Archwilydd Cyffredinol Cymru
Auditor General for Wales

Audit of Financial Statements Report

Isle of Anglesey County Council

Audit year: 2015-16

Issued: September 2016

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Status of report

This document has been prepared by Deloitte LLP on behalf of the Auditor General.

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The Deloitte team who delivered the work comprised Ian Howse – Engagement Partner, Clare Edge – Engagement Manager and Domantas Vaicekonis – Team Leader.

Contents

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

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 Isle of Anglesey County Council at 31 March 2016 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 Isle of Anglesey County Council is £4.4m. 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 Isle of Anglesey County Council, for 2015-16, that require reporting under ISA 260.

Status of the audit

6. We received the draft financial statements for the year ended 31 March 2016 on 30 June 2016 and have now substantially completed the audit work. At the date of our presentation of this report the following were outstanding:

   a. Finalisation of testing in relation to items on our audit outstanding list, including evidence to support the existence and ownership of three infrastructure assets totalling £5,336k;

   b. Finalisation of Partner and independent quality review process; and

   c. Receipt of letter of representation.

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 S.151 Officer and Deputy S.151 Officer.

Proposed audit report

8. Subject to satisfactory completion of outstanding work, 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.

Summary report continued

Significant issues arising from the audit

Uncorrected misstatements

There are no misstatements identified in the financial statements, which remain uncorrected.

Corrected misstatements

10. 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.

Significant Risks

11. In our Financial Audit Plan, we set out information regarding the significant audit risks that were identified during our planning process. The table below sets out the outcome of our audit procedures in respect of those risks. We have conducted our audit in line with the Financial Audit Plan.

Financial audit risk	Proposed audit response
Management override of controls The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].	Our testing of journal entries is currently ongoing. However, the audit team will complete the following procedures: • testing the appropriateness of journal entries and other adjustments made in preparing the financial statements using enhanced data analytics to analyse the whole journal population for characteristics of audit interest; • performed testing on the design and implementation of controls over journal entries to the financial ledger; • testing the appropriateness of accounting estimates for biases; and • evaluation of the rationale for any significant transactions outside the normal course of business including those with related parties. No issues identified.
Completeness and recognition of grant income We have identified completeness and recognition of grant income as a significant risk as there is a need to apply management judgement on recognition of grant income, including	The audit team undertook the following procedures: • carried out detailed testing of grant income to check that recognition of income properly reflects the grant scheme rules, that entitlement is in agreement with the draft or final grant claim

Summary report continued

Financial audit risk	Proposed audit response
determining whether a grant has conditions and whether they have been met to allow recognition. There are two types of grant income which we have considered to be relevant to this risk, these being, specific revenue grants and capital grants and contributions.	and that the grant control account balance has been properly reconciled; • reviewed and validated correspondence attached to specific grants and compared to the Council's accounting treatment; and • tested the design and implementation of controls around recognition of grant income. See Appendix 3, where we identified one adjustment and Appendix 4 for one control observation identified.
Pension liability The Council currently holds a material net liability in respect of its pension obligations on the balance sheet, the calculation of which is based on a series of actuarial judgements. We identified errors in the census data underlying the net pension liability figure in the Council's accounts in 2012-13, 2013-14 and 2014-15 where the Council did not provide the Gwynedd Pension Fund with sufficient information regarding employee movements and role changes on a timely basis. There is a risk that membership data provided to the actuary for use in the preparation of the annual disclosures under International Accounting Standard 19 (Employee Benefits), is not sufficiently robust. However, we note that no issue was reported with regards to the overall liability disclosed in the statement of accounts.	The audit team undertook the following procedures: • obtained the IAS19 valuation as at 31 March 2016, and engaged experts to assist with our review and testing of the appropriateness of the IAS19 valuation bases, assumptions and financial statement disclosures; and • understood and corroborated the exercise undertaken by Council staff to review the accuracy of the data provided to the actuary and considered whether we can obtain assurance over its accuracy and completeness. No issues identified.
Housing Revenue Account Subsidy (HRAS) buy out The HRAS system was originally established to enable the UK Government to determine the amounts needed by local housing authorities for their housing properties and to identify whether they required subsidy support from central government. The annual subsidy is driven by a formula and if spending was greater than assumed income, the UK Government paid subsidy to make up the deficit. If spending was less, the local housing authority paid the surplus to the UK Government, known as negative subsidy. Over time, the formula has resulted in all eleven local housing authorities in Wales paying negative subsidy.	The audit team undertook the following procedures: • reviewed the enabling legislation passed by the Welsh government; • obtained proof of consideration and approval of the buyout by the Council and the Executive; • obtained the signed HRAS voluntary agreement between the Council and the Welsh Government; • obtained the signed PWLB loan agreement; and • tested the appropriateness of all related accounting entries to ensure they are in accordance with the CIPFA code of practice on local authority accounting and that the related disclosures in the statement of accounts are correct.

