



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# Audit of Financial Statements Report – Isle of Anglesey County Council

Audit year: 2017-18

Date issued: September 2018

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. This document is also available in Welsh.

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The Auditor General intends to issue an unqualified audit report on your financial statements, subject to final audit testing being complete, and all items on the outstanding list resolved (See page 4).

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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 Isle of Anglesey County Council at 31 March 2018 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 £5m. 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 2017-18, that require reporting under ISA 260.

## Status of the audit

- 6 We received the draft financial statements for the year ended 31 March 2018 on 11 June 2018 and have now substantially completed the audit work. At the date of issue of this report the following were outstanding:
  - a. Finalisation of documentation in relation to provisions, accounting treatment of pension deficit payment and pensioner numbers.
  - b. Finalisation of Partner and independent quality review process and audit file documentation; 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 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](#).

## Significant issues arising from the audit

### Uncorrected misstatements

10 There are misstatements that have not been corrected by management, 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](#)

### Corrected misstatements

11 There are misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process. They are set out with explanations in [Appendix 3](#).

## Significant Risks

12 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
<p><b>Management override of controls</b></p> <p>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].</p>	<p>The audit team undertook the following procedures:</p> <ul style="list-style-type: none"><li>• 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;</li><li>• performed testing on the design and implementation of controls over journal entries to the financial ledger;</li><li>• testing the appropriateness of accounting estimates for biases; and</li><li>• evaluation of the rationale for any significant transactions outside the normal course of business including those with related parties.</li></ul> <p>No issues were identified from our testing.</p>

Financial audit risk	Proposed audit response
<p><b>Completeness and cut-off of expenditure</b></p> <p>We have identified completeness and cut-off of expenditure as a significant risk as there may be an incentive not to record all expenditure in order to for the Council to report a more favourable year end position.</p>	<p>The audit team undertook the following procedures:</p> <ul style="list-style-type: none"> <li>• performed design and implementation testing over controls to ensure completeness of expenditure;</li> <li>• performed focused audit testing in relation to the completeness of expenditure including the testing of provisions and accruals as at the year end; and</li> <li>• completed detailed testing in relation to management estimates and judgements as set out in the management override risk detailed above.</li> </ul> <p>No issues were identified from our testing.</p>
<p><b>Property Valuations</b></p> <p>The Council completes a cyclical full valuation process whereby classes of assets undergo a full valuation on a 5 yearly basis, with the valuations being completed by internal valuers.</p> <p>Property valuations by their nature include judgements and estimates and with land and buildings valuations as at March 2017 being £288 million, changes in judgements and estimates can have a material impact on the carrying value.</p>	<p>The audit team undertook the following procedures:</p> <ul style="list-style-type: none"> <li>• design and implementation testing in relation to the property valuation process including the identification of impairments outside of the valuation process;</li> <li>• Engaged with internal valuation specialists to assess the reasonableness of assumptions underpinning the valuation; and</li> <li>• Traced all valuation movements through the financial statements to ensure they are fairly stated.</li> </ul> <p>No issues were identified from our testing.</p>

## Other significant issues arising from the audit

- 13 In the course of the audit, we consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you. There were no issues arising in these areas this year:
- 14 **We have no concerns about the qualitative aspects of your accounting practices and financial reporting.** We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear.
- 15 **We did not encounter any significant difficulties during the audit.**
- 16 **There were no significant matters discussed and corresponded upon with management which we need to report to you.**

- 17 **There are no other matters significant to the oversight of the financial reporting process that we need to report to you.**
- 18 **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](#).
- 19 **There are no other matters specifically required by auditing standards to be communicated to those charged with governance.**

## Recommendations arising from our 2017-18 financial audit work

- 20 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

- 21 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 22 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 Isle of Anglesey County 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

XX September 2018

### **Representations regarding the 2017-18 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 2018 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.
- 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.

On review of Council assets against its policy of componentisation of assets with mixed length useful economic lives, no asset or collective asset class has been identified by the Council of requiring to be componentised.

The valuer has been provided with a complete list of assets to value.

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 grant income has been recognised in line with the conditions attached.

