

Audit of Accounts Report – Blaenau Gwent County Borough Council

Audit year: 2020-21

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

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Audit of Accounts Report

Introduction

- 1 We summarise the main findings from our audit of your 2020-21 accounts in this report.
- 2 We have already discussed these issues with the Chief Officer – Resources.
- 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 £2,6m 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 pay £1k
 - Related Parties £100k
- 6 We have now completed this year’s audit
- 7 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. There are no relationships between ourselves and yourselves that we believe could undermine our objectivity and independence.
- 8 My report on the financial statements, dated 8 November 2021, contained an audit opinion on the 2020-21 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.
- 9 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 2020-21 financial statements can therefore be closed.
- 10 The issues in this report have remained unchanged from our report considered by the Council’s Audit Committee in November 2021.

Impact of COVID-19 on this year’s audit

- 11 The COVID-19 pandemic has had a significant impact on all aspects of our society and continues to do so. You are required by law to prepare accounts and it is of considerable testament to the commitment of your accounts team that you have succeeded in doing so this year in the face of the challenges posed by this pandemic. We are extremely grateful to the professionalism of the team in supporting us to complete our audit in such difficult circumstances.
- 12 The pandemic has unsurprisingly affected our audit and we summarise in **Exhibit 1** the main impacts. Other than where we specifically make recommendations, the detail in **Exhibit 1** is provided for information purposes only to help you understand the impact of the COVID-19 pandemic on this year’s audit process.

Exhibit 1 – impact of COVID-19 on this year’s audit

Electronic signatures	Due to the restrictions arising from the COVID-19 pandemic, Audit Wales have accepted electronic signatures supported by e-mail confirmations from the relevant officers.
Audit evidence	<p>In previous years, the audit team would have accessed both paper and electronic working papers and supporting audit evidence whilst working at the Council offices. However, due to the working restrictions arising from COVID-19, we have devised alternative audit methodologies to obtain and confirm the validity of appropriate audit evidence. This has included:</p> <ul style="list-style-type: none">• officers provided electronic working papers in accordance with our agreed Audit Deliverables Report using Inflo;• officers provided audit evidence to the audit team via secured e-mail;• officers were available by video conferencing for discussions, and for the sharing of on-screen information/evidence; and• officers secured remote read-only access to the Financials ledger and Northgate system which enabled the audit team to run reports and view evidence

- 13 We will be reviewing what we have learned for our audit process from the COVID-19 pandemic and whether there are innovative practices that we might adopt in the future to enhance that process.

Proposed audit opinion

- 14 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**.
- 15 We issue a ‘qualified’ audit opinion where we have material concerns about some aspects of your accounts; otherwise we issue an unqualified opinion.
- 16 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards.
- 17 Our proposed audit report is set out in **Appendix 2**.

Significant issues arising from the audit

Uncorrected misstatements

- 18 The remaining uncorrected misstatements in the accounts are both individually and cumulatively below our trivial level.

Corrected misstatements

- 19 There were initially misstatements in the accounts that have now been corrected by management. These are provided for your information at Appendix 3.
- 20 In addition, a number of narrative disclosures, comparative figures and references within the accounts were corrected to ensure their accuracy.

Other significant issues arising from the audit

- 21 In the course of the audit, we consider a number of matters relating to the accounts and report any significant issues arising to you. In 2019-20 we reported concerns over the following:
- the quality of draft financial statements;
 - the standard of quality control procedures in the preparation of the financial statements; and
 - the quality and timeliness of audit evidence and working papers

We are pleased to report that we have seen a significant improvement to these areas during the 2020-21 audit.

- 22 We would highlight one area for improvement this year, and this is detailed in **Exhibit 2** below:

Exhibit 2 – significant issues arising from the audit

Some assets are held at the incorrect historic cost value within the fixed asset register, leading to a misstatement of the adjustment between the Capital Adjustment Account and the Revaluation Reserve.

We have previously reported that your Fixed Asset Register records the incorrect historic cost for some assets. This has led to errors in the accounting adjustment between the Capital Adjustment Account and the Revaluation Reserve.

Both the Capital Adjustment Account and Revaluation Reserve are unusable reserves, and any potential misstatement between these reserves would not affect the usable reserves held by the Council.

Management agreed to review and correct the historic costs for 2020-21. However, finance staff have stated that due to the on-going Covid19 pandemic and associated pressures on staffing this has not been completed.

