



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Management Letter for 2018-19 – **Rhondda Cynon Taf County Borough Council**

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Summary report

Introduction

- 1 The financial statements are an essential means by which Rhondda Cynon Taf County Borough Council (the Council) accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources. The Auditor General's Code of Audit Practice identifies that it is the responsibility of the audited body to:
 - put in place systems of internal control to ensure the regularity and lawfulness of transactions;
 - maintain proper accounting records; and
 - prepare financial statements in accordance with relevant requirements.
- 2 As auditors, we are required to audit the financial statements and to issue an auditor's report which includes an opinion on whether the financial statements give a 'true and fair' view of the state of affairs of the Council. The auditor's report also gives our opinion on whether the financial statements have been prepared properly in accordance with relevant legislation, directions or regulations, and applicable accounting standards.
- 3 The Auditor General also reports by exception if:
 - the Annual Governance Statement does not reflect compliance with guidance;
 - adequate accounting records have not been kept;
 - financial statements are not in agreement with accounting records and returns;
 - all the information and explanations required for audit have not been received.

The Auditor General issued an unqualified opinion on the 2018-19 financial statements of Rhondda Cynon Taf County Borough Council

- 4 On 31 July 2019, the Auditor General issued an unqualified auditor's report on the financial statements.
- 5 We received the draft financial statements for the year ended 31 March 2019 on 31 May 2019 in line with the agreed deadline. The draft financial statements were of a good quality. Audit amendments to the draft financial statements are listed in [Appendix 2](#) to this report.
- 6 In undertaking our audit of the financial statements, we review the Council's financial systems used to produce the financial statements. This involves obtaining an understanding of its key financial systems and controls and, where necessary, testing the operation of those controls.

- 7 We concluded that the Council's key financial systems can be relied upon to produce materially correct outputs.
- 8 We have already reported the more significant issues to those charged with governance in our **Audit of the Financial Statements** presentation at Full Council on 31 July 2019. A summary of the findings is set out in **Exhibit 1**. This report sets out our detailed recommendations in **Appendix 1** relating to those issues and other less significant issues identified from our audit.

Exhibit 1: Audit of Financial Statements Report to those charged with governance

Reporting requirement	Audit findings
Uncorrected misstatements	<p>There was an uncorrected misstatement. The misstatement relates to joint committees and was reported to Full Council on 31 July 2019.</p> <p>As part of our audit planning, finance staff discussed with us their continued intention not to consolidate all joint committee figures into RCT CBC's accounts. They did so on the basis that none of the joint committees' figures would be material individually or collectively. We confirmed that was the case, and consequently had no impact upon our audit opinion.</p> <p>The joint committees that were not consolidated on the ground of materiality were Glamorgan Archives; Vale, Valleys and Cardiff Regional Adoption Collaborative; Coychurch Crematorium and Llwydcoed Crematorium.</p> <p>The total expenditure for these Committees was £1.3 million, total income was £1.6 million and balance sheet figures of £5.9 million.</p>
Corrected misstatements	<p>There were two material misstatements identified that have been amended and need to be brought to your attention, these were:</p> <ul style="list-style-type: none"> • As a result of the McCloud pension legal case, there is a probable additional cost payable to the Pension Fund. This has been estimated at £20 million and increases the overall Pension Fund liability to £609 million (£612 million 2017-18). This had no impact upon the usable reserves of the Council and will be considered as part of future Pension Fund valuations. • The depreciation on Infrastructure assets was originally overstated by £11.4 million and correspondingly the Net Book Value understated. This was the result of a manual error rather than an inherent system weakness. There was no impact upon the usable reserves of the Council. <p>A number of other misstatements were corrected by management. See Appendix 2 for details.</p>

Reporting requirement	Audit findings
Early closing requirements	<p>For 2018-19 the Council prepared draft financial statements by 31 May 2019, already meeting the 2020/21 deadline. Finance staff made great progress in producing these, without sacrificing their quality. There are still areas which could be improved, and we will continue to work with the Council to take these areas forward.</p> <p>The Council also needs to consider its governance arrangements around the accounts process, to ensure the meeting dates of those charged with governance (currently Full Council) allow the deadlines to be met.</p>

