

Archwilydd Cyffredinol Cymru
Auditor General for Wales



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Audit of Financial Statements Report and Management Letter

Central South Consortium Joint Education Service Joint Committee

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This document summarises the conclusions on the 2015-16 audit including our recommendations for the year. The Auditor General intends to issue an unqualified audit report on your financial statements. There are some issues to report to you prior to their approval.

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Introduction

1. The purpose of this report is twofold:
 - to set out for consideration the matters arising from the audit of the financial statements of Central South Consortium Joint Education Service Joint Committee, for 2015-16, that require reporting to those charged with governance, in time to enable appropriate action; and
 - to formally communicate the completion of our audit and capture the recommendations arising from our audit work for the year.
2. The Auditor General's responsibilities were set out in our Audit Plan for Rhondda Cynon Taf County Borough Council along with your responsibilities as those charged with governance; we do not repeat them in detail again here.
3. We are grateful to finance staff and particularly the Senior Accountant for their assistance, good quality working papers and draft accounts provided during the course of our audit.
4. 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 Central South Consortium Joint Education Service Joint Committee at 31 March 2016 and its income and expenditure for the year then ended.
5. 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.
6. The quantitative levels at which we judge such misstatements to be material for Central South Consortium Joint Education Service Joint Committee are £1,741,000 for income and expenditure items and working capital balances. 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.

Status of the audit

7. We received the draft financial statements for the year ended 31 March 2016 on 30 June, which met the submission deadlines and have now substantially completed the audit work.
8. We are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. The audit team has already discussed these issues with the Joint Committee accountant, the Business Manager and the Managing Director.

Proposed audit report

9. It is the Auditor General's intention to issue an unqualified audit report on the financial statements once you have provided us with a Letter of Representation based on that set out in [Appendix 1](#).
10. The proposed audit report is set out in [Appendix 2](#).

Significant issues arising from the audit

Uncorrected misstatements

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

Corrected misstatements

12. 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](#).

Other significant issues arising from the audit

13. In the course of the audit, we consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you.
[Accounting for Redundancy Costs](#)
14. In 2014-15 the Joint Committee approved redundancy costs of £1.39 million. £0.63 million was released from existing reserves, to fund part of this cost, and a debtor was raised with the constituent Unitary Authorities for the remaining £0.76million.
15. You disclosed that the £0.76 million would be repaid at a rate of £100,000 a year, and consequently would be fully cleared by 2022/23.
16. In 2015-16 a further £291,000 of redundancy costs were incurred and disclosed in the draft accounts. Our audit work identified a further £104,000 of redundancy costs that were not accounted for in the 2015/16 draft accounts, but should have been (as the decision to approve these redundancy costs had been made by 31 March 2016). The financial statements have been adjusted to include this omission. To substantiate the increase in the debtor, we have requested that the Joint Committee approve the revised debtor as being valid and falling upon the constituent bodies prior to issuing our audit opinion.
17. The initial arrangement sought to collect the debtor over eight years. The agreed annual payment profile of the debtor has remained at £100,000, which means that with the additional costs this year, it would now take until 2026-27 to repay the debt in

relation to redundancy costs. This is considered to be a long period over which to repay this type of cost. The Joint Committee and Section 151 Officer should consider if they are content that the current arrangement demonstrates sound financial governance and stewardship.

Recommendations arising from our 2015-16 audit work

18. The recommendations arising from our audit work are set in [Appendix 4](#). Management has responded to them and we will follow up progress on 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.

Independence and objectivity

19. As part of the finalisation process, we are required to provide you with representations concerning our independence.
20. We have complied with ethical standards and in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between the Wales Audit Office and Central South Consortium Joint Education Service Joint Committee that we consider to bear on our objectivity and independence.

Final Letter of Representation

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

29 September 2016

Representations regarding the 2015-16 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 the Central South Consortium Joint Education Service Joint Committee for the year ended 31 March 2016 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 the Code of Audit Practice; in particular the financial statements give a true and fair view in accordance therewith.
- The design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

Information provided

We have provided you with:

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

- unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
- The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- Our knowledge of fraud or suspected fraud that we are aware of and that affects the Central South Consortium Joint Education Service Joint Committee 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 by those charged with governance.

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

We acknowledge our responsibility for ensuring that the company maintains adequate accounting records.

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 Central South Consortium Joint Education Service Joint Committee on 29 September 2016

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:
S151 Officer
Date:

Signed by:
Chair of the Joint Committee
Date:

Auditor General for Wales' report to the Members of the Central South Consortium Joint Education Service Joint Committee

I have audited the accounting statements and related notes of the Central South Consortium Joint Education Service Joint Committee for the year ended 31 March 2016 under the Public Audit (Wales) Act 2004.

Central South Consortium Joint Education Service Joint Committee accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet and the 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 2015-16 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 8, the responsible financial officer is responsible for the preparation of the statement of accounts, which gives 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 and Ireland). 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 Central South Consortium Joint Education Service Joint Committee 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 Explanatory Foreword 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 Central South Consortium Joint Education Service Joint Committee

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Central South Consortium Joint Education Service Joint Committee as at 31 March 2016 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 2015-16.

Opinion on other matters

In my opinion, the information contained in the Explanatory Foreword 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;
- the Governance Statement does not reflect compliance with guidance.

