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Please contact us in Welsh or English.  
Cysylltwch â ni'n Gymraeg neu'n Saesneg.

Councillor Andrew Morgan  
The Leader  
Rhondda Cynon Taf County Borough Council  
The Pavilions  
Cambrian Park  
Clydach Vale  
Mid Glamorgan  
CF40 2XX

**Reference:** 980A2018-19

**Date issued:** 10 December 2018

Dear Cllr Morgan

## Annual Audit Letter – Rhondda Cynon Taf County Borough Council 2017-18

This letter summarises the key messages arising from my statutory responsibilities under the Public Audit (Wales) Act 2004 and my reporting responsibilities under the Code of Audit Practice.

### The Council complied with its responsibilities relating to financial reporting and use of resources

It is the Council's responsibility to:

- put systems of internal control in place to ensure the regularity and lawfulness of transactions and to ensure that its assets are secure;
- maintain proper accounting records;
- prepare a Statement of Accounts in accordance with relevant requirements; and
- establish and keep under review appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Public Audit (Wales) Act 2004 requires me to:

- provide an audit opinion on the accounting statements;

- review the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources; and
- issue a certificate confirming that I have completed the audit of the accounts.

Local authorities in Wales prepare their accounting statements in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. This code is based on International Financial Reporting Standards. On 25 September 2018 I issued an unqualified audit opinion on the accounting statements confirming that they present a true and fair view of the Council's financial position and transactions. My report is contained within the Statement of Accounts.

I issued a certificate confirming that the audit of the accounts has been completed on 25 September 2018.

The key matters arising from the accounts audit were reported to Full Council on 19 September 2018. I reported that the Council had delivered the draft financial statements two months earlier than the statutory deadline of 30 June and that the audit was completed by the statutory deadline of 30 September. We reported that the Council is well placed to meet the upcoming early closing deadlines, and that we are working with officers to take forward this process to ensure that statutory changes to deadlines will be met.

**I am satisfied that the Council has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources but there remains scope for the Council to make further improvements**

My consideration of the Council's arrangements to secure economy, efficiency and effectiveness has been based on the audit work undertaken on the accounts, as well as placing reliance on the work completed under the Local Government (Wales) Measure 2009. Given the wide range of services provided by the Council and the challenges it is facing, it would be unusual if we did not find things that can be improved. The Auditor General did not make any formal recommendations for 2017-18. However, we did make a number of proposals for improvement which were reported to Council in September 2018 in our Annual Improvement Report 2017-18.

### **Local authorities in Wales face significant financial challenges**

Austerity funding remains the most significant challenge facing all local government bodies in Wales and financial pressures are likely to continue for the medium term.

In 2017-18 the Council set and operated within its revenue budget of £459 million, delivering a surplus of £0.386 million, which members agreed to allocate to a reserve earmarked for winter maintenance.

As at 31 March 2018, the Council had useable revenue reserves of £74.9 million (an increase of approximately £1 million). This reflected a Council Fund balance of £10.7 million and other useable revenue reserves of £64.2 million.

For 2018-19, the Council set a budget of £471.6 million. It received a 0.5% increase in the Welsh Government Revenue Settlement and increased Council tax by 3.3%. As at 30 September 2018, the Council is reporting a projected out-turn of £1.3 million overspend. This does not take into account the one-off funding from Welsh Government to support sustainable social services for local government in Wales.

Financial challenges remain over the coming years and the Council's latest Medium Term Financial Strategy Plan for 2018-19 to 2021-22 identifies a budget 'gap' of £36.2 million over the three years 2019-20 to 2021-22 (£9.9 million 2019-20, £13.5 million 2020-21, and £12.8 million 2021-22). This still represents a significant challenge for the Council and we will continue to work with it as it progresses its financial position over the next 12 months.

**My work to date on certification of grant claims and returns has not identified significant issues that would impact on the accounts or key financial systems**

I have begun my audit of the 2017-18 grants. There was a key change this year as a number of previous grants were amalgamated into one Summary Return. I will report the outcomes of our grants work in early 2019 when the programme of certification work is complete. Based on the grants work to date I have not identified any significant issues that would impact on the accounts or key financial systems.

The financial audit fee for 2017-18 is currently expected to be in line with the agreed fee set out in the Annual Audit Plan.