Appendix 1

Recommendations from our 2018-19 audit work

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 2: Matter arising 1

Matter arising 1 – current audit arrangements for the provision of HR and payroll information impacts on audit efficiency	
Findings	We make the following observations: <ul style="list-style-type: none">• there were significant delays, up to many weeks in some instances, for the provision of information from the HR department.• access to the payroll information is currently done via payroll officers only, and we are not permitted to have any information in hard copy. This is therefore time intensive for both Council officers and the audit team.• there were issues around information sharing and GDPR.
Priority	High
Recommendation	Agree an information-sharing protocol between Wales Audit Office and the Council for payroll and HR, and ensure all staff are aware of it.
Benefits of implementing the recommendation	Audit process will be more efficient.
Accepted in full by management	Yes
Management response	Council officers and the Wales Audit Office to agree information-sharing protocol.
Implementation date	31 December 2019

Exhibit 3: Matter arising 2

Matter arising 2 – administrative issues regarding the set up of IT remote access for Wales Audit Office staff impacted on audit efficiency	
Findings	Administrative issues within the Council's IT section caused delays in granting Wales Audit Office staff with remote access to the financial systems and secure shared drive.
Priority	High
Recommendation	Agree an IT access protocol and ensure all relevant IT support staff are aware of the process and required timescales.
Benefits of implementing the recommendation	The audit will be more efficient and less time intensive for all staff involved in the process.
Accepted in full by management	Yes
Management response	Council officers and the Wales Audit Office to agree IT access protocol.
Implementation date	31 December 2019

Exhibit 4: Matter arising 3

Matter arising 3 – agreed deadlines for audit deliverables to be re-assessed	
Findings	For 2018-19 year, a deliverables document was created in collaboration with the Council's Final Accounts team. Timescales were agreed for the working papers to be provided to the Wales Audit Office. This process was piloted for 2018/19 and needs to be further developed in future years to improve efficiency of audit.
Priority	Low
Recommendation	The deliverables timescales be revisited to ensure they are more in line with the actual date that information can be provided, so as to co-ordinate the audit work more efficiently.
Benefits of implementing the recommendation	Provides clarity for the Council and the Wales Audit Office as to the timescale the working papers will be available.
Accepted in full by management	Yes
Management response	Council officers and the Wales Audit Office to agree amended content of deliverables document.
Implementation date	31 January 2020

Exhibit 5: Matter arising 4

Matter arising 4 – improved quality control procedures would enhance the quality of the accounts and working papers	
Findings	<p>We identified the following issues:</p> <ul style="list-style-type: none"> • Creditors' Note 10 included a categorisation transposition error of £9 million. Other local authority creditors was understated and other entities was overstated within Note 10. • The employee benefits in Note 20.2 was based on a report which included costs that should not have been included. • A revaluation processed within Technology Forge asset register had been incorrectly allocated between the land and buildings element of the asset. • The depreciation, amortisation and impairment within Note 20.2 did not agree to corresponding accounts entries in some instances. • Note 20.1, adjustments between funding basis and accounting basis required amendment as amounts did not agree to corresponding accounts entries in some instances. • Note 18, Cash Flow statement – Investing Activities required amendment as amounts did not agree to corresponding accounts entries in some instances. • Leases note 30.1(c), 30.2 and 30.3 have not been stated in accordance with the CIPFA Code of Practice.
Priority	High
Recommendation	Quality assurance review processes to be reviewed to introduce controls that would mitigate errors of this nature recurring.
Benefits of implementing the recommendation	Accounts and working papers produced would be of better quality.
Accepted in full by management	Yes
Management response	Quality assurance will be further enhanced.
Implementation date	31 May 2020

