



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# Audit of Financial Statements Report – **Wrexham County Borough Council**

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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.

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# Summary report

## Introduction

- 1 The Auditor General is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of Wrexham County Borough Council (the Council) at 31 March 2017 and its income and expenditure for the year then ended.
- 2 We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might result in a reader of the accounts being misled.
- 3 The quantitative levels at which we judge such misstatements to be material for the Council is £4.5 million. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity.
- 4 International Standard on Auditing (ISA) 260 requires us to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
- 5 This report sets out for consideration the matters arising from the audit of the financial statements of the Council, for 2016-17, that require reporting under ISA 260.

## Status of the audit

- 6 We received the draft financial statements for the year ended 31 March 2017 on 19 May 2017, six weeks earlier than the statutory deadline, and have now substantially completed the audit work.
- 7 We are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. The audit team has already discussed these issues with the Head of Finance and his team.

## 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 Following submission of the accounts for audit, the Council notified us of an omission from the financial statements. Depreciation of £774,000 was not charged to the Comprehensive Income and Expenditure account due to a system error in the Fixed Asset register when accounting for the reversal of prior year impairment losses.
- 11 We have discussed this matter with the officers and are satisfied that it does not impact upon the overall financial position of the Council, as the inclusion of the depreciation charges would be reversed from the Income and Expenditure account under the relevant Regulations. The Council has informed us that this matter has been resolved for 2017-18.

### Corrected misstatements

- 12 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](#), in particular a misstatement of revaluations in Note 21 'Property, Plant and Equipment'.
- 13 Our review of Note 21 and the revaluations of 'Other Land and Buildings' undertaken by the Council's Valuer as at 31 March 2017 identified errors in the methodology applied in calculating the valuation of two new schools completed in year, and two school extensions. The Valuer incorrectly calculated the valuations as:
  - in all four cases the Valuer applied a North Wales location factor when determining the valuation, despite the value being based on the actual cost of construction, mitigating the need to apply local factors; and
  - for the two school extensions the Valuer omitted the extended buildings from the sum of the total value of the schools buildings provided to the Council's finance team.
- 14 Going forward, the Council should establish arrangements to review the methodology applied in calculating revaluations and the valuation of new buildings completed by the Council's Valuer, to ensure accuracy and completeness.

## Other significant issues arising from the audit

- 15 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.

## Accounting practices and financial reporting

- 16 As part of the Council's initiative for bringing forward its accounts preparation, the draft financial statements were shared with us on 19 May 2017, six weeks earlier than the statutory deadline. The earlier preparation was achieved as a result of the Council's initiative to prepare for the early production and publication of local government annual accounts to the earlier deadline of the end May and July respectively by 2020-21. This was a significant achievement, which built on the lessons learnt in the previous year.
- 17 Despite the shorter timescale, we found that generally the information provided in the draft financial statements to be relevant and reliable. We also concluded that your accounting policies and estimates are appropriate and that the financial statement disclosures are unbiased, fair and clear.
- 18 The draft financial statements were generally prepared to a good standard and were supported by comprehensive and timely working papers, helping us to achieve the overall completion timetable on a timely basis. However, we have some concerns about the qualitative aspects of your accounting practices and financial reporting with accounting for valuations, which gave rise to the misstatements in Note 21 as referred to in [Appendix 3](#).

## We did not encounter any significant difficulties during the audit

- 19 The Head of Finance and his team maintained open and constructive dialogue with the audit team throughout the audit and, as a result, the audit process has gone smoothly.
- 20 We were not restricted in our work and we received the vast majority of the information that we required for our audit in a timely and helpful manner. We intend issuing a Final Accounts Memorandum shortly which will include our recommendations arising from the 2016-17 audit to be discussed with key finance officers.

## There were no significant matters discussed and corresponded upon with management which we need to report to you

- 21 No significant matters were discussed or corresponded upon during our audit.

## There are no other matters significant to the oversight of the financial reporting process that we need to report to you

- 22 No other matters significant to oversight of the financial reporting process were identified during our audit.

## We did not identify any material weaknesses in your internal controls

- 23 No material weaknesses in the Council's internal controls were identified during our audit.

## Independence and objectivity

- 24 As part of the audit finalisation process, we are required to provide you with representations concerning our independence. We can confirm that with the exception of one member of staff, there are no known threats to the independence of the Auditor General for Wales or on the independence of staff or contractors working on his behalf.
- 25 With regards to the exception noted above, a member of the Financial Audit Manager's family is employed as a teacher in a Wrexham primary school. We have taken appropriate steps to ensure that he has not been involved in any work at the school or any specific examination of the Council's education service and its payroll transactions.
- 26 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

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

27 July 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 Wrexham County Borough 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 of the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17; 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 Wrexham County Borough 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. The effect of the uncorrected misstatements identified during the audit is immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

## Specific representations

### Depreciation adjustments

The Council will review its calculation of the impairment reversal depreciation adjustment to ensure compliance with its accounting policy in 2017-18 and beyond.

