

Audit of Financial Statements Report – Blaenau Gwent County Borough Council

Audit year: 2018-19

Date issued: April 2022

Document reference: 2895A2022

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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 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 £2,510,180. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity. For example, the Senior Officers' Remuneration Note. 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.
- 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 31 May 2019, 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). We were therefore able to recommence the audit.
- 9 My report on the financial statements, dated 26 November 2020, contained an audit opinion on the 2018-19 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 2018-19 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 an unqualified opinion on the financial statements 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.
- 15 Our proposed audit report is set out in **Appendix 2**.

Significant issues arising from the audit

Uncorrected misstatements

- 16 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.

The Pensions Liability is understated by £1,958k

- As a result of the McCloud pension legal case, there is a probable additional cost payable to the Pension Fund. This has been estimated by the actuary at £1.958 million and increases the overall Pension Fund liability to £325.993 million (£271.599 million 2017-18). If amended this would have no impact upon the usable reserves of the Council.

The Council are accounting for the Ebbw Vale Multi-Storey Car Park as an Operating Lease, but in our view should be classified as a Finance Lease.

- The Council make lease payments on the Ebbw Vale Multi-Storey Car Park. We believe that, due to the Council having use of the building for the vast majority of its useful life, it should be accounted for as a Finance Lease, and recognised as an asset on the balance sheet at a value of approximately £400k.

In-Year Depreciation is understated

- In our view the Council is applying an inappropriately long asset life to road resurfacing, and consequently the in-year depreciation charge is understated by approximately £200k.

Corrected misstatements

- 17 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

- 18 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 19 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 2018-19 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 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

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

Include here: Justification for not corrected the uncorrected misstatements above

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

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 2018-19 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 2018-19.

In my opinion the financial statements:

- 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 2019 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 2018-19.

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 Blaenau Gwent County Borough Council (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 2018-19;

- 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. As part of this discussion, I identified potential for fraud in the following areas: revenue recognition and posting of unusual journals;
- Obtaining an understanding of the framework of authority as well as other legal and regulatory frameworks that the 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

Blaenau Gwent'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

My report dated 26 November 2020 contained an audit opinion on the 2018-19 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
£7,053,000	Increasing the disclosure for the Council's contribution to the Gwent Care Home Accommodation Functions Pooled Fund from £7k to £7,060k.	To ensure that
£2,314,000	Increase in the Transfers to and Transfers from Reserves within the Capital Grants Unapplied disclosure	To ensure consistency with supporting information and other areas of the accounts.
£1,328,000	Amending classification of expenditure within the Continuing Service lines of the Comprehensive Income and Expenditure Statement.	To remove internal recharges which are not deemed allowable as per the accounting standards.
£1,803,000	Moving income from the 'Education' line to the 'Education – Schools' line in the Comprehensive Income and Expenditure Statement.	To ensure that the income is treated correctly and consistently with prior years.
£1,486,000	Reducing the upwards in-year revaluation of a sports pitch, as a result of an increase to the brought forward value.	To correct a prior incorrect valuation of the asset.

Value of correction	Nature of correction	Reason for correction
£1,156,000	Reclassification of recharges within the Expenditure and Funding Analysis supporting notes.	To ensure that internal recharges of expenditure balance to nil within the note.
£979,000	Reducing the income included in 2018-19 that relates to the recovery of Housing Benefit overpayments.	To ensure that this income is included in the year to which it relates – The figure amended for relates to prior years.
£875,000	Reduction in the balance for Non-Current Provisions	To reduce provisions for lease dilapidations that were not recorded in line with accounting standards.
£661,000	Removing assets from the Property, Plant & Equipment note.	To correct an error which had resulted in assets that have been held for sale or sold not being removed from the note. Of this amount, £330k should be disclosed in the Assets Held for Sale note, and £331k was disposed of within the year.
£622,000	Amending classification of expenditure within the Continuing Service lines of the Comprehensive Income and Expenditure Statement.	To correct various adjustments which were incorrect as a result of errors in the working papers.
£569,000	Decreasing the Revenue Expenditure Funded from Capital Under Statute (REFCUS).	To ensure that the figure is consistent with other areas of the accounts.

Value of correction	Nature of correction	Reason for correction
£504,000	Increasing the 'Difference between fair value depreciation and historical cost depreciation' in the Revaluation Reserve by £504k, with a balancing entry in the Capital Adjustment Account	To ensure that the treatment is in line with supporting documentation and the proper accounting treatment.
£445,000	Increasing the Provisions balance	To take account of additional information received by the Council after the year-end.
£418,000	Adjusting the £209k 'Non-current assets written off on disposal or sale as part of the gain/loss on disposal' in the Capital Adjustment Account from a credit to a debit entry, with a balancing entry being made in the Revaluation Reserve.	To ensure that the treatment is in line with supporting documentation and the proper accounting treatment.
£311,000	Decreasing the amount in the Grants and Contributions note.	To ensure that amounts incorrectly included in the note were removed.
£300,000	Reducing the disclosure showing the Current Value of the Other Land & Buildings revalued in the year.	To ensure that the amount included in the note agrees to supporting documentation
£242,000	Adjusting various balances within the Property, Plant & equipment note.	To bring the transactions in line with those recorded in the Fixed Asset Register.

Value of correction	Nature of correction	Reason for correction
£235,000	Reducing the 'Capital expenditure written off' in the Property, Plant & equipment note, with the result that a larger amount of expenditure is included as capital expenditure.	To ensure that expenditure which should be treated as capital expenditure is treated as such.
£219,000	Reducing in Debtors with corresponding entries resulting in increase in expenditure and decrease in creditors.	To ensure corresponding debtor and creditor balances are not overstated.
£145,000	Reducing debtors with the corresponding entry resulting in an increase in expenditure and a decrease in creditors	To remove debtors that had been incorrectly transferred from the supporting system
Removing the Prior Period Errors as the amendment will be processed in the 2017-18 accounts.		
Correction of various narrative, disclosure and minor adjustments		



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