Exhibit 6: Matter arising 5

Matter arising 5 – errors identified during our work on remuneration	
Findings	<p>We identified the following issues in relation to our work on payroll and remuneration:</p> <ul style="list-style-type: none"> • The source data used for the calculation of the median pay and remuneration ratio was not in accordance with the CIPFA Code of Practice. • We identified one officer who was being paid on a pay scale that was not a current pay scale within the Council.
Priority	Medium
Recommendation	<ul style="list-style-type: none"> • The Council review their processes for producing the source data, to ensure CIPFA Code of Practice compliance. • The officer be transferred to a current, appropriate pay scale.
Benefits of implementing the recommendation	<ul style="list-style-type: none"> • The source data will be CIPFA Code of Practice compliant. • The officer will be allocated to a current pay scale.
Accepted in full by management	Yes
Management response	Both recommendations will be implemented.
Implementation date	31 December 2019

Exhibit 7: Matter arising 6

Matter arising 6 – issues were identified with the source data held on the Technology Forge fixed asset system	
Findings	<p>During the audit of Note 6, Property, Plant and Equipment, we identified the following within the Technology Forge asset register:</p> <ul style="list-style-type: none"> • five assets totalling £1.875 million were misclassified as Buildings instead of Land; and • twelve assets were identified that had been classified with an inappropriate valuation basis. <p>There is no impact on the values within the financial statements.</p>
Priority	Low
Recommendation	A quality assurance review of the asset register be undertaken.
Benefits of implementing the recommendation	Assets will be classified correctly and stated on the appropriate valuation basis within the asset register.

Matter arising 6 – issues were identified with the source data held on the Technology Forge fixed asset system	
Accepted in full by management	Agreed
Management response	Quality assurance of the Asset Register to be further enhanced.
Implementation date	31 May 2020

Exhibit 8: Matter arising 7

Matter arising 7 – creditor balances included an amount outstanding since 2005	
Findings	We identified a balance within creditors that had not changed in value since 2005. The balance of £20,157 and related to a bequest for a residential home. It was misclassified as a short-term creditor.
Priority	Low
Recommendation	A review be undertaken to identify any balances within creditors that have remained unchanged since the previous years. These should then be investigated as to why they are still outstanding, and whether they are correct to be classified as short-term creditors.
Benefits of implementing the recommendation	Balances within the balance sheet will be correctly classified as long-term or short-term liabilities, and to assess if there is still a liability payable. Bodies who are the recipient of the bequest should be informed, so the funds can be used as intended in the bequest.
Accepted in full by management	Agreed
Management response	Unchanged balances to be reviewed
Implementation date	31 May 2020

Exhibit 9: Matter arising 8

Matter arising 8 – a prepayment had not been accounted for in accordance with the Council’s closing plan.	
Findings	We identified a transaction for a school relating to 2019-20 in the 2018-19 financial statements, with no prepayment accounted for. Per the closing plan issued by the closing team, the prepayment accounting threshold was £1,000. The value of this transaction was £13,126.03.
Priority	Low
Recommendation	Officers be reminded of the importance of ensuring that transactions are recorded in the correct financial year.
Benefits of implementing the recommendation	Actual spend versus Budget will be able to be accurately monitored for the financial year. The Council’s closing plan will be complied with.
Accepted in full by management	Agreed
Management response	Information to be provided to all relevant staff as part of the Closing pack.
Implementation date	31 January 2020

Appendix 2

Summary of corrections made to the draft financial statements

Exhibit 10: summary of corrections made to the draft financial statements

Value of correction	Nature of correction	Reason for correction
£19,630,000	Increase in past service cost charges and pension liability and reserve.	Following the McCloud pension case ruling at the Supreme Court, a probable additional liability has arisen for all pension schemes of a similar type.
£11,384,156	Decrease in depreciation annual charge. Infrastructure assets value was increased, cost of service expenditure was decreased.	This was the result of a manual error on the underlying accounting records, rather than an inherent system weakness.
£2,265,187	Cost of service income and expenditure were both reduced.	Internal recharges for Fleet had not been accounted for in accordance with the requirements of the CIPFA Code of Practice.
£857,600	Net cost of service expenditure increased. Land & buildings and capital adjustment account decreased.	An asset revalued in year had been double counted in the revaluation calculation.

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