Yours sincerely



Richard Harries

For and on behalf of the Auditor General for Wales

cc Christopher Bradshaw, Chief Executive  
Christopher Lee, Group Director Corporate & Frontline Services and Deputy Chief Executive



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# Management Letter for 2017-18 – **Rhondda Cynon Taf County Borough Council**

Date issued: December 2018

Document reference: 977A2018-19



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[infoofficer@audit.wales](mailto:infoofficer@audit.wales).

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.

# Contents

This document summarises the conclusions on the audit of Rhondda Cynon Taf County Borough Council's 2017-18 financial statements.

**Appendix 1** contains recommendations to Rhondda Cynon Taf County Borough Council's management.

**Appendix 2** contains the corrections that were made to the draft financial statements as part of the audit process.

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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; and
  - all the information and explanations required for audit have not been received.

## The Auditor General issued an unqualified opinion on the 2017-18 financial statements of Rhondda Cynon Taf County Borough Council

- 4 On 25 September 2018, 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 2018 on 31 May 2018 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 19 September 2018. 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 19 September 2018.</p> <p>As part of our audit planning, finance staff discussed with us their continued intention not to consolidate all their 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 Net Cost of Services for these committees was £1.3 million, and Net Assets of £4.5 million.</p>
Corrected misstatements	<p>The corrected misstatement reported to Full Council was in relation to the fixed asset register not always being updated correctly following reports from the Valuer. The impact of this was that the Cost of Service and Revaluation Reserve were both overstated by £7.5 million in 2017-18, which were adjusted. There was also an historic impact which required a transfer between two capital reserves of £13 million, from the Revaluation Reserve to the Capital Adjustment Account. This was also adjusted.</p> <p>Both these adjustments are technical accounting entries and had no impact upon the reported surplus or deficit for the year or in any Usable Reserves of the Council.</p> <p>A number of other misstatements were corrected by management. See <b>Appendix 2</b> for details.</p>



Reporting requirement	Audit findings
Early closing requirements	<p>For 2017-18 the Council prepared draft financial statements by 31 May 2018, already meeting the 2020/21 deadline. Finance staff made great progress in producing these, without sacrificing their quality.</p> <p>There is further work to do though to meet the audit deadlines and we will continue to work with the Council to discuss areas which we can audit prior to 31 May.</p> <p>Some of the misstatements that we identified as part of the audit could, in our view, have been picked up by the Council if it had a more robust Quality Assurance process.</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> <p>The deadlines for the forthcoming years are:</p> <ul style="list-style-type: none"> <li>• Financial statements signed by the responsible finance officer (Section 151 Officer): <ul style="list-style-type: none"> <li>– 2018-19 15 June 2019;</li> <li>– 2019-20 15 June 2020; and</li> <li>– 2020-21 and thereafter 31 May 2021.</li> </ul> </li> <li>• Financial statements approved by the Council and published (with the signed audit certificate or an explanation for its absence): <ul style="list-style-type: none"> <li>– 2018-19 15 September 2019;</li> <li>– 2019-20 15 September 2020; and</li> <li>– 2020-21 and thereafter 31 July 2021.</li> </ul> </li> </ul>

# Appendix 1

## Recommendations from our 2017-18 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

<b>Matter arising 1 – improvements are required in relation to the accounting and recording of Infrastructure assets</b>	
<b>Findings</b>	<p>We identified the following issues in relation to Infrastructure assets:</p> <ul style="list-style-type: none"><li>• Infrastructure is not recorded on an individual asset basis. Therefore, the gross book value recorded will always increase as disposals and impairments are not recorded.</li><li>• Infrastructure is not recorded on a fixed asset register. Records are maintained to calculate depreciation only. Note also that Infrastructure depreciation is calculated on a manual spreadsheet and not on the Council's fixed asset system Technology Forge.</li><li>• There is a difference of £9,386,000 between the gross book value recorded on the infrastructure depreciation records and the gross book assets in the financial statements. The net book values are the same.</li></ul>
<b>Priority</b>	Medium
<b>Recommendation</b>	Infrastructure accounting and recording should be reviewed to address the above issues identified. Consideration should be given to maintaining one fixed asset register for all assets held.
<b>Benefits of implementing the recommendation</b>	<p>The following benefits will be realised:</p> <ul style="list-style-type: none"><li>• when an asset is derecognised, the asset can be removed from the records, as assets are individually identified;</li><li>• depreciation will be appropriately calculated on an individual asset basis; and</li><li>• accounting records will support the financial statement entries.</li></ul>
<b>Accepted in full by management</b>	Agree that the accounting and recording of infrastructure assets needs to be improved .