The Monitoring Officer has disclosed all exant legal issues to the auditors and in their view all exant legal issues requiring provisions have been appropriately disclosed in the accounts.

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.

We confirm that: all retirement benefits and schemes, including UK, funded or unfunded, approved or unapproved, contractual or implicit have been identified and properly accounted for; all settlements and curtailments have been identified and properly accounted for; all events which relate to the determination of pension liabilities have been brought to the actuary's attention; the actuarial assumptions underlying the valuation of the scheme liabilities (including the discount rate used) accord with the managers' best estimates of the future events that will affect the cost of retirement benefits and are consistent with our knowledge of the Council; the actuary's calculations have been based on complete and up to date member data as far as appropriate regarding the adopted methodology; and the amounts included in the financial statements derived from the work of the actuary are appropriate.

**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 XX September 2018.

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: .....

Marc Jones  
S.151 Officer  
Isle of Anglesey County Council

Signed by: .....

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 financial statements and related notes of Isle of Anglesey County Council for the year ended 31 March 2018 under the Public Audit (Wales) Act 2004.

Isle of Anglesey County Council financial 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 and the related notes, including a summary of significant accounting policies.

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 2017-18 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial position of Isle of Anglesey County Council as at 31 March 2018 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 2017-18.

### **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 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.

### **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 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 annual report and accounts. The other information comprises the information included in the annual report 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 2017-18;
- 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 environment obtained in the course of the audit, I have not identified material misstatements in the Narrative Report or the Governance Statement.

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 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 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.

### **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 13, the responsible financial officer is responsible for the preparation of the statement of accounts, 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 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](http://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  
XX September 2018

24 Cathedral Road  
Cardiff  
CF11 9LJ

# Appendix 3

## Summary of uncorrected misstatements which should be drawn to the attention of Audit and Governance Committee

During our audit we identified the following misstatements that have not corrected by management, which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process:

- In 2017/18 a payment of £3.66m was made by the Council to Gwynedd Pension Fund to cover the fixed element of the employer contributions for the period 2017/18 to 2019/20. The Council accounted for this by charging 1/3 to the general fund and 2/3 to the Earmarked Reserve. After taking into account the balance on the Earmarked Reserve this has resulted in a negative reserve of £2.44m.

The Wales Audit Office has considered the treatment of pension fund deficit payments and concluded that the payment of fixed elements of pension fund contributions should be recognised in full in the year of payment in line with Regulation 24 of the 2013 Local Government Pension Scheme Regulations.

The result is that the £2.44m charged to the Earmarked Reserve should be charged to the general fund. As this is a classification error within the detail of the usable reserves, management have chosen not to adjust the accounts for this error.

- Management as part of their review of post balance sheet events identified that a contingent asset – the Leisure VAT Claim in note 43 – crystallised in August 2018. HMRC accepted the claim and reimbursed the VAT collected, resulting in a payment from HMRC of £0.9m. As this is not material, Management have chosen not to adjust the accounts for this, and will recognise it in 2018/19.

## Summary of corrections made to the draft financial statements which should be drawn to the attention of 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.

CIES DR	CIES CR	BS DR	BS CR	ER Dr	ER Cr	Nature of correction
£'000	£'000	£'000	£'000			
	789	789				Incorrect reconciliation of Housing Revenue System to the Council's Ledger over the last three years resulted in an under recognition of revenue. .

CIES DR	CIES CR	BS DR	BS CR	ER Dr	ER Cr	Nature of correction
105		1,936	2,041			Incorrect percentages were initially used in the internal valuers report that led to incorrect calculation of fixed asset revaluation amounts.
2,000	2,000		2,000	2,000		On review of the circumstance and accounting treatment of the earmarked reserve for the Penhesgyn Waste Landfill Site, it was identified this meets the criteria for a provision, and therefore a provision has been charged to the CIES. The earmarked reserve has been released.

Management also corrected the senior remuneration note and associated party note in relation to: WJEC CBAC, Mon Mentor and transactions with Age Concern, Anglesey Agricultural Show, Mon CAB, careers Champion and Gwrp Llandrillo/Menai.