Certificate of completion of audit

I certify that I have completed the audit of the accounts of Central South Consortium Joint Education Service Joint Committee in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

For and on behalf of
Huw Vaughan Thomas
Auditor General for Wales
29 September 2016

Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

Summary of corrections made to the draft financial statements which should be drawn to the attention of the Members of the Central South Consortium Joint Education Service Joint Committee

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.

Value of correction	Nature of correction	Reason for correction
£726,000	Cash and creditors to be amended to reflect corrected year-end creditor balance. Text to be added to clarify where the cash balance is held (RCT).	Text improves clarity to the users of the accounts.
£1,071,000	In 2014-15 £1,071,000 was included in Office expenses whereas in 2015-16 it was included in Grants paid to LAs/Schools.	Reclassification of expenditure for consistency and comparability.
£291,000	Reclassification of various items:	To ensure the accounts comply with the Code.
£200,000	<ul style="list-style-type: none"> office expenses contain expenditure that should be classified as EIG payments; reclassification of grant payments: School challenge Cymru (£200,000), EIG +£158,000, Other +£48,000; 	
£267,000	<ul style="list-style-type: none"> reclassification of funding from Grants to School income of £267,000; and 	
£161,579	<ul style="list-style-type: none"> reclassification of income from Grants to other. 	
N/A	Additional note 7.1 inserted to expand on changes to grant funding in 2015-16.	To assist in disclosure requirements of the code.
£104,000	Various amendments as a result of omitted redundancy costs of £104,000: <ul style="list-style-type: none"> redundancy costs in Note 12 to increase to £395,000; long-term debtor to increase to £957,000; 	To ensure the accounts comply with the Code and are consistent throughout.

Value of correction	Nature of correction	Reason for correction
	<ul style="list-style-type: none"> Note 7 additional contributions to be increased to £295,000; additional wording required to explain full nature and length of term of the funding arrangement to wind down long-term debtor of £957,000; and Update Note 23 Severance costs to include additional £104,000 costs. 	
<p>£22,000,000</p> <p>£100,000</p> <p>£1,000</p> <p>£1,000</p>	<p>Short-Term Debtors</p> <ul style="list-style-type: none"> reclassification of £22 million from Central Government to Host Authority; reclassification of £100,000 from Host Authority to Local Authorities and Schools; bad debt provision should be revised to £1,000; and £1,000 to be added to Central Government debtors. 	<p>To ensure the accounts comply with the Code.</p>
<p>N/A</p>	<p>Officers' Remuneration</p> <ul style="list-style-type: none"> Senior officers have been excluded from Note 22 main table; leavers have been recalculated to take redundancy and pension strain into consideration resulting in two additional employees added to table; general omissions and calculation errors recalculated; one staff member removed from Senior Staff table as not considered senior employee as per regulations; and note should refer to Group Director who signs accounts is absent as they are an employee of Rhondda Cynon Taf County Borough Council. 	<p>To ensure the accounts comply with the Code.</p>
<p>N/A</p>	<p>A number of narrative, presentational and casting/cross casting amendments were identified.</p>	<p>To ensure the accounts comply with the Code.</p>

Value of correction	Nature of correction	Reason for correction
N/A	<p>Retirement Benefits</p> <p>A number of wording amendments were identified to improve compliance with the Code.</p> <p>Adjustment to change Teachers' Pension scheme contribution rate to 15.1% in 2015-16.</p>	<p>To ensure the accounts comply with the Code and agree to underlying records.</p>
N/A	<p>A number of adjustments required to the Movement in Reserves Statement resulting from audit errors identified elsewhere in the accounts.</p>	<p>To ensure the accounts comply with the Code and information is consistent throughout.</p>

Recommendations arising from our 2015-16 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:

Matter arising 1 – Expenditure Coding

Findings	Items of Programme expenditure coded to Office costs.
Priority	Medium
Recommendation	To include a separate code for Programme costs. This would remove certain elements from Office Costs ensuring that items disclosed are better categorised.
Benefits of implementing the recommendation	This will improve the disclosure of expenditure in terms of usefulness to the users of accounts and better separate relevant items.
Accepted in full by management	Agreed
Management response	Arrangements to be made to add a new category into the 2016-17 accounts to improve transparency of the categorisation of costs.
Implementation date	September 2016

Matter arising 2 – Related Party Transactions

Findings	No review undertaken of Material related party transactions connected to Senior Officers and Members.
Priority	High
Recommendation	To undertake an annual exercise to identify related party transactions.
Benefits of implementing the recommendation	This will ensure full compliance with the Code in relation to Related Party Transactions disclosure requirements.
Accepted in full by management	Agreed
Management response	Process to be added to the closing of accounts process for 2016-17.
Implementation date	March 2017

Matter arising 3 – Off payroll Engagements

Findings	Government changes to company responsibilities due to change for 2016-17. It is considered prudent that management undertake a review of the arrangements to ensure they fully comply with a change to legislation surrounding the responsibilities of employers with regards to the tax and NI payments of off payroll employees.
Priority	High
Recommendation	Management
Benefits of implementing the recommendation	Ensure compliance with legislation.
Accepted in full by management	Agreed
Management response	Consortium to arrange a meeting with the Host Authority's Payroll Manager to determine if any action is needed to ensure compliance with the new legislation.
Implementation date	November 2016

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