

Audit of Accounts Report – Flintshire County Council

Audit year: 2019-20

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Mae'r ddogfen hon hefyd ar gael yn Gymraeg. This document is also available in Welsh.

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We intend to issue an unqualified audit report on your Accounts. There are some issues to report to you prior to their approval.

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Audit of Accounts Report

Introduction

- 1 We summarise the main findings from our audit of your 2019-20 group accounts in this report. We have already discussed these issues with your Accounts Governance Group and the Corporate Finance Manager and his team.
- 2 You are required to prepare accounts and we have now substantially completed this year's audit, despite the challenges posed by the Covid-19 pandemic. It is of considerable testament to the commitment of your officers that you have succeeded in doing so this year in the face of the challenges posed by the pandemic. To help overcome these challenges we adopted new ways of working such as establishing a remote access to your financial systems and a secure file transfer portal. We are extremely grateful to the professionalism of officers in producing the financial statements and supporting us to complete our audit in such challenging circumstances. We will be reviewing what we have learned from the impact of the pandemic on our audit and whether there are innovative practices that we might adopt in the future to enhance our work.
- 3 Auditors can never give complete assurance that your group accounts are correctly stated. Instead, we work to a level of 'materiality'. This level of materiality is set to try to identify and correct misstatements that might otherwise cause a user of the accounts into being misled.
- 4 We set this level at £5.2 million for this year's audit.
- 5 There are some areas of the accounts that may be of more importance to the reader and we have set a lower materiality level for these, as follows:
 - Related Party Disclosures £100,000
 - Senior officer remuneration £5,000
- 6 In our professional view, we have complied with the ethical standards that apply to our work; remain independent of yourselves; and, our objectivity has not been compromised in any way. There are no relationships between ourselves and yourselves that we believe could undermine our objectivity and independence. We have previously notified you of a potential threat to auditor independence and objectivity arising from a member of the audit team's family being employed as a teacher by the Council. We can confirm that the planned safeguards set out in our Audit Plan have operated as intended.

Impact of COVID-19 on this Year's Audit

- 7 The COVID-19 pandemic has had a significant impact on all aspects of our society and continues to do so. You are required by law to prepare accounts and it is of considerable testament to the commitment of your accounts team that you have succeeded in doing so this year in the face of the challenges posed by this pandemic. We are extremely grateful to the professionalism of the team in supporting us to complete our audit in such difficult circumstances.

- 8 The pandemic has unsurprisingly affected our audit and we summarise in **Exhibit 1** the main impacts. Other than where we specifically make recommendations, the detail in **Exhibit 1** is provided for information purposes only to help you understand the impact of the COVID-19 pandemic on this year's audit process.

Exhibit 1 – impact of COVID-19 on this year's audit

Timetable	Officers provided us with good-quality draft accounts on 12 June 2020 as planned. This is in line with last year and complies with regulatory deadlines. We expect your audit report to be signed by 14 September 2020.
Electronic signatures	Given current social distancing requirements, it may be difficult for signing and certification of the accounts in hard copy this year. We may need to use electronic signatures for this purpose. We will accept electronic signatures from you though understand it is not your intention to use them. We will liaise with management to ensure arrangements are in place irrespective of the approach taken.
Conducting the audit approach and obtaining audit evidence	<p>Due to social distancing measures, Audit Wales and the majority of council staff are currently working remotely from home. As a result, we adopted new ways of working:</p> <ul style="list-style-type: none"> • refined our audit deliverables to clarify working paper requirement; • held weekly Webex meetings with the finance team throughout the audit to discuss progress and emerging issues; • secured remote access to enable the audit team to access the Council's financial systems; and • established a secure remote file transfer portal to safely share information.

- 9 We will be reviewing what we have learned for our audit process from the COVID-19 pandemic (both locally and nationally) and whether there are innovative practices that we might adopt in the future to enhance that process.

Proposed Audit Opinion

- 10 We intend to issue an unqualified audit opinion on this year's group accounts once you have provided us with a Letter of Representation based on that set out in **Appendix 1**.
- 11 We issue a 'qualified' audit opinion where we have material concerns about some aspects of your accounts; otherwise we issue an unqualified opinion.