*CIES – Comprehensive Income and Expenditure Statement*

*BS – Balance Sheet*

*ER - Earmarked Reserves*

# Appendix 4

## Recommendations arising from our 2017-18 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.

In 2016-17 we raised 8 recommendations. 2 have been re-raised (Matter arising 1 and 4).

<b>Matter arising 1 - Payroll Controls</b>	
<b>Findings</b>	We identified as part of our New Joiners walkthrough that a payroll member of staff can create a new starter and update the individual's bank details in addition to members of the HR department.
<b>Priority</b>	Medium
<b>Recommendation</b>	It is recommended that Payroll members of staff do not have the ability to set up new starters and update the individual's bank details and these functions are reserved to HR staff.
<b>Benefits of implementing the recommendation</b>	This mitigates the risk that cash can be paid to fictitious employees.
<b>Accepted in full by management</b>	Accepted
<b>Management response</b>	The process surrounding new starters and timesheets will change significantly as we continue to roll out the improvements to the Northgate HR/Payroll System. All new starters will be processed by HR (through the web recruitment function). Access levels of members of staff will be reviewed and amended as relevant once the process is complete.
<b>Implementation date</b>	December 2018

<b>Matter arising 2 - Bank Reconciliations</b>	
<b>Findings</b>	We identified during our walkthrough of the treasury business process that monthly bank reconciliations at the Council had not been undertaken since August 2017.
<b>Priority</b>	Medium
<b>Recommendation</b>	It is recommended that bank reconciliations are undertaken on a monthly basis.



<b>Benefits of implementing the recommendation</b>	This will mitigate the risk of misallocation of cash and improves the timeliness of identifying issues with cash balances.
<b>Accepted in full by management</b>	Accepted
<b>Management response</b>	Changes in the cash management system will lead to greater automation and simplification of processes which will help ensure that the bank reconciliations are completed in a timelier manner.
<b>Implementation date</b>	September 2018

<b>Matter arising 3 – Housing Benefit Reconciliation</b>	
<b>Findings</b>	We identified that over three years, 900k of revenue from the housing benefit system SX3 was not recognised due to no reconciliation taking place between the SX3 system and a Finance system general ledger code.
<b>Priority</b>	Medium
<b>Recommendation</b>	It is recommended that a reconciliation between SX3 and the Finance system is prepared and reviewed on a monthly basis.
<b>Benefits of implementing the recommendation</b>	The Council recognise all revenue due.
<b>Accepted in full by management</b>	Accepted.
<b>Management response</b>	Reconciliations will now commence on a regular basis
<b>Implementation date</b>	September 2018

<b>Matter arising 4 – Payroll Controls – Processing of timesheets</b>	
<b>Findings</b>	We identified that currently all Payroll officers are responsible for the checking and inputting of timesheets onto the payroll system. At the end of each month one Payroll officer will be responsible for checking the data input into the payroll system (this alternates between the three officers). This means that the member of staff completing the checking will check the data inputted by themselves, and therefore there is not complete segregation of duties
<b>Priority</b>	Medium
<b>Recommendation</b>	It is recommended that the council introduce complete segregation of duties in relation to the processing of timesheets.

<b>Benefits of implementing the recommendation</b>	The Council will mitigate the risk of fraudulent time hours being paid.
<b>Accepted in full by management</b>	Partially-accepted
<b>Management response</b>	There is segregation of duties with the Payroll Assistants entering the timesheets. These are then checked and processed by the Payroll Officer relevant to that payroll. In addition, once the HR/Payroll Northgate improvement project has been implemented, the procedures and segregation will be further improved. For example, the majority of employees will input their own timesheets, these will be authorised by their manager. This will free up payroll officers' time for checking and examining exception report.
<b>Implementation date</b>	December 2018

#### Matter arising 5 – Revaluation Controls – review of postings of revaluations

<b>Findings</b>	It was identified that the postings of the change in fair value of assets to the revaluation reserve and CIES had been made incorrectly.
<b>Priority</b>	Medium
<b>Recommendation</b>	It is recommended that a separate review is performed on the postings of the revaluation movements to the reserves.
<b>Benefits of implementing the recommendation</b>	The Council will mitigate the risk of incorrect postings to the revaluation reserve.
<b>Accepted in full by management</b>	Accepted
<b>Management response</b>	The revaluation worksheet was reviewed but will be reviewed more closely including checking all formulas.
<b>Implementation date</b>	For 2018/19 accounts