<b>Matter arising 1 – improvements are required in relation to the accounting and recording of Infrastructure assets</b>	
<b>Management response</b>	Agree that improvements are required in relation to the accounting and recording of infrastructure assets. The long-term aim is to transfer the accounting records from spreadsheets to the Asset Register - Technology Forge (TF). TF is currently being considered for an upgrade to a cloud model and migration from spreadsheets will take place following any upgrade.
<b>Implementation date</b>	May 2019

**Exhibit 3: Matter arising 2**

<b>Matter arising 2 – a small number of assets were incorrectly processed as downward revaluations, rather than disposals</b>	
<b>Findings</b>	Two assets held on the asset register were identified by finance as no longer in existence. These were incorrectly processed as downward valuations rather than disposals. Further audit work was undertaken on this area, which highlighted assets with a gross book value of £1,298,000, which had been classified as downward revaluations, when they should have been classified as disposals.
<b>Priority</b>	Medium
<b>Recommendation</b>	Quality assurance processes should incorporate a check to review that, where assets are no longer in existence, they have been accounted for as disposals.
<b>Benefits of implementing the recommendation</b>	Technology Forge asset register balances will be correctly stated. This in turn will lead to the financial statements correctly reflecting the asset values.
<b>Accepted in full by management</b>	Agree
<b>Management response</b>	We will need to develop QA processes to ensure that assets with a Gross Book Value but a zero Net Book Value are still in existence.
<b>Implementation date</b>	May 2019

Exhibit 4: Matter arising 3

<b>Matter arising 3 – improvements are required for related party disclosures and processes for Councillors and senior officers.</b>	
<b>Findings</b>	<p>During the audit of the related party disclosures, we identified the following issues:</p> <ul style="list-style-type: none"> <li>• Four of the declarations for the Council Members on the Council website were out of date. The members had provided the up to date declarations, but the website had not been updated correctly.</li> <li>• The report run to capture the value of related party transactions was at a point in time and did not agree to the values in the financial systems for the full financial year.</li> </ul>
<b>Priority</b>	High
<b>Recommendation</b>	<ul style="list-style-type: none"> <li>• The Council's written declaration of interest form should be the compulsory mechanism for recording personal interests, and should be returned promptly to the monitoring officer, ensuring that the full financial year is covered by the declaration made.</li> <li>• Quality assurance processes should be strengthened to ensure that declarations of interest held on the Council website for public scrutiny must be the up to date declarations.</li> <li>• The report used to determine the values of the transactions in the related party note should agree to the transactions within the financial statements.</li> </ul>
<b>Benefits of implementing the recommendation</b>	Disclosures will stand up to public scrutiny.
<b>Accepted in full by management</b>	Agree
<b>Management response</b>	<p>Processes have been revised and agreed with Cabinet Office.</p> <p>Both summary and detailed creditor reports will be run at the same time removing the risk of timing differences.</p>
<b>Implementation date</b>	May 2019

Exhibit 5: Matter arising 4

<b>Matter arising 4 – errors were identified in the Remuneration disclosures</b>	
<b>Findings</b>	<p>We identified the following issues when auditing the senior officers remuneration note:</p> <ul style="list-style-type: none"> <li>• two senior officers participated in salary sacrifice schemes and these were not disclosed as benefits in kind; and</li> <li>• pension contributions for two senior officers were incorrectly disclosed as benefits in kind.</li> </ul> <p>The median and remuneration calculations were incorrectly calculated due to the following:</p> <ul style="list-style-type: none"> <li>• the median salary calculation did not include the 1% pay award at 1 April 2017; and</li> <li>• the remuneration ratio and median salary did not include all the elements of remuneration in the calculation that are required under the Accounts and Audit (Wales) 2014 Regulations, making the calculations incorrect.</li> </ul>
<b>Priority</b>	High
<b>Recommendation</b>	Quality assurance review processes to be reviewed to introduce controls that would mitigate errors of this nature re-occurring.
<b>Benefits of implementing the recommendation</b>	Remuneration disclosures will be correct.
<b>Accepted in full by management</b>	Agree
<b>Management response</b>	Revised processes have been agreed with Payroll officers.
<b>Implementation date</b>	May 2019

