



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# Audit of Financial Statements Report and Management Letter – **Central South Consortium Joint Education Committee**

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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.

# Contents

This document summarises the conclusions of the audit of the Central South Consortium Joint Education Service Joint Committee financial statements 2016-17, 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.

## Summary report

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# Summary report

## 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 (the Consortium), for 2016-17, that require reporting to those charged with governance, in time to enable appropriate action; and
  - to capture the recommendations arising from our audit work.
- 2 We are particularly grateful to the Consortium and staff for their assistance, good quality working papers and draft accounts provided during the course of our audit.
- 3 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 the Consortium at 31 March 2017 and its income and expenditure for the year then ended.
- 4 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.
- 5 The quantitative levels at which we judge such misstatements to be material for the Consortium are £1.7 million 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 reader sensitivity.

## Status of the audit

- 6 The statutory deadlines remain as 30 June for accounts preparation and 30 September for audit certification, however, from 2020/21 onwards these dates will be brought forward to 31 May and 31 July respectively. Given these requirements, the next few years are undoubtedly going to be challenging for both the Consortium's finance team and auditors alike. We will work closely with finance staff to see what work could be done earlier and what can be done differently to ensure the deadlines can be met.
- 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 Assistant Business Manager and the Senior Accountant at the Consortium, and with the section 151 officer at Rhondda Cynon Taf County Borough Council.

## 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 was one issue arising in these areas this year:

- **We have no concerns about the qualitative aspects of your accounting practices and financial reporting.** We found the information provided to be relevant, reliable, comparable, material and easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear.
- **We did not encounter any significant difficulties during the audit.** We received information in a timely and helpful manner and were not restricted in our work.
- **There is one significant matter which we need to report to you.**

#### **Accounting for Redundancy Costs**

Our 2015-16 audit report asked the Joint Committee to consider the payback period for redundancy costs. At that time the estimated payback period was ten years, and we gave our view that we considered this to be a long period over which to repay this type of cost.

We are pleased to report that during 16-17 all new redundancies were fully funded from the annual in-year budget

We understand that the Consortium are likely to incur further redundancy costs in 2017-18. The section 151 officer has confirmed to us that any new redundancies should ideally be paid for from within the annual budget (as in 2016-17), or where this is not possible, the repayment period should be limited to 2 to 3 years. This would demonstrate the good financial governance which our report referred to last year, and helps ensure that current tax payers are paying for current services. We have made a recommendation on this issue at [Appendix 4](#).

- **There are no other matters significant to the oversight of the financial reporting process that we need to report to you. We did not identify any material weaknesses in your internal controls.**
- **There are not any other matters specifically required by auditing standards to be communicated to those charged with governance.**

## Recommendations arising from our 2016-17 audit work

- 13 The recommendations arising from our audit work are set out 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

- 14 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 15 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 the Consortium that we consider to bear on our objectivity and independence.

# Appendix 1

## Suggested Letter of Representation

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

15 September 2017

### Representations regarding the 2016-17 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 2017 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 members of the Central South Consortium Joint Education Service Joint Committee.

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 Central South Consortium Joint Education Service Joint Committee on 15 September 2017.

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:

## Appendix 2

### Auditor General for Wales' report to the Members of 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 2017 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 2016-17 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 12, 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 Services' 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 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 2017 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 2016-17.

### **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;
- 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  
September 2017

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 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.

#### Exhibit 1: summary of corrections made to the draft financial statements

| Value of correction | Nature of correction   | Reason for correction  |
|---------------------|--|--|
| £3,241,000          | <b>Note 8 – Related Parties</b><br>Increase in expenditure with the five LAs as it was not identified in the original draft.   | To comply with the CIPFA Code of Practice.                           |
| £104,000            | <b>Cash flows Statement and Note 20</b><br>Increase in payments to staff due to 15-16 accrual of severance but was paid during 16-17 and decrease cash received as this is where the original adjustment was made in error.  | For correct classification of cash payments.                         |
| £212,000            | <b>Note 15.2 – Earmarked Reserves</b><br>There was a classification error in the closing balance of the two earmarked reserves in note 15.2. This also resulted in errors in the in-year transfers. Revenue Grant Reserves was understated by £212,000 and Funding for Specific Projects overstated by £212,000.   | To correctly classify the closing balance of the earmarked reserves. |
| Narrative           | <b>Note 21 – Officers Remuneration &amp; Note 21.1 Senior Officers</b><br>One of the Senior officers was included even though their earnings did not reach the threshold and has therefore been removed.<br>Some staff members were not correctly identified as Senior officers and needed to be included in note 21.1.<br>Agency staff were not included in note 21 when the guidance is to include these members of staff. | To comply with the Accounts and Audit Regulations 2014               |

| Value of correction                  | Nature of correction  | Reason for correction   |
|--------------------------------------|---|---|
| Presentational and Narrative Changes | A number of presentational and narrative changes were made to the annual report and other notes to aid readers' understanding of the information contained within the financial statements. | To provide enhanced disclosures and understanding of the information contained within the financial statements. |

## Appendix 4

### Recommendations arising from our 2016-17 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 – Long-term debtor for Redundancies</b> |  |
|---|--|
| <b>Findings</b>   | <p>The Consortium has a long-term debtor outstanding with the five Local Authorities as a result of redundancies that were not funded from the annual budget dating back to 2014-15.</p> <p>The initial payback period was eight years which increased to ten years with further redundancy costs that were not funded from the annual budget during 2015-16.</p> <p>We understand that the Consortium are likely to incur further redundancy costs in 2017-18 but, where possible, will look to fund these within the in-year budget. Where this is not possible, the payback period will be limited to 2 to 3 years.</p> |
| <b>Priority</b>   | High.  |
| <b>Recommendation</b>                                       | <p>The Joint Committee should:</p> <ul style="list-style-type: none"> <li>• look for methods of decreasing the payback period of the original redundancies (pre-April 2016), for example by increasing the annual repayment of the debtor from £100,000, or even agreeing a lump sum from constituent authorities.</li> <li>• fund any new redundancies in year, but where that is not possible, ensure the payback period is no longer than 2 to 3 years. This will require recording each additional case individually.</li> </ul>   |
| <b>Benefits of implementing the recommendation</b>          | Improved financial governance.   |
| <b>Accepted in full by management</b>                       | Yes  |

| <b>Matter arising 1 – Long-term debtor for Redundancies</b> |  |
|---|--|
| <b>Management response</b>                                  | <p>During 2016/17 the Joint Committee considered the payback period for redundancy costs and requested the Consortium to bring forward proposals to accelerate this. As part of the Consortium’s 2016/17 Year-End Finance Report, an additional £20,000 of funding was allocated to contribute to accelerating the payback period.</p> <p>Options/methods to accelerate the repayment of redundancy costs (that were approved pre-April 2016) will be reported to the Joint Committee, having regard to ensuring the Consortium delivers a balanced budget for the 2017/18 financial year. This review process will be treated as an ongoing exercise and updates reported to Joint Committee in future years as and when further opportunities are identified.</p> <p>Where new redundancies are approved, the funding method (in line with the above recommendation) will be built into in-year budgetary control arrangements and incorporated into Budget Updates reported to the Joint Committee.</p> |
| <b>Implementation date</b>                                  | September 2017 (but applicable from April 2017).   |

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