Summary report continued

Financial audit risk	Proposed audit response
A financial agreement was reached, between the Welsh Ministers and Her Majesty's Treasury in June 2013, which enabled local housing authorities in Wales to exit the HRAS. As part of the agreement, the eleven local housing authorities were required to buy themselves out of the subsidy system. The Council borrowed circa £21.2m from the Public Works Loan Board (PWLB) on 2 April 2015 with a loan maturity of 30 years, which was used to pay-off the government and eliminate the negative subsidies. The Council had to produce a 30 year plan before the buy-out and this is required to be updated every year.	No issues identified.

Summary report continued

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 were some issues arising in these areas this year:

- **We have no concerns about the qualitative aspects of your accounting practices and financial reporting,** however, we found the quality and timeliness of some supporting audit evidence could be improved and we have raised a recommendation in Appendix 4 to this effect. 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.**
- **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, although we have identified several areas in which it would be possible to improve control.** These are included in Appendix 4.
- **There are no other matters specifically required by auditing standards to be communicated to those charged with governance.**

13. The recommendations arising from our financial 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 or Deloitte and Isle of Anglesey County Council that we consider to bear on our objectivity and independence.

Appendix 1

Draft Letter of Representation

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

27 September 2016

Representations regarding the 2015-16 financial statements

This letter is provided in connection with your audit of the financial statements of Isle of Anglesey County Council for the year ended 31 March 2016 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 CIPFA Code of Practice on Local Authority Accounting; 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.

Appendix 1 continued

- 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 Isle of Anglesey County 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.

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 Isle of Anglesey County Council on 27 September 2016.

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

Appendix 1 continued

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: …………………………………….	Signed by: …………………………………….
Marc Jones S.151 Officer Isle of Anglesey County Council	Officer or Member who signs on behalf of those charged with governance
Date: ………………………………………….….	Date: ………………..………………………….

Appendix 2

Proposed audit report of the Auditor General to the Members of Isle of Anglesey County Council

Auditor General for Wales' report to the Members of Isle of Anglesey County Council

I have audited the accounting statements and related notes of Isle of Anglesey County Council for the year ended 31 March 2016 under the Public Audit (Wales) Act 2004.

Isle of Anglesey County Council's 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 2015-16 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 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 Isle of Anglesey County 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 Isle of Anglesey County Council

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Isle of Anglesey County Council as at 31 March 2016 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 2015-16.

Appendix 2 continued

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 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 Isle of Anglesey County 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
30 September 2016

Wales Audit Office
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 and Governance 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.

	Nature of correction	CIES Dr	CIES Cr	BS Dr	BS Cr
		£'000	£'000	£'000	£'000
1	**Capital commitment** We identified that the capital commitment in note 16 for LLangefni Link Road was overstated by £622,423 as this was also accrued for in assets held for construction .	n/a	n/a	n/a	n/a
2	**Valuation of garages** Garages revalued with increased yields applied – value reduced significantly, this will need changing in GL reducing from £11,389k to £3,500k. Dr Revaluation reserve £7,889k, Cr Fixed assets (garages) £7,889k. Please see Appendix 5 for further information.			7,889	(7,889)
3	**Assets Held for Sale** As a result of a review of the revaluation report we identified that the Caergyby asset held for sale was double-counted following its revaluation. Dr Revaluation Reserve £550k' Cr L&B £550k.			550	(550)

Appendix 3 continued

	Nature of correction	CIES Dr	CIES Cr	BS Dr	BS Cr
		£'000	£'000	£'000	£'000
4	**Disposals** As a result of our review of Note 7 Adjustments between accounting basis and funding basis, and Note 15 Non-current assets we identified that £77k was incorrectly coded to Dwelling disposals, as this class of disposals recorded in Note 15 are £362k, whilst Note 7 records the carrying amount of disposals as £285k. In addition, we identified that a £362k disposal value is also disclosed in the Housing Revenue Account (HRA) Income and Expenditure Statement. Dr Council Dwelling Disposals £77k, Cr Capital Adjustment Account £77k.			77	(77)
5	**Asset Categorisation** We identified during our testing of additions that in one instance an addition had been incorrectly categorised as an infrastructure addition rather than as an Assets Under Construction (AUC). The value of the individual asset sampled was £40,000 and upon further investigation as to whether any more assets relating to this project had been incorrectly categorised as Infrastructure rather than AUC, it was identified that a total of £888,425.34 had been categorised as Infrastructure rather than AUC. Dr AUC Additions £888k, Cr Infrastructure Additions £888k.			888	(888)

