

# Audit of Financial Statements Report – Blaenau Gwent County Borough Council

Audit year: 2016-17

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# Contents

The Auditor General intends to issue a modified audit report on your financial statements. In our opinion your financial statements present a true and fair view of your financial position and income and expenditure for the year, except for pension payments made to two Senior Officers relating to Directorships of Silent Valley Waste Services Ltd.

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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) at 31 March 2017 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 £2,517,000. 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. For example, we consider the Senior Officers' Remuneration Note to be material by its nature and set a materiality level of £1. In other words, given this low level of materiality, we expect this particular note to be correct given it is publishing individual's remuneration and making this information publicly available.
- 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 2016-17, that require reporting under ISA 260.

## Status of the audit

- 6 We received the draft financial statements for the year ended 31 March 2017 on 26 June 2017, in line with the agreed deadline, and have now completed the audit work. The completion of our audit work was significantly delayed due to the need to consider correspondence received which raised a number of concerns in relation to the Council's relationship with Silent Valley Waste Services Ltd (SVWS).
- 7 In July 2018, we met with officers in Gwent Police, and after the Police had carried out an initial examination of the information available, the Police decided to conduct its own investigation. In view of this decision, we concluded that it would not be appropriate to continue the audit until the Police enquiries had concluded.
- 8 In September 2019, Gwent Police, having sought advice from the Crown Prosecution Service, decided not to pursue criminal charges against any individual(s). I was therefore able to re-commence my audit.
- 9 My report on the financial statements, dated 26 November 2020, contained an audit opinion on the 2016-17 accounts and explained that the audit could not be

formally concluded until I had completed ongoing work in relation to concerns raised in correspondence in respect of Silent Valley Waste Services Ltd.

- 10 This work has now been completed and I have issued a Public Interest Report on my findings on 27 January 2022. Our audit of the Council's 2016-17 financial statements can therefore be closed.
- 11 The issues in this report have remained unchanged from our report considered by the Council's Audit Committee in November 2020.

## Proposed audit report

- 12 It is the Auditor General's intention to issue a modified audit report on the financial statements once you have provided us with a Letter of Representation based on that set out in **Appendix 1**.
- 13 The Auditor General intends to modify the standard audit report in respect of employer pension contributions of £4,975 included within the Senior Officers' Remuneration report. These payments are considered to be material by their nature (as explained in paragraph 3).
- 14 The payments relate to the appointments of the Council's then Chief Finance Officer and the Corporate Director of Environment & Regeneration as directors of a wholly-owned subsidiary of the Council, Silent Valley Waste Services Ltd (SVWS). The SVWS appointments were separate from the Council appointments of the officers concerned, and the remuneration for the SVWS director roles was determined by SVWS. The officers concerned each received £11,568.96 for the performance of their SVWS roles. The Council administered the payments through its payroll and invoiced SVWS to recover these costs. However, in administering the SVWS director remuneration, the Council treated these payments as pensionable within the Local Government Pension Scheme (LGPS) and in 2016-17 paid employer pension contributions totalling £4,975 into the LGPS as though the SVWS appointments formed part of the officers' Council roles. The Council did not recover these pension costs from SVWS. We consider the employer pension contributions of £4,975 contrary to law on the basis that:
  - the Council did not have the lawful power to make pension payments on behalf of SVWS into the LGPS, and SVWS did not instruct the Council to make these payments;
  - members of the Council did not approve that the SVWS remuneration be treated as pensionable pay contrary to the requirements of the Council's constitution concerning senior officer remuneration.
  - whilst SVWS is an admitted body within the Greater Gwent Pension Fund, it never designated its directors as a class of employees eligible for membership of the LGPS. This designation was required by legislation for SVWS directors to become members of the LGPS. The directors of Silent Valley were not therefore eligible for membership of the LGPS.

- the payments made were in breach of Regulation 22 (2) of the Local Government Pension Scheme Regulations 2013 (the 2013 Regulations):
  - Regulation 22 (2) of the 2013 Regulations requires that a separate pension account be opened in relation to each employment where a member is or was employed in two or more Scheme employments; and
  - a separate pension account was not opened for the SVWS appointments. Pension contributions for the Council and SVWS employments paid into the Greater Gwent Pension Fund were combined for benefit calculation purposes, thereby overstating the individuals' pension entitlements.

15 The proposed audit report is set out in **Appendix 2**.

## Significant issues arising from the audit

16 The most significant issue identified during the audit is detailed in paragraph 9 above and has resulted in a qualified audit opinion. Other issues have been identified during the course of the audit which we are required to bring to your attention.

