

Audit of Financial Statements Report – Blaenau Gwent County Borough Council

Audit year: 2017-18

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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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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 on behalf of 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 2018 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 £2,555,850. 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 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 2017-18, that require reporting under ISA 260.

Status of the audit

- 6 We received the draft financial statements for the year ended 31 March 2018 on 29 June 2018, in line with the agreed deadline, and have now substantially 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 We are continuing to examine a number of other matters relating to the Council's historic relationship with SVWS that we will report on in due course. Our audit of the Council's 2017-18 financial statements has therefore not yet been closed.

However, we do not consider that any of the ongoing matters to be material to the Auditor General's opinion on the Council's financial statements and the audit opinion can therefore be provided.

- 10 We are reporting to you the more significant issues arising from the audit of the financial statements, which we believe you must consider prior to approval of the financial statements. The audit team has already discussed these issues with Council officers.

Proposed audit report

- 11 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**.
- 12 The Auditor General intends to modify the standard audit report in respect of employer pension contributions of £4,814 included within the Senior Officers' Remuneration report. These payments are considered to be material by their nature (as explained in **paragraph 3**).
- 13 The payments relate to the appointments of the Council's then Chief Finance Officer and its Corporate Director of Environment & Regeneration (the officers) 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.
- 14 The officers concerned each received remuneration of £11,195.77 for the performance of their SVWS roles. The Council administered the payments through its payroll and invoiced SVWS to recover these costs. In administering the SVWS director remuneration, the Council treated the remuneration as pensionable within the Local Government Pension Scheme (LGPS) and in 2017-18 paid employer pension contributions totalling £4,814 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.
- 15 We consider that the employer pension contributions of £4,814 made by the Council to the LGPS appear to be contrary to law. For pension purposes, the Council treated the remuneration paid to the officers in respect of the SVWS director appointments as though the officers concerned were undertaking the SVWS roles as part of their core Council duties.
- 16 The Council did not establish adequate governance arrangements around the SVWS director appointments and related remuneration to enable us to determine definitively whether the appointments were Council or SVWS employments for pension purposes. However, we consider it likely that the employer pension contributions the Council made to the LGPS in respect of these appointments were contrary to law for the reasons set out below:

- The Council's constitution required that chief officer pay be determined by members meeting as full Council. However, members were not asked to approve the amount of remuneration to be paid for undertaking the roles as SVWS directors, or that any remuneration be treated as pensionable pay.
- The Council could not lawfully incur pension costs relating to SVWS engagements, and the SVWS engagements appear to have been SVWS engagements. The Council did not formally agree their SVWS roles as part of the officers' Council duties or determine the amount of remuneration to be paid for the role. Furthermore, in 2017, the Council wrote to the officers concerned stating that the SVWS roles were separate engagements, and that remuneration for these roles did not constitute additional remuneration for performing their core duties as Council officers.
- Regulation 22 (2) of the Local Government Pension Scheme Regulations 2013 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. We consider that the SVWS engagements appears to be separate scheme employments from the officers' core Council employments. However, separate pension accounts were not opened, and the Council treated the two engagements as a single employment for pension purposes.
- In December 2019, the Council wrote to SVWS requesting repayment of the employer pension costs on the basis that these costs should be considered to relate to SVWS employments and the liability for these costs should be borne by SVWS. However, we note that SVWS never designated its directors as a class of employees eligible for membership of the LGPS, and without this designation, SVWS could not lawfully make payments to the LGPS in respect of its directors, nor could the Council do so on SVWS's behalf. SVWS has not repaid the amount requested.

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

Significant issues arising from the audit

18 The most significant issue identified during the audit is detailed in paragraphs 12-16 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

19 There are no misstatements identified in the financial statements, which remain uncorrected.

Corrected misstatements

- 20 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

- 21 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 22 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

Requested Letter of Representation

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

[Date]

Representations regarding the 2017-18 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 2018 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:

[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

Auditor General for Wales' report to the Members of Blaenau Gwent County Borough Council

I have audited the accounting statements and related notes of:

- Blaenau Gwent County Borough Council; and
- Blaenau Gwent County Borough Council Group;

for the year ended 31 March 2018 under the Public Audit (Wales) Act 2004.

Blaenau Gwent County Borough Council's accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet and the Cash Flow Statement.

Blaenau Gwent County Borough Council's Group accounting 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.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 based on International Financial Reporting Standards (IFRSs).

Respective responsibilities of the responsible financial officer and the Auditor General for Wales

As explained more fully in the Statement of Responsibilities for the Statement of Accounts [set out on page 18 of the Statement of Accounts], the responsible financial officer is responsible for the preparation of Blaenau Gwent County Borough Council's statement of accounts, and Group accounting statements, which give a true and fair view.

My responsibility is to audit the accounting statements and related notes in accordance with applicable law and International Standards on Auditing (UK). Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors.

Scope of the audit of the accounting statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements and related notes sufficient to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Blaenau Gwent County Borough Council and Blaenau Gwent County Borough Council Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates

made by the responsible financial officer and the overall presentation of the accounting statements and related notes.

In addition, I read all the financial and non-financial information in the Narrative Report to identify material inconsistencies with the audited accounting statements and related notes and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Opinion on the accounting statements of Blaenau Gwent County Borough Council

In my opinion except for the effect on the financial statements of the matter 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 as at 31 March 2018 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18.

Opinion on the accounting statements of Blaenau Gwent County Borough Council Group

In my opinion except for the effect on the financial statements of the matter 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 Group as at 31 March 2018 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18.

Basis for Qualified Opinion

In Note 14.3, Senior Officers' Remuneration, the Council includes pension payments totalling £4,814 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)). 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 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.

Opinion on other matters

In my opinion, the information contained in the Narrative Report is consistent with the accounting statements and related notes.

Matters on which I report by exception

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;
- the accounting 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; and
- the Governance Statement does not reflect compliance with guidance.

Certificate of completion of audit

I am unable to certify that I have completed the audit of the accounts of Blaenau Gwent County Borough Council, as I have ongoing work in relation to concerns raised in correspondence in respect of Silent Valley Waste Services Ltd.

Adrian Crompton
Auditor General for Wales
[Date]

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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
£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.

Value of correction	Nature of correction	Reason for correction
£1,187,000	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.
£1,169,000	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.
£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.
£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.

Value of correction	Nature of correction	Reason for correction
£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.
£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.

Value of correction	Nature of correction	Reason for correction
£70,000	Reduction in the Members' Allowances figure.	To ensure consistency with prior years, in which employers' pension contributions had not been included.



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