- 12 Our proposed audit report is set out in **Appendix 2**. The audit report also includes an Emphasis of Matter which draws attention to uncertainties arising from circumstances caused by the Covid-19 pandemic:
- Note 8 'Property Plant and Equipment' which describes an estimation uncertainty at the end of the reporting period, that has a significant risk of resulting in a material adjustment to the carrying amounts of the Council's property; and
 - Note 42 'Pensions' which describes material valuation uncertainty clauses in the valuation reports on Pooled Property Funds held by the Clwyd Pension Fund.

My opinion is not modified in respect of these matters.

- 13 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards along with confirmation of other specific information you have provided to us during our audit.

Significant Issues arising from the Audit

Uncorrected misstatements

- 14 There are no misstatements identified in the accounts, which remain uncorrected.

Corrected misstatements

- 15 There were initially misstatements in the accounts that have now been corrected by management. However, we believe that these should be drawn to your attention and they are set out with explanations in **Appendix 3**.

Other Significant Issues arising from the Audit

- 16 In the course of the audit, we consider a number of matters relating to the accounts and report any significant issues arising. There is one issue arising that we are reporting to you as the useful lives of the Council buildings have not been reviewed since 2017-18 and are not considered as part of the rolling annual asset revaluation exercise undertaken by the Council's internal valuers.
- 17 Reviewing asset lives is an important internal control and is a requirement of CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019-20. It requires *'useful lives to be reviewed at least at the end of each financial year and changed where expectations differ from previous estimates'*. The control also ensures that assets are correctly depreciated in line with an accurate estimate of the useful lives of the Council buildings. We found that the Council has not been undertaking this review of the useful lives since 2017-18 and the internal valuers no longer provide an estimated useful life as part of their rolling annual revaluations exercise.

- 18 To establish the potential impact this issue could have, the Council completed an exercise using obsolescence factors identified in the 2018-19 and 2019-20 valuations certificates as a proxy to estimate the remaining useful lives. We are satisfied that this issue does not give rise to a material misstatement for 2019-20. Officers have confirmed that they will fully address the issue in 2020-21 to provide assurance that asset lives and depreciation charges remain appropriate.

Appendix 1

Final Letter of Representation

Audited body's letterhead

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

9 September 2020

Representations regarding the 2019-20 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 Flintshire County Council and its group for the year ended 31 March 2020 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 Practice on Local Authority Accounting in the United Kingdom 2019-20; 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 Flintshire County Council and its group 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 Flintshire County 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 Audit Committee on 9 September 2020.

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:

Gary Ferguson

Corporate Finance Manager

9 September 2020

Signed by:

Councillor Chris Dolphin

Chair of the Audit Committee

9 September 2020

Appendix 2

Proposed independent auditor's report of the Auditor General for Wales to the members of Flintshire County Council

Report on the audit of the financial statements

Opinion

I have audited the financial statements of:

- Flintshire County Council; and
- Flintshire County Council's Group.

for the year ended 31 March 2020 under the Public Audit (Wales) Act 2004.

Flintshire County Council's financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the accounting policies. Movement on the Housing Revenue Account Statement and the Housing Revenue Account Income and Expenditure Statement and the related notes, including a summary of significant accounting policies.

Flintshire County Council's Group financial 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 and the related notes.

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 2019-2020 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial position of Flintshire County Council Flintshire County Council's Group as at 31 March 2020 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2019-20.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the council and its group in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter – effects of Covid-19 on the Council’s assets and property pension fund valuations

I draw attention to Notes 8 and 42 to the financial statements, which describe material valuation uncertainty clauses in the valuation report’s on the Council’s property and on Pooled Property Funds held by the Clwyd Pension Fund arising from circumstances caused by the Covid-19 pandemic. My opinion is not modified in respect of these matters.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the responsible financial officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council’s or its group’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The responsible financial officer is responsible for the other information in the Statement of Accounts. The other information comprises the information included in the Statement of Accounts other than the financial statements and my auditor’s report thereon. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated later in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information to identify material inconsistencies with the audited financial statements 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.

Report on other requirements

Opinion on other matters

In my opinion, based on the work undertaken in the course of my audit:

- the information contained in the Narrative Report for the financial year for which the financial statements are prepared is consistent with the financial statements and the Narrative Report has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019-20; and

- The information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and the Annual Governance Statement has been prepared in accordance with guidance.