## Uncorrected misstatements

17 We set out below the misstatements we identified in the financial statements, which have been discussed with management but remain uncorrected. If you decide not to correct these misstatements, we ask that you provide us with the reasons for non-correction.

### Overstatement of Other Land & Buildings £442,432

- Our audit work identified that the valuation of a new primary school brought into use during the financial year had been overstated by £442,432. We are satisfied that was an isolated occurrence. Consequently, the 'revaluation increase recognised in the Revaluation Reserve' within Note 29.1 and the 'upward revaluation' within Note 46.2.1 of the Revaluation Reserve are overstated.

### Understatement of Income and Expenditure £195,106

- Our audit work identified that items of expenditure had been incorrectly coded to income codes, resulting in expenditure being offset against income. Consequently, both income and expenditure are understated by £195,106 within the Comprehensive Income and Expenditure Statement.

## Overstatement of Current Debtors £166,495

- Our testing of the current debtor balances identified that the 'Other Entities and Individuals' balance was overstated by £166,495. This relates to balances that have been in existence for a number of years which the Council was unable to substantiate.

## Corrected misstatements

- 18 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**.

## Independence and objectivity

- 19 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 20 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 Audit Wales and the Council that we consider to bear on our objectivity and independence.

# Appendix 1

## Suggested Letter of Representation

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

[Date]

### Representations regarding the 2016-17 financial statements

This letter is provided in connection with your audit of the financial statements of Blaenau Gwent County Borough Council (the council) for the year ended 31 March 2017 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 Code of Practice on Local Authority Accounting in the United Kingdom; 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.

## 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. A summary of these items is set out below:

[xxxx]

[Include here:

## Representations by Blaenau Gwent County Borough 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 Audit Committee on (insert date).

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:

Signed by:

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

Date:

# Appendix 2

## Proposed audit report of the Auditor General

### The independent auditor's report of the Auditor General for Wales to the members of Blaenau Gwent County Borough Council

#### Qualified Opinion on financial statements

I have audited the financial statements of:

Blaenau Gwent County Borough Council and

Blaenau Gwent County Borough Council Group

for the year ended 31 March 2017 under the Public Audit (Wales) Act 2004.

Blaenau Gwent County Borough Council's financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and the related notes, including a summary of significant accounting policies.

Blaenau Gwent County Borough Council'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 international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17.

In my opinion, except for effect on the financial statements referred to in the Basis for Qualified Opinion paragraph, the accounting statements and related notes:

- give a true and fair view of the financial position of Blaenau Gwent County Borough Council, and Blaenau Gwent County Borough Council Group, as at 31 March 2017 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with legislative requirements and international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17.

#### Basis of Qualified Opinion

In Note 16.3, Senior Officer Remuneration, the financial statements of Blaenau Gwent County Borough Council (the Council) include pension payments totalling £4,975 that in my opinion appear to be contrary to law. The Council should have disclosed the nature and impact of these additional pension contributions for the financial statements to give a true and fair view, but it has failed to do so.

These payments relate to employer pension contributions paid into the Greater Gwent Pension Fund on behalf of the Chief Finance Officer and the Corporate Director of Environment & Regeneration for their roles as directors of a wholly-owned subsidiary of the Council, Silent Valley Waste Services Ltd (SVWS).

The Council paid remuneration to these officers for undertaking SVWS director roles. The Council treated these payments as pensionable within the scope of the Local Government Pension Scheme (LGPS) and made employer pension contributions into the Greater Gwent Pension Fund as though the SVWS payments were part of the officers' core Council employments. The cost of these pension contributions was met by the Council.

I consider that the employer pension contributions appear to be contrary to law on the basis that:

- the SVWS directorships of the officers concerned appear to have been SVWS engagements. The Council could not lawfully incur pension costs relating to SVWS engagements.
- the Council did not approve the amount of remuneration to be paid to the officers concerned for undertaking their SVWS roles, or that any remuneration they received for performance of these roles be treated as pensionable pay. The amount to be paid to these officers for the SVWS roles was determined by SVWS and not the Council.
- the payments appear to be in breach of Regulation 22 (2) of the Local Government Pension Scheme Regulations 2013 which required separate pension accounts to be opened for each Scheme employment. It appears that the SVWS engagements were separate employments to the officers' core Council employments, but separate pensions accounts were not opened.

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 2016-17;
- The information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and the Governance Statement has been prepared in accordance with guidance.

### **Matters on which I report by exception**

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

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

- adequate accounting records have not been kept, 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 Blaenau Gwent County Borough Council's Group financial statements, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of statements of accounts that are free from material misstatement, whether due to fraud or error.

