensure that disclosures made in the accounts accurately reflect supporting information.
£806,000	This should be reclassified from the NHS line to the Welsh Government lines within Note 21 (Revenue Grants Credited to Services).	To ensure that Grants are correctly classified within the Grants and Contributions disclosure.
£535,000	The Provision for the Lease Dilapidation should be reclassified as Current rather than Non-Current, within Note 33.2 and on the Balance Sheet.	To ensure that Provisions are classified correctly based on when they are expected to be settled, as required by the Code.
£436,000	This amount should be included in the Capital Adjustment Account (Note 39.2.1) as a negative figure and the Revaluation Reserve (Note 39.2.2) as a positive figure, meaning that there is no net effect on the total of Unusable Reserves as per the Balance Sheet.	To correct a system error that had omitted this entry.
£343,000	Increase in the charge for depreciation within the year in Note 25.1 (Property, Plant & Equipment).	Several assets had incorrectly not had depreciation charged to them, which is required as per the Code.
£198,000	Grant income reclassified from Capital Grants Credited to taxation and non-specific grant income to Capital Grants Credited to Services.	To ensure that Grants are correctly classified as per the requirements of the Code.

Value of correction	Nature of correction	Reason for correction
2017/18		
£176,000	Reclassification of Assets within Note 25.1 (Property, Plant & Equipment) from 'Other Land and Buildings' to 'Infrastructure'.	To ensure that items of property, plant and equipment are classified correctly.
£154,000	Decrease of the 'Capital Grants Credited to Services' and the CIES due to income being included in the wrong financial year.	To ensure that income is included within the correct financial year.
£133,000	Reclassification of the Aftercare Provision in the Group Accounts from Current to Non-Current.	To ensure that Provisions are classified correctly based on when they are expected to be settled, as required by the Code.
£70,000	Reduction in the Members' Allowances figure.	To ensure consistency with prior years, in which employers' pension contributions had not been included.

Exhibit 3: summary of corrections made to the financial statements for 2016/17

Value of correction	Nature of correction	Reason for correction
2016/17		
£4,604,000	Increase of the amounts disclosed within Note 24 (Grants and Contributions) for items that were Grants or Contributions in nature, but had not been classified as such (note: this does not impact on the Comprehensive Income and Expenditure Statement (CIES) as the items were classified correctly within this). Note: the comparative figure for 2015/16 has also been increased by £4,459,000.	To ensure that items are classified correctly.
£1,410,000	Reclassification of an asset from 'Infrastructure' to 'Other Land and Buildings' within Note 29.1 (Property, Plant & Equipment).	To ensure that items of property, plant and equipment are classified correctly.

Value of correction	Nature of correction	Reason for correction
2016/17		
£1,071,000	Increase in the charge for depreciation in Note 29.1 (Property, Plant & Equipment). Of this, £727,000 is in relation to the accumulated depreciation as at 31 March 2016, and £344 is for the charge in-year.	Several assets had incorrectly not had depreciation charged to them, which is required as per the Code.
£1,065,000	This should be reclassified from the 'Local Authorities' line to the 'Welsh Government' line within Note 37 (Current Debtors).	To ensure that items are classified correctly.
£327,000	This is a reclassification of receipts in advance from both the 'Creditors' and 'Receipts in Advance' lines from Note 32 (Current Creditors) into Note 21 (Receipts in Advance).	To ensure that grant receipts in advance are correctly classified as such as per the disclosure notes and the Balance Sheet.
£154,000	Increase of the 'Capital Grants Credited to Services' and the CIES due to income being included in the wrong financial year (had been included in 2017/18 as above).	To ensure that income is included within the correct financial year and correctly classified as per the requirements of the Code.

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