Appendix 3 continued

	Nature of correction	CIES Dr	CIES Cr	BS Dr	BS Cr
		£'000	£'000	£'000	£'000
6	**Social Services Cost Recognition** Social services provide financial aid to a number of people in residential homes. The residential homes agree a set price with each resident under care, who pays their own contributions towards the residential home costs, with the net balance being covered by the Council via their creditors system. The Council receives "Schedule A" forms from the residential homes, which give details of the gross cost, client contributions and the net cost to the Council. The Council then amalgamates these figures every reporting period, and posts an adjustment to increase the net costs recognised by the amount contributed by the clients. The cost of residential care homes is chargeable in full to the residents. If individuals are assessed as needing a care home place and their capital is below £23,250, they may be entitled to financial support from their local authority. The residents pay their contributions directly to the care homes. The authority's contributions are based on the residents' individual circumstances and represent the balance of charges not paid by the residents. The net amount is paid by the authority and not the gross. The Council has recorded the gross cost of the residential care and also the residents contribution as income. The Council should have shown only the net cost to the Council as the residents pay their contribution directly to the Care Home. Dr Income £1,628k, Cr Expenditure £1,628k.	1,628	(1,628)		

Appendix 3 continued

	Nature of correction	CIES Dr	CIES Cr	BS Dr	BS Cr
		£'000	£'000	£'000	£'000
7	**Revaluations** The Council has adopted a £30k threshold for the accounting of revaluation of changes in relation to Land and Buildings. It was noted that the collective total of the asset adjustment not posted was above our reporting threshold with a net total gain of £306k not posted by the client (Gross gains £328k and Gross losses £22k). Cr Fixed Assets £306k Dr Revaluation reserve £306k			306	(306)
8	**Revenue Grants - Supporting People** Internal invoices are required to be generated for services/work carried out in relation to the Supporting People grant. However, the departments of the council which were carrying out the work were not raising invoices as required and as a result a number of items of expenditure relating to the grant were accrued for. This had been taking place for a number of years and it has since come to light that the work accrued for has not actually taken place. The additional £238k of income was recognised as a result of this and the income has come from the general fund. Dr income £238k, Cr reserves £238k.	238			(238)

Appendix 3 continued

	Nature of correction	CIES Dr	CIES Cr	BS Dr	BS Cr
		£'000	£'000	£'000	£'000
9	**Equal Pay Provision** The Council is holding a provision in relation to equal pay claims totalling £3,016k at 31 March 2016. We have received supporting working papers confirming estimated equal pay and HMRC costs of £2.151m and it was confirmed that the remainder of the provision was a prudent estimate to cover any additional claims. As a provision must be based on a reasonable estimate it has been agreed that an adjustment will be made to release £865k of this provision. Dr Provision £865k Cr General Reserve £865k			865	(865)

CIES – Comprehensive Income and Expenditure Statement
BS – Balance Sheet

Appendix 4

Recommendations arising from our 2015-16 financial 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:

Matter arising 1 – Estates	
Findings	As part of our financial audit we engaged a valuation expert to assist the audit team with testing the appropriateness of the IAS 19 disclosure. The expert valuer has raised a number of areas for improvements which we have set out separately in Appendix 5.
Priority	Medium
Recommendation	Please see Appendix 5.
Benefits of implementing the recommendation	To improve the quality and robustness of the valuation process.
Accepted in full by management	Yes
Management response	Management will review its processes and work through the detailed recommendations in Appendix 5
Implementation date	All improvements will be implemented by the end of March 2017.

Matter arising 2 – IT General Controls - Segregation of Duties	
Findings	We noted that one of the users on Civica is both a systems administrator and is also responsible for both uploading and approving journals. Good practice would be to segregate the system administration privileges from the transaction processing, and to also segregate the authorisation from the approval of general ledger journals. We understand that there are practical limitations which prevent further segregation of duties through the IT access rights at this time.
Priority	Medium
Recommendation	We recommend that there is investigation of whether a manual check in the business process could operate to ensure segregation of duties over posting of journals
Benefits of implementing the recommendation	Minimise the risk of fraud as a result of poor segregation of duties controls.

Appendix 4 continued

Matter arising 2 – IT General Controls - Segregation of Duties	
Accepted in full by management	Yes
Management response	An investigation and report on findings will be done
Implementation date	The review will be undertaken by the 31st December 2016 and any subsequent changes will be implemented by the 31st March 2017

Matter arising 3 – IT General Controls - Starters, movers and leavers process	
Findings	We identified areas where the starters/movers/leavers process may be more efficient. For example the monthly HR report which is circulated to system administrators is not also circulated to those responsible for administering the SX3 and Resource Link applications. We also noted that the report does not contain the employee's email address which would help with linking the network and the Civica accounts to make it easier to revoke the Civica account. In addition we noted that the movers process is reliant on line managers notifying each other of the move, whereas bringing movers into the starters/leavers process might help ensure a more complete and smoother flow of information. We understand that the forthcoming relaunch of Resource Link will provide the means to integrate workflow which will help to manage the starters/movers/leavers process, although this will be a significant project for the Council.
Priority	Low
Recommendation	We recommend that the monthly HR report is distributed more widely and include the email account details, and consideration given as to bringing movers into the current starters & leavers process.
Benefits of implementing the recommendation	Improve efficiency in the process to allow for the timelier processing of starters, leavers and movers.
Accepted in full by management	Yes
Management response	Management accept the recommendation and are currently reviewing and implementing changes to address this recommendation.
Implementation date	All improvements will be implemented by the end of March 2017.