### Representations by those charged with governance

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 in accordance with the Council's scheme of delegation on 27 July 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:

Mark S. Owen  
S.151 Officer

28 July 2017

Signed by:

Jerry O'Keeffe  
Chair of the Audit Committee

28 July 2017

# Appendix 2

## Proposed audit report of the Auditor General to the Members of Wrexham County Borough Council

I have audited the accounting statements and related notes of Wrexham County Borough Council for the year ended 31 March 2017 under the Public Audit (Wales) Act 2004.

Wrexham County Borough Council's accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Movement on the Housing Revenue Account Statement and the Housing Revenue Account Income and Expenditure 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 7, 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 Wrexham County Borough Council'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 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 Wrexham County Borough Council**

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Wrexham County Borough Council 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;
- I have not received all the information and explanations I require for my audit; or
- the Annual 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 Wrexham 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.

Anthony Barrett

For and on behalf of

Huw Vaughan Thomas  
Auditor General for Wales

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 Audit 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

Nature of correction	Reason for correction	Impact
<p><b>Note 14 (a) 'Officers' Remuneration – the ratio of the remuneration of Council's Chief Executive to the median remuneration of all the Council's employees'</b> was amended from 7.06:1 to 6.56:1.</p>	<p>The ratio was amended as it incorrectly included teachers employed by Voluntary Aided school contrary to the requirements of the Accounts and Audit (Wales) Regulations 2014 and the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17.</p>	<p>The change had no other impact on the Council's financial statements. <b>Presentation disclosure only.</b></p>
<p><b>Note 21 'Property, Plant and Equipment – 'Other Land and Buildings'</b> was amended:</p> <p><b>Cost or Valuation:</b></p> <ul style="list-style-type: none"> <li>'Revaluation increases/(decreases) recognised in the Revaluation reserve' from £2,271,000 to £3,109,000.</li> <li>'Revaluation increases/(decreases) recognised in the Surplus/Deficit' on the Provision of Services from £(8,757,000) to £(5,955,000).</li> </ul> <p><b>Accumulated Depreciation and Impairment:</b></p> <ul style="list-style-type: none"> <li>'Depreciation written out to the Revaluation reserve' from £8,066,000 to £8,219,000.</li> <li>'Depreciation written out to the Surplus/Deficit on the Provision of Services' from £2,742,000 to £2,589,000.</li> </ul>	<p>Testing of revaluations undertaken by the Council's valuer as at 31 March 2017 identified errors in the methodology applied in calculating the valuation of four schools. The Council's valuer incorrectly calculated valuations as set out in paragraph 19.</p>	<p>The net book value of property, plant and equipment at 31 March 2017 was amended from £1,033,112,000 to £1,036,752,000. Additional corresponding changes were incorporated in the primary statements and supporting notes as set out in the Council's schedule of amendments presented to the Audit Committee. <b>Presentation disclosure only.</b></p>
<p><b>Note 21 'Property, Plant and Equipment – 'Assets reclassified to/(from) Held for Sale' and 'Other movements'</b> were amended:</p> <p><b>Assets reclassified to/(from) Held for Sale:</b></p> <ul style="list-style-type: none"> <li>'Other Land and Buildings' from £(120,000) to £239,000;</li> <li>'Community Assets' from £319,000 to £0; and</li> <li>'Surplus Assets' from £(829,000) to £(339,000).</li> </ul>	<p>The reclassification between assets held for sales and other movements was miss-classified as the entries did not correspond to the net movements in Note 32 'Assets Held for Sale'.</p>	<p>The change had no other impact on the Council's financial statements. <b>Presentation disclosure only.</b></p>

Nature of correction	Reason for correction	Impact
<p><b>Other Movements:</b></p> <ul style="list-style-type: none"> <li>• 'Other Land and Buildings' from £8,829,000 to £8,470,000;</li> <li>• 'Community Assets' from £0 to £319,000; and</li> <li>• 'Surplus Assets' from £1,639,000 to £1,149,000.</li> </ul>		
<p><b>Note 33 'Financial instruments – Financial liabilities at amortised cost – Long term LOBO loans' at 31 March 2017</b> was amended from £(25,941,000) to £(25,376,000).</p>	<p>To ensure a consistent treatment with other fair value disclosures.</p>	<p>The change had no other impact on the Council's financial statements. <b>Presentation disclosure only.</b></p>
<p><b>Note 41 'Private Finance Initiatives and Similar Contracts (PFI) – Depreciation'</b> was amended:</p> <ul style="list-style-type: none"> <li>• 'Land and Buildings' from £(549,000) to £(922,000).</li> <li>• Vehicles, Plant Furniture and Equipment' from £(922,000) to £(541,000).</li> </ul>	<p>The depreciation charge reflected in the disclosure note contained a transposition error.</p>	<p>The total values of 'Land and Buildings' and Vehicle, Plant Furniture and Equipment' was amended by corresponding amounts. The change had no other impact on the Council's financial statements. <b>Presentation disclosure only.</b></p>



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