During the audit, finance officers undertook work to confirm to us that neither reserve is materially misstated. This work resulted in the Council identifying a potential misstatement of £370k based on a review of 73% of the value of the asset base. After review and testing of the work undertaken, we agree with this conclusion.

However, to ensure that accuracy of the records kept for assets, and to ensure no future material misstatement to the reserves, the Council should identify and correct the value of the assets within the Fixed Asset Register within the next financial year.

See recommendation 1 in **Appendix 4** for further details.

Post Balance Sheet Events

- 23 During the year the Chief Officer - Resources brought to our attention the intent of the Council to accept a £70m loan, which was to be provided by the Welsh Government for the development of the Ebbw Vale rail line. The loan was to be provided on the basis that the Council entered into a suitable agreement with the other key partners, or the loan was to be repaid.
- 24 At the time when the initial draft of the accounts was being completed, an agreement had not been reached between all parties, therefore the loan was accounted for as a short- term borrowing, owing to the clause outlined above.
- 25 An agreement was reached and signed between the partners during the audit. Consequently, this resulted in an adjusting post balance sheet event, with £70m being moved from short-term borrowing to grants and long-term borrowing.

Recommendations

- 26 The recommendations arising from our audit are set out in **Appendix 4**. Management has responded to them and we will follow up progress against them during next year's audit. Where any actions are outstanding, we will continue to monitor progress and report it to you in next year's report.

Appendix 1

Suggested Letter of Representation

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

2 November 2021

Representations regarding the 2020-21 financial statements

This letter is provided in connection with your audit of the financial statements (including that part of the Remuneration Report that is subject to audit) of Blaenau Gwent County Borough Council for the year ended 31 March 2021 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; in particular the financial statements give a true and fair view in accordance therewith; and
- the design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

Information provided

We have provided you with:

- full access to:
 - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;
 - additional information that you have requested from us for the purpose of the audit; and

- unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- our knowledge of fraud or suspected fraud that we are aware of and that affects the Council and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements.
- our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others.
- our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
- the identity of all related parties and all the related party relationships and transactions of which we are aware.

Financial statement representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

The financial statements are free of material misstatements, including omissions. The effects of uncorrected misstatements identified during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Representations of those charged with governance

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by the audit committee on 2 November 2021.

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 (director only for companies)]

Date:

Appendix 2

Proposed Audit Report

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 2021 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 2020-21.

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 2021 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 2020-21.

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 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 2020-21;

- 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 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 8 November 2021 contained an audit opinion on the 2020-21 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

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
£3,530k (Income) £3,263k (Expenditure)	The Council acted as an agent for the Welsh Government by administering the NNDR Rate Relief grant which was available to businesses during the Covid19. The Council had incorrectly accounted for this within their Income and Expenditure within the first draft of the accounts.
£3,049k	An error within the Fixed Asset Register system resulted in revaluation movements being incorrectly posted, leading to an overstatement of the Revaluation Reserve and an understatement of the Capital Adjustment Account.
£2,565k (transfers from) £3,300k (transfers to)	The overall movement to the Capital Grants Unapplied account was disclosed correctly as £735k, however disclosures of movements to and from the account had been understated.
Ratio corrected to 1:4.38	The remuneration ratio per the first draft of the accounts had not been updated from 2019-20 value of 1:4,47, and therefore required correction to 1:4.38.

Appendix 4

Recommendations

We set out all the recommendations arising from our audit with management's response to them. We will follow up these next year and include any outstanding issues in next year's audit report:

Exhibit 4: matter arising 1

Matter arising 1 – Historic cost values within the fixed asset register	
Findings	We found that some assets were held at the incorrect historic cost value within the fixed asset register.
Priority	High
Recommendation	The Council should identify the cause of the incorrect values in the fixed asset register and correct any values affected by the issue.
Benefits of implementing the recommendation	By implementing our recommendation, the Council will ensure accurate records are kept for all assets.
Accepted in full by management	Yes
Management response	Further to work undertaken to confirm that the Accounts were not materially misstated as a result of errors in Historic Cost Valuations, asset records will be reviewed and corrected where necessary. This will form the first phase of transition to a new Asset Register module to be implemented ahead of the closure of accounts for 2021/2022.
Implementation date	31 March 2022



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