Appendix 4 continued

Matter arising 4 – IT General Controls - Resource Link Access	
Findings	On the Resource Link application, we identified that all members of the payroll team have supervisor access rather than having different levels of access to reflect different roles in the team. We further noted that strong password parameters are not enforced. Given the sensitive nature of the data held/accessed on this application and that amending the user access is not seen as practical due to certain days of the month when all of the team are required to have the wide-ranging access, it is important that access controls are strong – however we understand that a change is being applied to the application this month to bring in the functionality to set password strong parameters.
Priority	Medium
Recommendation	We recommend that this functionality is applied as early as possible to reduce the risk of the supervisor access accounts being compromised.
Benefits of implementing the recommendation	Reduce the risk of inappropriate access by members of staff to sensitive data, which may increase the risk of data loss, error or fraud.
Accepted in full by management	Yes
Management response	Management accept the recommendation and are currently reviewing and implementing changes to address this recommendation
Implementation date	All improvements will be implemented by the end of March 2017

Matter arising 5 – IT General Controls -Resource Link System Access Audit Trail	
Findings	For Resource Link we identified that the requests and approvals for user access were not retained, which meant that we were unable to trace users to authorisations for access.
Priority	Low
Recommendation	We recommend that these supporting emails and documents are retained for future reference.
Benefits of implementing the recommendation	Provide an audit trail of compliance with proscribed procedures.
Accepted in full by management	Yes

Appendix 4 continued

Matter arising 5 – IT General Controls -Resource Link System Access Audit Trail continued	
Management response	Management accept the recommendation and will make arrangements so that supporting documents are retained
Implementation date	Immediately

Matter arising 6 – Available for Sale Assets	
Findings	Land at Ffordd Cambria Quarry was planned to be auctioned in August 2015, however, whilst preparing the legal pack, it was identified that the land wasn't registered to the Council. Subsequent to this we have noted that the land has since been registered on 12 August 2016 and we have verified that it is currently being advertised on Rightmove. However, as the land was not able to be sold at the year-end in its current state at the time, which meant it was still incorrectly categorised as Asset Held For Sale (AHFS). Note, due to the trivial impact on the accounts (£150,000 reclassification between AHFS and PPE), an adjustment is not proposed.
Priority	Low
Recommendation	We recommend that before making any reclassifications of assets from PPE to AHFS, the responsible council staff should ensure that the assets meet all requirements of AHFS.
Benefits of implementing the recommendation	If assets are correctly categorised this avoids posting adjustments during the audit period and making changes to the statutory accounts.
Accepted in full by management	Yes.
Management response	Processes will be reviewed and a checklist of the requirements for AHFS will be included within the working papers
Implementation date	31st March 2017

Appendix 4 continued

Matter arising 7 – Bank Reconciliations	
Findings	We identified that bank reconciliations are not prepared for all bank accounts, and are instead prepared for only the General Account, Payments Accounts and No 2 Account. One bank reconciliation is prepared for all three accounts. In addition, we identified that the May 2015 bank reconciliation for bank account four was not reconciled until September 2015, and at the point of audit (March 2016) had not been reviewed by management. Finally, there are 8 HSBC accounts which are held and which have not been recognised as cash at the year-end totalling £9k. Whilst the amount is clearly trivial and we do not propose adjustment this is a control deficiency and all accounts held should be reconciled and recorded in the Council's financial statements.
Priority	Medium
Recommendation	It is recommended that separate general ledger codes are set up for each individual bank account held by the Council. It is further recommended that separate bank reconciliations are performed for every bank account on a monthly basis. Bank reconciliations should detail the general ledger balance for this account in comparison to the bank balance; adjustments required to match these two figures should be listed as individual line items.
Benefits of implementing the recommendation	There is the risk that where bank reconciliations are not prepared, discrepancies between cash at bank and the ledger cash figure will not be identified. There is also the risk that where one reconciliation is prepared for multiple accounts, it is not clear to which bank account reconciling items relate, increasing the chance of inaccuracies and again leading to potential unreconciled discrepancies between cash at bank and the general ledger cash figure.
Accepted in full by management	Yes.
Management response	A full and thorough review of the Bank reconciliation process will be undertaken.
Implementation date	31st March 2017