Matters on which I report by exception

In the light of the knowledge and understanding of the Council and its group and its environment obtained in the course of the audit, I have not identified material misstatements in the Narrative Report or the Annual Governance Statement.

I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

- proper accounting records have not been kept;
- the financial 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.

Certificate of completion of audit

I certify that I have completed the audit of the accounts of Flintshire County Council in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

Responsibilities

Responsibilities of the responsible financial officer for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 11, the responsible financial officer is responsible for the preparation of the statement of accounts, including Flintshire County Council's group financial statements, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of statements of accounts that are free from material misstatement, whether due to fraud or error.

In preparing the statement of accounts, the responsible financial officer is responsible for assessing the Council's and its group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level

of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Anthony J Barrett
For and on behalf of the Auditor General for Wales
14 September 2020

24 Cathedral Road
Cardiff
CF11 9LJ

Appendix 3

Summary of Corrections Made

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 2: summary of corrections made

Nature of correction	Reason for correction	Impact
<p>Note 8 ‘Property, Plant and Equipment – Other, Land & Buildings’ was amended:</p> <ul style="list-style-type: none"> • ‘Impairments recognised in the Surplus/Deficit on the Provision of services’ from £(3,725,000) to £(2,705,000). • ‘Revaluation increase/(decrease) recognised in the Revaluation reserve’ from £20,374,000 to £19,354,000. 	<p>Land at Ysgol Penyffordd (Abott’s Lane site) was incorrectly impaired and a corresponding revaluation gain was recognised in error.</p>	<p>Appropriate corresponding adjustments were also reflected in the Comprehensive Income and Expenditure Statements’, the Expenditure and Funding Analysis, Cash Flow Statement, the Revaluations Reserve and the Capital Adjustment Account.</p>
<p>Note 10 ‘Assets held for sale’ ‘Net reclassifications’ for 2018-19 were amended:</p> <ul style="list-style-type: none"> • ‘Other property, Plant and Equipment’ from £2,098,000 to £1,298,000. • Investment Properties’ from £1,214,000 to £497,000. 	<p>The ‘Net reclassifications’ line in Note 10 for 2018-19 included the opening balance at 1 April 2018 in error.</p>	<p>The adjustment amended the total prior year ‘Net reclassifications’ from £3,382,000 to £1,865,000.</p>
<p>Note 17 ‘Creditors – Short Term -Other’ was amended from £21,189,000 to £19,425,000.</p>	<p>A 2020-21 payment was incorrectly recognised as a creditor and a corresponding debtor was included to offset the impact of the transaction resulting in the both creditors and debtors being overstated.</p>	<p>An appropriate corresponding adjustment was made to note 13 ‘Short term debtors – payments in advance’ to remove the contra entry.</p>

<p>Note 28 ‘Related Parties’ was amended to include additional narrative to fully describe the nature of relationships with related parties for officers and members.</p>	<p>To fully comply with CIPFA’s Code requirements – section 3.9.4.</p>	<p>The adjustment had no other impact on the financial statements. Presentation disclosure only.</p>
<p>Note 39 ‘Leases – Lessor rentals– Operating leases - Buildings’ was amended:</p> <ul style="list-style-type: none"> • ‘Not later than one year’ from £1,996,000 to £1,890,000. • ‘Later than one year and not later than five years’ from £5,211,000 to £4,787,000. • ‘Later than five years’ from £8,226,000 to £7,485,000. 	<p>The Council has been unable to provide evidence to demonstrate that it is entitled to lease income in future years relating to two leased industrial units.</p>	<p>The adjustments have no overall impact on the in-year financial position of the Council. Presentation disclosure only.</p>
<p>‘Comprehensive Income and Expenditure Account – Actuarial (gains) or losses on pension assets and liabilities’ was amended from £(33,803,000) to £(24,415,000).</p>	<p>To account for the financial impact of the material change in revised pension fund valuations at 31 March 2020.</p>	<p>The adjustment impacted upon the ‘Net liability arising from defined benefit’ and ‘the Pension reserve’ on the Balance sheet by corresponding amounts.</p> <p>Appropriate corresponding adjustments were also reflected in:</p> <ul style="list-style-type: none"> • the ‘Movement in reserves Statement’; and • Note 22 ‘Pensions Reserve’ • Note 42 ‘Pensions’. <p>The adjustments have no overall impact on the in-year financial position of the Authority.</p>



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