

Archwilydd Cyffredinol Cymru
Auditor General for Wales



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Audit of Financial Statements Report

Rhondda Cynon Taf County Borough Council

Audit year: 2015-16

Issued: September 2016

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Status of report

This document has been prepared as part of work performed in accordance with statutory functions.

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Contents

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.

Summary report	
Introduction	4
Status of the audit	4
Proposed audit report	4
Significant issues arising from the audit	5
Recommendations arising from our 2015-16 financial audit work	6
Independence and objectivity	6
Appendices	
Suggested Letter of Representation	7
Auditor General for Wales' report to the Members of the Rhondda Cynon Taf County Borough Council	10
Summary of corrections made to the draft financial statements which should be drawn to the attention of Rhondda Cynon Taf County Borough Council	13

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 Rhondda Cynon Taf County Borough Council (RCTCBC) at 31 March 2016 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 RCTCBC are £7.6 million. 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.
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 RCTCBC for 2015-16, that require reporting under ISA 260.

Status of the audit

6. We received the draft financial statements for the year ended 31 March 2016 on 30 June 2016 in line with the agreed deadline, and have now substantially completed the audit work.
7. 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 Section 151 Officer and his finance team. An accounts report will be issued after the audit has completed, reporting the more detailed findings arising from the audit and making recommendations for improvement.

Proposed audit report

8. 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](#)
9. The proposed audit report is set out in [Appendix 2](#).

Significant issues arising from the audit

Uncorrected misstatements

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

Corrected misstatements

11. 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

12. 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. There is one area which we would draw your attention:

Receipts in Advance

13. Our testing of Creditors within Note 14 to the financial statements identified items accounted for as receipts in advance that, in our view, should have been recognised as income in 2015/16. We identified five such items totalling £1.9 million which have all been adjusted within the financial statements put to you for approval. These items have been moved out of creditors (within the top half of the balance sheet), released to the income and expenditure account and, subsequently, into earmarked reserves (in the bottom half of the balance sheet). Whilst these adjustments have increased the reported surplus on the provision of services reported in the year, they have had no effect on the overall financial resources available to RCTBC.
14. We have satisfied ourselves that there are no material errors of this type within the financial statements. The financial ledger originally contained approximately £3.4 million 'receipts in advance' within the creditors balance. We have tested just over £2 million of this, leaving an untested balance of £1.4 million which is below the level we consider to be material.
15. We will be discussing this issue with the Finance team during 2016-17 and agree a methodology for accounting for this type of transaction and balances going forward. We will make recommendations for improvement in our accounts report, which will follow the completion of our audit.

Recommendations arising from our 2015-16 financial audit work

- 16.** The recommendations arising from our financial audit work will be reported in a separate accounts report, along with the more detailed findings of our work. This will be drafted shortly after we have issued our opinion. This report along with management's responses will be reported to your Audit Committee.

Independence and objectivity

- 17.** As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 18.** 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 RCTCBC that we consider to bear on our objectivity and independence.

Appendix 1

Suggested Letter of Representation

[Audited body's letterhead]

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

[Date]

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 Rhondda Cynon Taf County Borough Council (RCTCBC) 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 Code of Practice on Local Authority Accounting in the United Kingdom 2015-16; 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 RCTCBC 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.

Representations by Rhondda Cynon Taf 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 RCTCBC on 28 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:

[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

Auditor General for Wales' report to the Members of Rhondda Cynon Taf County Borough Council

I have audited the accounting statements and related notes of:

- Rhondda Cynon Taf County Borough Council; and
- Rhondda Cynon Taf County Borough Council Group; and
- Rhondda Cynon Taf Pension Fund;

for the year ended 31 March 2016 under the Public Audit (Wales) Act 2004.

Rhondda Cynon Taf County Borough Council's (RCTCBC) accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, and the Cash Flow Statement.

RCTCBC'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.

Rhondda Cynon Taf Pension Fund's accounting statements comprise the Fund Account and the Net Assets 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 13, the responsible financial officer is responsible for the preparation of the statement of accounts, including RCTCBC's Group accounting statements Rhondda Cynon Taf Pension Fund's accounting statements, 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 RCTCBC's, and RCTCBC Group's and Rhondda Cynon Taf Pension Fund'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 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 RCTCBC

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of RCTCBC 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 the accounting statements of RCTCBC Group

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of RCTCBC Group 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 the accounting statements of Rhondda Cynon Taf Pension fund

In my opinion, the pension fund accounts and related notes:

- give a true and fair view of the financial transactions of Rhondda Cynon Taf Pension Fund during the year ended 31 March 2016 and of the amount and disposition of the fund's assets and liabilities as at that date; 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 Rhondda Cynon Taf County Borough Council 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

Appendix 3

Summary of corrections made to the draft financial statements which should be drawn to the attention of Rhondda Cynon Taf County Borough Council

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
£2,267,670 expenditure £2,196,038 income	Reclassification between Service headings in the comprehensive income and expenditure account.	Expenditure and income had been incorrectly classified as Environment and Regulatory Services and was reclassified to Adult Social Care.
£394,276	Children's and Education Services income and expenditure were reduced to remove internal recharges for goods and services.	Internal income and expenditure had not been accounted for in accordance with requirements of the Code of Practice.
£61,138	Expenditure was reduced to remove internal recharges for loan interest.	Internal recharges for interest to schools had not been accounted for in accordance with requirements of the Code of Practice.
£8,203,722	Reduction for both creditors and debtors to reflect the correct amount recorded in the Pension Fund accounts.	The value in creditors and debtors to be combined to match the balance in the Pension Fund accounts
£1,452,872 – narrative amendment	Narrative amendment was required to increase the costs shown in severance cost note	The severance cost note did not include pension strain costs in relation to teachers.
Various – narrative amendment	Related party disclosures were amended to include creditors. Related party disclosures were amended to exclude transactions with bodies that were no longer related parties.	The related party note had not been prepared in accordance with the requirements of the Code of Practice.
£1,730,926	Short-term creditors were decreased and earmarked reserves (Revenue Grant Reserves IFRS) were increased.	Amounts had been incorrectly categorised in the accounts as short-term creditors. See paragraphs 13-15.
£34,160	Planning Services expenditure was decreased, short-term creditors were decreased and earmarked	This was an internal transfer of funds from Planning to Countryside, See paragraphs 13-15.

Value of correction	Nature of correction	Reason for correction
	reserves (Revenue Grant Reserves (IFRS) were increased.	
£8,000	Culture and Related Services income was increased, short-term creditors decreased and earmarked reserves (Revenue Grant Reserves (IFRS) were increased.	Income for services performed in the year were not recognised in the Comprehensive Income and Expenditure Account.
£199,692	Central Services to the Public Expenditure was decreased, short-term creditors were decreased, and earmarked reserves (Other Specific Reserves) were increased.	See paragraphs 13-15.
Various	Joint Committees had been consolidated twice in to the cash flow statement.	Joint Committees had been double counted.
Various	Audit adjustments in the Central South Consortium Joint Education Service were reflected in the Council accounts. Account areas affected were Children's and Education Services income and expenditure, long-term debtors, short-term creditors and short-term debtors.	Consolidation of the Central South Consortium Joint Education Service was done using the revised accounts.
Various narrative, disclosure and cross reference amendments	Narrative amendments to the financial statements	

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