Appendix 4 continued

Matter arising 8 – General Ledger Reconciliations	
Findings	We identified that the reconciliations for both investments and borrowings are completed on a monthly basis between Logotech, the bank accounts and ledger. However, it is not noted when the reconciliation is performed or by whom (the reconciliation is a live spreadsheet that subsequent months are added to). Therefore we cannot assess the timeliness of the reconciliation and per our discussion with the finance team, and subsequently evidenced, there is no formal review by management of the reconciliations until year end. We also evidenced that the Housing Rent reconciliation between the general ledger and Orchard for June 2015 was not signed off by the preparer or reviewer. We noted per discussion with the client that the reason it had not been signed off was that they could not balance the reconciliation, and therefore did not want to send if for review. We noted that the reconciliation of over £400k was unbalanced by £19.93, which could be considered a trivial difference. If a threshold was adopted, the reconciliations could be reviewed in a timely manner, ensuring a functioning system of control.
Priority	Medium
Recommendation	It is recommended that all reconciliations for investments and borrowings record when they have been completed and reviewed. It is recommended that the Housing Rent reconciliation between the general ledger and Orchard is completed and reviewed in a timely manner. This should also be evidenced as being completed. IOACC should consider a tolerance threshold for reconciliations.
Benefits of implementing the recommendation	Any non-reconciling differences or issues may be identified in a timely manner and so can be investigated and rectified if reconciliations are prepared and reviewed in a timely manner.
Accepted in full by management	Yes.
Management response	Management accept the recommendation and will make sure that all recommendations are completed
Implementation date	31st March 2017

Appendix 4 continued

Matter arising 9 – Suspense Accounts	
Findings	We identified that there was an unallocated balance of £280 pounds in the suspense account on the 11 March 2016. This was made up of a small number of payments, including one for £250 from two years ago. As there is no reference on these payments, they can't be allocated and no one has subsequently come forward and claimed to have paid. In addition, in relation to testing of capital grants, we identified Beaumaris Pier capital grant income relating to the release of grant monies which was held in a suspense account which was unutilised and the related expenditure incurred was over and above the eligible expenditure limit per the Beaumaris Pier project. Per discussion with a Grants Co-ordinator of Beaumaris Pier capital grant he confirmed it was likely to be money set aside by Anglesey Council to go towards capital projects, however, no audit trail could be provided to provide us assurance of the source of the income.
Priority	Low
Recommendation	It is recommended that all suspense accounts are reviewed and cleared in a timely manner.
Benefits of implementing the recommendation	As this income offsetting expenditure has not come from a project specific source there is a risk that this income is money is received from a third party source relating to a separate project and could be subject to repayment. If this income relates to Anglesey funds set aside for capital projects, it should not be recognised as revenue.
Accepted in full by management	Yes
Management response	Management accept the recommendation and a regular review of the suspense accounts will be undertaken
Implementation date	31st March 2017

Matter arising 10 – Payroll Exception Reports	
Findings	We identified that when asked to view prior exception reports we were informed that these were not retained, and therefore evidence that this has been reviewed prior to the payroll BACs run is not available.
Priority	Low
Recommendation	It is recommended that exception reports are retained by the payroll department, and that they are signed and dated to show they have been approved prior to the Payroll run.
Benefits of implementing the recommendation	Ability to provide evidence that exception reports are run, reviewed and approved prior to the BACs payment.

Appendix 4 continued

Matter arising 10 – Payroll Exception Reports continued	
Accepted in full by management	Yes
Management response	Management accept the recommendation and are currently reviewing and implementing changes to address this recommendation
Implementation date	All improvements will be implemented by the end of March 2017

Matter arising 11 – Supporting Schedules for Statutory Accounts	
Findings	We identified in a number of instances working papers were not available, did not reconcile or did not fully support the note within the financial statements. The Waste Provision, for example, had no supporting calculations or other documentation. The fixed asset registers did not have details of brought-forward cost or accumulated depreciation, and had to be obtained separately. Additionally, the descriptions of a number of assets on the register (primarily infrastructure assets) were not sufficient to enable Council staff to effectively identify them without significant additional effort. We also had difficulties in obtaining working papers to complete our cash testing mainly relating to obtaining a complete list of bank accounts and accessing bank statements for the imprest accounts as these were held at specific sites. The reconciliations provided were not intuitive and Council staff were not able to explain exactly what was being reconciled i.e. how the account codes tied to actual bank accounts. Further, workings for Note 18b, which shows the analysis investment properties by type were not available.
Priority	Low
Recommendation	It is recommended that all notes to the accounts should have full reconciling supporting working papers, which reconcile to the ledger and maintain a complete audit trail.
Benefits of implementing the recommendation	Enhance the efficiency of the audit process if all disclosures are supported by working papers.
Accepted in full by management	Yes
Management response	Management accepts the recommendation and will work towards making improvements
Implementation date	31st March 2017

Appendix 5

Estates related recommendation arising from our 2015-16 financial audit work

We set out all the estates related 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:

Title / Area	Finding and Recommendation	Management response
RICS Registered Valuer	We identified that the Council's internal estates team valuers, and the specific valuer Barry Jones (Senior valuation officer) is appropriately qualified and appears to have the requisite experience to undertake the valuations. However it is noted that the valuer is not an RICS Registered Valuer. Whilst it is preferable that the valuer who undertakes the valuations is a RICS Registered Valuer, if the valuations are overseen by a RICS Register Valuer then this should be sufficient as long as there is a transparent auditable trail confirming that the valuations have been reviewed by an RICS Registered Valuer. **It is recommended that** the valuer registers under the RICS scheme.	We are happy to undertake the recommendation set out and will for future years make arrangements so that either we have a valuer that is registered under the RICS Scheme internally but until such time we will make arrangements for a third party to review all valuations.
Valuation Certificate Report	Within the Council's Valuation Certificate Report the valuer has provided a very brief explanation of the various valuation bases or methods of valuation that has been adopted for the majority of the assets. However it is noted that no commentary is provided on the Housing Revenue Account (Council House Dwellings) valuations which makes up the majority of the valuations reported this year, by value. Nor is there any information on the Legal Charges or Surplus Assets valuations. **It is recommended that** in future years that valuer ensures that their report provides commentary on the general valuation process and basis of valuation adopted for each asset class valued in the year.	We are happy to undertake the recommendation and will work with our valuations team to ensure that all recommendations are addressed.

Appendix 5 continued

Valuation Process	Following the review of the Valuation Certificate Report and after clarifying specific issues with the valuer we are satisfied that a full explanation of the general approach has been provided, however we would make the following observations and recommendations: a. The valuer has confirmed that 'drive by' inspections of Council House Beacons and garages were undertaken this year otherwise inspections were not specifically undertaken for the asset valuation exercise. Whilst the valuer confirmed that they know the properties well and undertake inspections throughout the year in relation to their asset management mandate, **it is recommended that** a more extensive inspection programme is undertaken to ensure that all assets are inspected during the five year rolling valuation programme, including the internal inspection of sample Beacon Council Houses; b. **It is recommended that** the Assets categorised as Investment, Surplus and Assets Held for Sale Assets are valued on an annual basis to ensure any value movement is captured, we understand the preparation of annual valuation of these assets has now been instigated; c. It is noted that the valuer provides land and building value apportionments for each asset for depreciation purposes. However, in the case of the non-specialised assets, this land and building value apportionment is largely based on fixed percentages. Whilst this is a recognised approach **it is recommended that** the land value apportionment should be checked against land sales evidence to ensure that the land value/rate per acre is appropriate in each case; d. The Council's componentisation policy is noted, however it is also noted that no or very few assets have been subject to componentisation this year, including the Council Houses which obviously represents a significant proportion of the Council's	We will review our processes in order to meet all the recommendations identified.

Appendix 5 continued

	property portfolio by value. Furthermore we understand that where similar components exist in large number of analogous assets and whilst on an individual basis may not be material but collectively they would have a material impact on depreciation they should be separately depreciated. We consider that this situation will apply to the Council House assets and therefore **we would recommend that** the Council's current policy on componentisation is reviewed for both the Council Houses and the non-domestic assets, to ensure that an appropriate percentage of assets are componentised each year to make sure that depreciation may be more accurately accounted for; e. We understand that the valuer did not consider the economic useful lives as part of his valuation of the Council Houses. We presume the provision of this information will be required by Finance to determine the depreciation position on the Housing Stock. Accordingly **we would recommend that** the Council's Finance team ensures that they obtain economic useful lives for each relevant assets as part of the valuation output each year; f. The valuer's overall approach in the valuation of the Council Housing Stock is in line with guidance provided by The Department for Communities and Local Government (DCLG) Guidance- Stock Valuation for Resource Accounting- Guidance for Valuers 2010. However as this guidance is dated we would have expected the valuer to undertake some analysis to determine whether the adjustment factor adopted in their valuation is appropriate, particularly as it is derived from housing stock in a different geographical location. It is noted that the valuer has sought guidance on this matter and has confirmed that the adjustment factor of 31% (Yorkshire & Humberside) was selected after various meetings and discussions with previous auditors and valuers of other Welsh	

Appendix 5 continued

	authorities. The valuer has also confirmed that it was concluded that the Yorkshire & Humberside is more geographically similar with similar property values compared to other areas of England. **However we would recommend that** in the future the valuer undertakes further research and analysis to determine whether the adjustment factor is appropriate. (The adjustment factor is a measure of the difference between private open market rented and socially rented property within the Local Authority area. It is the discount which, when applied to the cumulative total of all Beacon values, gives rise to the Existing Use Value-Social Housing for the housing stock. The adjustment factor, therefore, is the relationship between the capitalised net rent (investment value) of private dwellings and the equivalent public sector investment. It is determined with reference to the relationship between rents and yields in the private residential sector and the public / socially rented sector); g. For assets valued using the Depreciated Replacement Cost (DRC) approach, (specialised assets) we note that the valuer has confirmed that the valuations are provided exclusive of VAT. This approach assumes that the Council can reclaim the VAT on build costs. It would be useful if the valuer verifies the position on VAT each year and provides commentary on this issue in the valuation report i.e. that it has been confirmed that VAT can be recovered on new build costs for each of the assets valued this year on the DRC basis; h. The valuer has confirmed that he has not provided details of the costs of sale for the assets categorised as Assets Held for Sale as the Council acts in the sale for these assets. We would comment that it is more common that the hypothetical costs of disposal are also stated together with the valuation for these assets, irrespective of whether the Council acts in the sale or not; and	