#### Matter arising 6 – Related Party Transactions

<b>Findings</b>	We identified that a number of related party transactions were not disclosed in the initial version presented to audit. Furthermore, some related party figures were incorrectly reported.
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<b>Priority</b>	Medium
<b>Recommendation</b>	It is recommended that management review the related party disclosure, and ledger.
<b>Benefits of implementing the recommendation</b>	The Council will appropriately disclose its related party transactions.
<b>Accepted in full by management</b>	Accepted.
<b>Management response</b>	A review will be undertaken during 2018-19 of the related parties and will be reconciled to the ledger in order for accurate reporting.
<b>Implementation date</b>	March 2019
<b>Matter arising 7 – Rent Collection</b>	
<b>Findings</b>	We identified that increases in rent were not fully implemented within the housing system. We identified one property should have had a rent increase to £99.13. However we evidenced that the rent was recorded as £92.34.
<b>Priority</b>	Medium
<b>Recommendation</b>	It is recommended that the Council pass on the full rent increases, implementing a system of review that confirms all rent increases have been applied.
<b>Benefits of implementing the recommendation</b>	The Council will increase the level of income from its housing stock.
<b>Accepted in full by management</b>	
<b>Management response</b>	
<b>Implementation date</b>	

## Recommendations arising from our 2017-18 IT 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. In 2016-17 there were 6 recommendations. One recommendation has been re-raised as part of our 2017-18 work.

Multiple Systems – Passwords	
<b>Findings</b>	<p>We noted a number of weaknesses in the password parameters configured on the Resource Link Application and Database as below:</p> <p><b><u>Resource Link Application</u></b></p> <p>The following weaknesses were identified with the Resource Link application password parameters:</p> <ul style="list-style-type: none"> <li>- Minimum Password Length = 7 characters;</li> <li>- Password History = Not Set;</li> <li>- Password Expiry = Not Set;</li> <li>- Lockout Threshold = Not Set; and,</li> <li>- Lockout Duration = Not Set</li> </ul> <p>In aggregate this means that users may choose simple, easy to guess passwords, which would be in contradiction to the Council's security policy and increase the risk that their accounts could be accessed inappropriately.</p> <p><b><u>Resource Link Oracle Database</u></b></p> <p>The following weaknesses were identified with the Resource Link Oracle Database application password parameters:</p> <ul style="list-style-type: none"> <li>- Minimum Password Length = Not Enforced;</li> <li>- Password History = Unlimited;</li> <li>- Password Expiry = Unlimited;</li> <li>- Password Complexity = Not Enforced;</li> <li>- Lockout Threshold = 10 attempts; and,</li> <li>- Lockout Duration = 1 minute</li> </ul> <p>Weaknesses in password controls increases the vulnerability of the system to brute force attacks and hence raises the risk of unauthorised parties gaining access to systems or data. Databases should especially be protected given that they give direct access to the data.</p> <p>Additionally, with the GDPR legislation, all applications holding personal data should have stringent password parameters to ensure no data is lost which could result in financial penalties for the council.</p>

<b>Multiple Systems – Passwords</b>	
<b>Priority</b>	High
<b>Recommendation</b>	<p>It is acknowledged that management have already taken steps to align all systems with Windows AD password settings and to revise the password policy in line with the NSCS guidance. This will see the password expiry increase from 1 month to 12 months and password length from 7 characters to 9 characters. We however recommend implementing minimum password length of 12 characters and implementing monitoring controls to ensure that user accounts are kept secure from unauthorised access. The monitoring controls include:</p> <p>i) Monitoring logins to detect unusual use;  ii) Notifying users with details of attempted logins, successful or unsuccessful; they should report any for which they were not responsible.</p>
<b>Benefits of implementing the recommendation</b>	Maximising controls in place over authentication to systems will reduce the risk of data being inappropriately accessed.
<b>Accepted in full by management</b>	Rejected
<b>Management response</b>	<p>The NCSC guidance states that if password are too long in length end users will be more likely to write them down. 9 Characters offers increased security over the previous 7 but also reduces the likelihood of users writing passwords down, which is against our IT Security Policy.</p> <p>Our Intrusion Prevention and Detection system monitors the network for potentially malicious traffic and/or actions, multiple failed login attempts to Active Directory is one of these parameters.</p> <p>Our domain login policy forces account lockout after 3 failed login attempts, at which point the user must contact the IT Service Desk to request unlocking.</p> <p>We do not feel it would be appropriate to email users each and every time their account successfully logged in, although we will investigate the possibility of a notification on failed login.</p> <p>The changes noted by the auditor have only recently been implemented, a review will be carried out in 6 months.</p>
<b>Implementation date</b>	N/A

