



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# Audit of Financial Statements Report – Rhondda Cynon Taf County Borough Council

Audit year: 2016-17

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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.

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The Auditor General intends to issue an unqualified audit report on your financial statements. There are some issues which we would draw to your attention prior to their approval.

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# Summary report

## Introduction

- 1 This report sets out the matters arising from the audit of the financial statements of Rhondda Cynon Taf County Borough Council (the Council), for 2016-17, that require reporting to those charged with governance.
- 2 The Auditor General's responsibilities were set out in our **Audit Plan** along with your responsibilities as those charged with governance; we do not repeat them in detail again here.
- 3 We are particularly grateful to the Council's Finance staff for their assistance, good quality working papers and draft accounts provided during the course of our audit, although as noted later in the report the authority will need to change the way it closes the year-end financial systems and prepares financial statements, if it is to meet the faster closing agenda facing all local authorities.
- 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 the Council at 31 March 2017 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 level at which we judge such misstatements to be material for the Council is £7.5 million. 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

- 7 We received the draft financial statements for the year ended 31 March 2017 on 16 June 2017, in line with the timetable we had agreed, and have now substantially completed the audit work. 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.
- 8 This is a noteworthy achievement by the finance team. Undertaking the production and audit of the accounts earlier has identified a number of learning points for both the finance team and ourselves. We will consider these in more detail at a future post project learning session to ensure they are captured and built into processes for future years. Given the earlier statutory deadlines mentioned above, the next few years are undoubtedly going to be challenging for both the Council's finance team and auditors alike.
- 9 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 Group Director Corporate & Frontline Services and his senior finance team.

## Proposed audit report

- 10 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](#).
- 11 The proposed audit report is set out in [Appendix 2](#). Please note that this audit report covers both the Council and RCT Pension Fund. We have provided a separate report explaining the outcome of the audit of the pension fund.

## Significant issues arising from the audit

### Uncorrected misstatements

- 12 We set out below the misstatements we identified in the financial statements, which have been discussed with management but remain uncorrected as management consider that they do not have a material effect on the accounts. If you decide not to correct these misstatements, there will be no impact upon the opinion given in our audit report as we also consider these items (both individually and collectively) to be non-material.
  - **The Cash and Debtors' figures on the balance sheet are misstated by £3 million.** Whilst the physical cash was held in the correct bank account, this has been accounted for incorrectly in the financial statements due to a miscoding error. It was therefore accounted for as Pension Fund cash instead of the Council's cash. If corrected, the cash figure would increase by £3 million and short-term debtors decrease by £3 million.
  - **Various movements between short term and long term classifications between liabilities and investments on the balance sheet** (it should be noted that none of these amendments affect the overall value of these liabilities or investments):
    - £3.5 million liability in relation to 'Houses into Homes' scheme, was reported as short term and should be in long term liabilities;
    - £0.7 million liability in relation to Tower Colliery, was reported as a long term and should be in short term liabilities;
    - £5 million loan to Trivallis was reported in short term investments and should have been in long term investments; and
    - £1 million relating to Local Authority Mortgage Scheme (LAMS) was reported in long term investments and should have been in short term investments.

- **The Cash and Short Term Liabilities figures on the balance sheet are understated by £1.2 million.** This resulted from misclassification of the opening and closing internal year-end transactions within some schools.
- **Property Plant and Equipment (PPE) overall value is overstated by £2.3 million.** This relates to fixed assets that should have been revalued within the five-year rolling programme of valuation. If amended, the PPE figure would reduce by £2.3 million, the Revaluation Reserve would reduce by £1.3 million, with the remaining £1 million taken to the Comprehensive Income & Expenditure Statement as an impairment. It should be noted that this will have no effect on the General Fund or the Usable reserves available to the Council.
- **Education and Lifelong Learning Expenditure and Income understated by £5.5 million. The Net Expenditure would remain unchanged.** This relates to a consolidation error when accounting for transactions with the Central South Consortium Joint Education Service Joint Committee.
- **Long term Debtors and earmarked reserves overstated by £0.4 million.** This related to a contract that had been cancelled in year but had not been written out of debtors.

## Corrected misstatements

- 13 There are misstatements that have been corrected by management, and they are summarised with explanations in [Appendix 3](#).

## Other significant issues arising from the audit

- 14 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 were no significant issues arising in these areas this year:
- **We have no concerns about the qualitative aspects of your accounting practices and financial reporting.** In general 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, although to meet the earlier closing timetable set for Local Government bodies in Wales, response times to audit queries will need to be shortened in future years.
  - **There were no significant matters discussed and corresponded upon with management which we need to report to you.**
  - **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.**

## Independence and objectivity

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

# Appendix 1

## Final Letter of Representation

[Audited body's letterhead]

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

[Date]

### 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 Rhondda Cynon Taf County Borough Council (the Council) 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 Code of Practice on Local Authority Accounting in the United Kingdom; 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 Council 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. A summary of these items is set out below:

- [\(to be included here\)](#)

## 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 the Council on 20 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:

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

for the year ended 31 March 2017 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 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 15, the responsible financial officer is responsible for the preparation of the statement of accounts, including RCTCBC's Group accounting statements and 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 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 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 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 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 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 2017 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 2016-17.

#### **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; and
- 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  
September 2017

Wales Audit Office  
24 Cathedral Road  
Cardiff  
CF11 9LJ

## Appendix 3

### Summary of corrections made to the draft financial statements

During our audit we identified the following misstatements that have been corrected by management, but which we consider should be drawn to your attention.

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

Type of amendment	Nature of correction	Reason for correction
Note 31 – Severance Costs amended by £644,000.	Increase in severance costs narrative disclosures shown in note 31.	£644,000 of pension strain costs had been omitted from the severance costs note. This impacted on the total cost and the bandings disclosed in note 31.
Related Parties Note 36.1 amendment between Welsh Government and Central South Consortium Joint Education Service income.	Welsh Government income credited to services narrative disclosures in note 36.1 was reduced.	£18.5 million of income disclosed as received from Welsh Government should have been categorised as received from Central South Consortium Joint Education Service.
Various amendments to Related Parties Note 36.2.	Various amendments to Related Parties Note 36.2.	Debtors and creditors had been incorrectly omitted from the expenditure and income disclosed in note 36.2.
Additional narrative note 36.8 was added to the related party disclosures.	Additional narrative note 36.8 was added to the related party disclosures.	The investment with Trivallis was not disclosed as a related party. There are three Council members and one officer on the Board, consequently this should have been shown as a related party transaction.
Notes 10.1 and 10.3 reduced by £1.4 million.	Current finance liabilities narrative disclosures amended.	The narrative disclosures incorrectly included amounts that were no longer payable.
Note 41 amended by £0.5 million.	Note 41 disclosures for amount paid for teachers' pensions was increased.	The amount disclosed did not agree to the amount paid.

Type of amendment	Nature of correction	Reason for correction
Various narrative disclosures including amendments to the Cash Flow Statement.	Narrative disclosures were made to the financial statements to improve compliance with the Code and readers' understanding.	Narrative disclosures were made to the financial statements to improve compliance with the Code and readers' understanding.

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