	i. We understand in previous years issues may have arisen with valuations being provided for assets which were no longer in the Council's ownership. **We would recommend that** that the valuer undertakes all the necessary checks to ensure the list of Surplus and Assets Held for Sale is accurate and this is verified to the Council's Finance team and commented upon in the valuation report.	
Valuation of garage / lockup assets	Following our review of the valuer's Valuation Certificate Report and our follow up questions raised we identified an issue with the valuation of the garage/lockup assets. We have provided a summary of the issue identified below together the resolution which has been agreed with the Council's valuer and Finance team: a) It is noted that following our questioning that the valuer confirmed that there was an error in the valuation of the garage assets and that the valuer has confirmed that the reported total value should be £10,175,100 as opposed to £11,388,640 as originally reported. Furthermore we had concerns over the valuation of the garages as the valuer had confirmed that the valuation of these garages reflected a range of £8,000 to £30,000 with an overall average of c. £15,000 per garage. Whilst the figures appear to be supported by the limited sales evidence of garages provided by the valuer, we identified garages which are currently been marketed at substantially lower prices. In addition the values for Isle of Anglesey garages are substantially higher than any Local Authority garage/lockup valuations we have reviewed or valued across the UK. b) If the garages are classified as Investment Assets then a purely Market Value approach might be appropriate (based on sales evidence which may reflect development potential, i.e. highest and best use). However we understand the garages are categorised as Operational, PPE. Given this categorisation we consider	We are happy to accept the recommendations and we will work with our Property department to ensure all recommendations are undertaken.

Appendix 5 continued

	that the garages should be valued on an Existing Use Value basis reflecting the fact that they will be retained for use as garages and that the valuations should be principally be based on the relatively modest rental income received (c. £7.41 per week per garage), as opposed to a value based on the potential sale of individual garages. c) The valuer's adopted yields of 2% (let garages) and 3% (vacant garages) have principally be determined to support his view of the Market Values of garages as opposed to an Existing Use Value and we understand these yields cannot be supported by sales evidence of similarly let investments. Accordingly on the basis that these garages are categorised as Operational, PPE then we believe that higher yields should be adopted. We collated information on the valuation of other Local Authority garages and details of a number of garages which are currently for sale in Anglesey and this was provided to the valuer further support our view that the valuation of the garages were overstated and to provide some assistance to the valuer in reviewing their approach and valuation of these assets. d) It is up to the Council's valuers to determine the valuation of these assets but a value equating to an average range of £3,000 to £7,000 per garage would be more consistent with other Local Authority garage/lock up values, and the asking prices for lock-ups in Anglesey which we have researched. The valuation of the garages was discussed further in a joint conference call with, Audit, the Council's Finance contact (Claire Klimaszewski) and the valuer (20 July 2016) and it was agreed that the valuer would review their valuation approach. The valuer has subsequently confirmed that the valuation of the garages have been revised to £3,500,800. This equates to an average value of £4,558 per garage (768 garages). We consider this is more in line with the level of values determined on other Local	

Appendix 5 continued

	Authority garage/lockup valuations and therefore we can confirm that as this adjustment has been made, we have no further issues. e) It was also noted that the valuer appraised the value the garages on a 'cluster' basis, based upon the location of the garages. In a small number of cases the value of specific garage 'clusters' fell below the Council's de-minimus valuation threshold of £30,000, due to the small number of garage clusters being in a particular location. Originally the values of these garages were not reported as the total value fell below the de-minimus threshold. Given the nature of these assets it was agreed that the value of all the garages should be reported, even if a specific cluster or group of garage assets fell below the threshold. Based on the valuer's original valuation the total value garages which were deemed de-minimus was c. £110,000. Clearly adopting the revised valuation approach this figure would be significantly higher therefore it was agreed by all parties that reporting the total value of this asset group would be appropriate, irrespective of whether the value of certain group of garages fell below the di-minimus threshold. We consider that this approach, adopted for this specific group of assets, is appropriate.	
Valuation Sampling Exercise	In the asset valuation sampling exercise we have noted a number of non-material issues and we would recommend that the following points are raised with the valuer to ensure the valuation approach is refined in future valuations: a. It is noted that the valuer has added a contingency allowance of 10% to the build costs for Specialised Assets valued on a Depreciated Replacement Cost (DRC) basis. Whilst the approach adopted in DRC valuations is not prescriptive, a contingency addition of 10% is at the highest end of a range we would expect. Typically contingency costs are taken a 5% of build costs but we	We are happy to accept the recommendation and will adjust our processes to involve this exercise.