Exhibit 6: Matter arising 5

<b>Matter arising 5 – issues were identified in relation to debtors and creditors</b>	
<b>Findings</b>	<p>The following were identified during our audit:</p> <ul style="list-style-type: none"> <li>• The categorisation of creditors in the creditors’ note was incorrect due to the joint committee consolidation adjustments being processed incorrectly. There was no impact on the creditors’ balance overall due to this issue.</li> <li>• The provision for bad debts was incorrectly calculated in two instances. Amounts were overstated by £91,122 in total.</li> <li>• One creditor of £107,981 was included solely as a short-term creditor but should have been analysed between short-term and long-term creditors.</li> <li>• A cheque book school debtor of £103,489 was included in the debtors’ balance but should have been negated during the accounts compilation against the corresponding creditor as it is an intra-entity amount.</li> <li>• There was an unsupported balance £31,586 included within debtors which should be investigated and removed if no longer collectable.</li> </ul>
<b>Priority</b>	Medium
<b>Recommendation</b>	Quality assurance review processes to be reviewed to introduce controls that would mitigate errors of this nature re-occurring.
<b>Benefits of implementing the recommendation</b>	Debtors and creditor balances, including classification of balances will be correct.
<b>Accepted in full by management</b>	Agree
<b>Management response</b>	
<b>Implementation date</b>	May 2019

Exhibit 7: Matter arising 6

<b>Matter arising 6 - inconsistencies were identified between the financial statement disclosures and the Council responses on the CIPFA disclosure checklist</b>	
<b>Findings</b>	Review of the CIPFA disclosure checklist, completed by the Council, identified inconsistencies between the checklist responses and the disclosures in the financial statements.
<b>Priority</b>	Low
<b>Recommendation</b>	Quality assurance review processes to be reviewed to introduce controls that would mitigate errors of this nature re-occurring.

**Matter arising 6 - inconsistencies were identified between the financial statement disclosures and the Council responses on the CIPFA disclosure checklist**

<b>Benefits of implementing the recommendation</b>	
<b>Accepted in full by management</b>	Agree
<b>Management response</b>	
<b>Implementation date</b>	

## Appendix 2

### Summary of corrections made to the draft financial statements which should be drawn to the attention of Full Council

Exhibit 8: Summary of corrections made to the draft financial statements

Value of correction	Nature of correction	Reason for correction
£20,506,000	Increase in revaluation reserve and decrease in capital adjustment account.	The way in which some revaluations had been processed through the Technology Forge fixed-asset system, meant that the net book values of the assets were correct, but the balances reflected in the historic cost and accumulated depreciation section of the fixed asset note are incorrectly stated, and the relevant capital reserves are incorrectly stated also.
£7,493,000	Net cost of services was reduced and the Surplus or deficit on Revaluation of Non-Current Assets was decreased.	There are current year adjustments and adjustments in respect of prior years required. The current year element is £7,493,000 and the prior year element is £13,013,000.
£5,701,000	Education Expenditure increased, and Holiday Pay Accrual increased.	Holiday Pay accrual was understated, as the calculation had been done incorrectly.
£5,602,000	Debtors and Creditors were both reduced.	The debtors and creditors were both overstated, as the debtor between the council and education consortium had not been accounted for in accordance with the requirements of the CIPFA Code of Practice.



Value of correction	Nature of correction	Reason for correction
£960,000	Net Cost of Service Expenditure decreased and the liability for Pensions was decreased.	A payment made in respect of pension strain payable had been omitted from the pension liability calculations. Therefore, the liability was over stated
£195,000	A long-term liability was re-categorised as a short-term creditor.	Incorrect classification of the liability in the balance sheet.
£3,833,000 £3,800,000 £17,000 £46,000	Net Cost of Service Expenditure decreased Capital Grants and Contributions reduced Assets under construction increased and short-term debtors decreased Short-term creditors increased with opposite entries to long-term creditors, earmarked reserves and Capital Adjustment Account decreased.	£3,800,000 related to an error on the accounting for the consolidation of the City Deal joint arrangement. The remainder of the adjustment was in relation to a late amendment made to the City Deal financial statements by Cardiff Council that RCT have processed to ensure that the RCT financial statements reflected the year-end position for the City Deal.



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