In preparing the statement of accounts, the responsible financial officer is responsible for assessing the council's and group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

### Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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, the council's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the Council'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;
- Obtaining an understanding of the framework of authority as well as other legal and regulatory frameworks that 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 the 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, and those charge with governance about actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the Council;
- 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 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 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my auditor's report.

## **Certificate of completion of audit**

My report dated 26 November 2020 contained an audit opinion on the 2016-17 accounts and explained that the audit could not be formally concluded until I had completed ongoing work in relation to concerns raised in correspondence in respect of Silent Valley Waste Services Ltd.

This work has now been completed and I have issued a Public Interest Report on my findings on 27 January 2022.

I certify that I have completed the audit of the accounts in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Code of Audit Practice issued by the Auditor General for Wales.

Adrian Crompton  
Auditor General for Wales  
Date:

24 Cathedral Road  
Cardiff  
CF11 9LJ



# Appendix 3

## Summary of corrections made to the draft 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 1: summary of corrections made to the draft financial statements

Value of correction	Nature of correction	Reason for correction
£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.
£1,715,363	The amount for Short-Term Compensated Absences should be reclassified from Provisions to Creditors.	To ensure that the classification of Short-Term Compensated Absences is in line with the requirements of the Code of Practice on Local Authority Accounting (the Code).
£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.

<b>Value of correction</b>	<b>Nature of correction</b>	<b>Reason for correction</b>
£1,382,208	The Bank Account figure was overstated by £1,382,207.63 as the Council had accounted for prepayments relating to 2017-18 incorrectly. This error also impacted on 'Note 37 Current Debtors' and 'Note 38 Current Creditors' where the Debtor balance was understated by £82,898.04 and the Creditor balance was overstated by £1,299,309.59.	To ensure that amounts included in Notes 37, 38 and 49 are accurately stated.
£1,365,000	Increase in the gross brought forward value of Property, Plant and Equipment due to an asset being undervalued.	To ensure that assets are included in the accounts at the correct value.
£1,075,000	Increase in the income and debtor figures due to a previously unidentified income source. This then has to be impaired, leading to an increase in the debtor impairment (and therefore expenditure figure).	To ensure that the income and expenditure figures in the accounts are complete.
£1,070,000	Increase in the depreciation charged to Property, Plant and Equipment due to an error within the system which meant that certain assets were not being depreciated. This increase is split between an amendment to the brought forward balance, and in-year expenditure.	To ensure that depreciation is charged on all relevant assets.
£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.

Value of correction	Nature of correction	Reason for correction
£940,000	A total of approximately £940,000 (£720,000 Council Tax and £220,000 Other Entities & Individuals) has been reclassified from Non-Current to Current debtors.	To ensure that the classification between Current and Non-Current is in line with the requirements of the Code.
£627,905	From an analysis of the asset figures provided by the Actuary, it was noted that as at 31 March 2017, the Local Government Pension Scheme Asset figures within the draft financial statements were overstated by £627,905. As a result, the Return on Plan Assets, which forms part of Other Comprehensive Income by £627,905 will decrease by the same amount.	To ensure that the figures that the Council includes for the Local Government Pension Scheme accurately reflect those provided by the Actuary.
£578,000	Increase in the Council Fund (and respective decrease in Earmarked Reserves) due to items being incorrectly coded to the Council Fund. This increase is split between an amendment to the brought forward balance, and an in-year transfer.	To ensure that the correct charges are made to the Council Fund.
£402,200	The figure for 'Other Entities and Individuals' includes £402,200 which should be classified within other categories of the Note (ie £295,880 should be classified as 'Local Authorities' and '£106,320' as 'NHS').	To ensure that the classification of creditor balances at the year-end are classified correctly.

Value of correction	Nature of correction	Reason for correction
£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 income in CIES due to income being included in the wrong financial year (it had been included in 2017/18).	To ensure that income is included within the correct financial year and correctly classified as per the requirements of the Code.
Various	Several amendments were required to be made to the Cash Flow Statement and related notes. These included, for an example: <ul style="list-style-type: none"> <li>• a reduction in the decrease in revenue creditors of £760,000 (Note 47.1); and</li> <li>• a reduction of £1.067,000 in the purchase of non-current assets (note 48).</li> </ul>	To ensure that the amounts disclosed within the Cash Flow Statement and related notes agreed to supporting information and balances throughout the financial statements.
Narrative and numerical amendments	Various other narrative and numerical amendments were required to aspects of the Narrative Report, Notes to the Financial Statements (eg Note 25 Related Parties) and the Annual Governance Statement.	To provide enhanced disclosures and understanding of the information contained within the financial statements and Annual Governance Statement, to ensure presentational accuracy and that the information was presented in line with appropriate guidance.





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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.