Appendix 5 continued

	are also aware that there is a valid argument that no contingency costs would be incurred as it is often assumed that no unforeseen costs would be incurred when building a hypothetical replacement asset; and b. The valuer has adopted set percentages to determine building and land value apportionments. Whilst a recognised approach we would recommend that in future years the resulting land valuations are checked on a rate per acre basis to verify that the land values fall within a reasonable range.	
Valuer assumptions and caveats	The general assumptions and caveats adopted for this asset valuation and as set out in the valuer's report are on the whole appropriate for the purposes of an asset valuation for financial reporting purposes however the Council's Finance team should review these each year to ensure that valuations prepared subject to those assumptions and caveats are appropriate for their requirements.	We are happy to undertake this recommendation and will ensure that the review is documented.
Unified valuations workings	Currently valuations workings are performed on numerous working papers, with no history of previous revaluations utilised. As such, each movement in value has to be checked against the specific asset balance on the CIPFA fixed asset register, to verify whether or not the asset has a b/fwd revaluation reserve balance or whether previous losses have been charged in the I&E. **It is recommended** that all fixed asset revaluations are analysed on a single spreadsheet, and that the spreadsheet keeps track of all movements in the previous years. Example of columns: 1. Asset name / reference / type, 2. Cumulative movements up to 2015/16 (giving a revaluation reserve or an I&E charge balance brought forward, with the RR amount reconciling to the b/fwd revaluation reserve amount), 3. Value before revaluation, revalued amount, movement, movement posted to RR (depending on the cumulative	We are happy to undertake this recommendation and will arrange so that the fixed assets are analysed on a single spreadsheet which will track all of the movements.

Appendix 5 continued

	balance), movement posted to CIES (depending on the cumulative balance), 4. Closing RR (this being b/fwd RR + movement noted above), Closing I&E (b/fwd + movement). The final two columns would become “Cumulative movements up to 2016/17” to be used in next year’s workings, with the closing RR balance reconciling to the actual reserve as noted on the MIRS.	
Housing stock on the fixed asset register	Currently dwellings and garages are posted as s single entry on the CIPFA fixed asset register. This results in any revaluation movements to individual garages or dwellings being allocated against a “pool” revaluation reserve balance / previous I&E charge. As these categories of assets form a significant part of the Council’s balance sheet, **it is recommended** that all such assets be itemized on the fixed asset register to allow specific revaluations entries to be made.	We are happy with this recommendation and will proceed to have the assets itemized on the fixed asset register.
Housing stock reconciliation	During our review of the HRA statements, it was noted that the numbers disclosed as Council owned stock (3,788) do not agree to the number noted as part of our fixed assets testing (3,795). While we conclude that the difference noted in the HRA disclosure is not significant, **it is recommended** that the Capital assets accountant liaises with the HRA accountant on a regular basis to ensure that the Council’s records of controlled assets are accurate and that any re-categorisations, write-offs or disposals are effectively communicated.	We are happy to accept this recommendation and will make arrangements so that regular meetings will be set up between the Accountants.
Identification and verification of Infrastructure assets	Our testing identified three infrastructure assets totalling £5,336k which could not be identified or verified due to a lack of supporting working papers. These assets are: • Infrastructure 2 INFRA00085 - £4,098k; • Capitalised Highways Maintenance INFRA00084 -£200k; and • Local Roads Grant Schemes INFRA00194 - £1,038k.	We are happy to accept the recommendation and improvements to working papers will be made in time for the 2016/17 Statement of Accounts.

Appendix 5 continued

	It is recommended that the Council identifies and maintains sufficient records for the assets it owns/ controls, especially given that in 2016/17 there will be a requirement to carry such assets at fair value.	
Reconciliation of the revaluation reserve balances	Due to historical errors involving the FAR module, in relation to the de-recognition of Land and Buildings and Council Dwelling additions where these would be entered into the FAR as an "Impairment", which would trigger the release of any Revaluation Reserve (RR) balance against the asset. The correct treatment would have been to take the additions directly to the CIES, without impacting the reserves. The reason these additions would be written-off was because they are not seen as value-adding to the existing capital items. Over time, this had resulted in a discrepancy between the RR records on the General Ledger (GL) and the FAR, with the RR balance on the FAR being lower than the GL balance. As the revaluation calculations are based on the CIPFA FAR amounts (which may include incorrect b/fwd RR balances), the in-year postings relating to upwards or downwards revaluations may be calculated incorrectly. **It is recommended that the Council** ensure the GL and FAR are reconciled.	We are happy to accept the recommendation and will ensure that all recommendations are done in a timely manner.

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