## Estates related recommendations arising from our 2017-18 financial audit work

We set out all the estates related recommendations arising from our audit with management's response to them. The majority (three) of the recommendations relate to the valuation approach and how to improve the accuracy of the valuation of Council assets. The remaining two are procedural in nature. We will follow up these next year and include any outstanding issues in next year's audit report. Outstanding recommendations for 2016/17 have been updated and included in the 2017-18 recommendations.

Title / Area	Finding and Recommendation	Management Response
<b>Valuation Related Issues : Council Dwellings</b>	<p><b>It is recommended that the valuation information that is prepared for Council Dwellings includes information on the estimated economic useful lives for the housing stock. and that in future the stock is reviewed to ensure economic useful lives reflect the condition of the housing stock.</b></p> <p>The valuation information provided on the Council Dwellings did not include any information of the estimated economic useful lives for the housing stock. After questioning the valuer has confirmed <i>'Economic useful lives have been assumed to be 30 years as assets are maintained in accordance with the Welsh Housing Quality Standard'</i>.</p>	<p>Previously the useful economic life of the Housing Stock was reduced each year and was about 23 years. In 2017/18 we sought to find a more valid basis for the useful economic life. A meeting was held with the Housing Technical Service Manager, the Senior Valuation Officer, the Senior Accountant and the Finance Manager in order to identify a more accurate useful economic life for the Housing Stock. It was highlighted at this meeting that Housing has to maintain the housing stock in accordance with the Welsh Housing Quality Standards. Each year the Council submits a 30 year plan to Welsh Government which details how the service will maintain and refurbish stock in order to have useful economic life of 30 years in order to comply with the Welsh Housing Standards. Each year significant investment is made to ensure the council achieves its 30 year plan and has a housing stock which is fit for the 30 year</p>

		<p>period. The Housing Service has periodic surveys done by an independent organisation so it has clear information on how to invest in its Housing stock. Anglesey is a high performer in relation to its achievement of the Welsh Housing Quality Standard. Therefore, 30 years is a more robust basis. It is proposed that each year the useful economic life will remain at 30 years due to the continual investment programme in accordance with the 30 year plan.</p> <p>This approach was decided well in advance of closure of accounts and was a clearly planned approach.</p>
<p><b>Valuation Related Issues : Council Dwellings</b></p>	<p><b>It is recommended that the Council review its componentisation policy.</b></p> <p>It is noted no componentisation exercise has been undertaken on the Council House portfolio, whilst the valuer has pointed out the individual values of the housing units fall below the threshold set in the Council's componentisation policy, the housing portfolio obviously represents a significant proportion of the Council's property portfolio by value. We understand that where similar components exist in large number of analogous assets which on an individual basis may not be material but collectively they would have a material impact on depreciation, they should be separately depreciated.</p>	<p>The Council has a componentisation policy which would focus componentisation on material changes to the calculation of depreciation. The policy also states that where in aggregate there a material impact on depreciation is, then the collective of the assets should be componentised. The Finance Team will review the policy and the focus will continue to be on materiality.</p> <p>With regard to the Housing stock, the economic useful lives of roofs are not considered to be materially different to the fabric of the buildings. Boilers and kitchens may have a shorter life. However, given that the 30 years is a reasonable basis for its economic useful life, it is unlikely that there will be a material impact on the calculation of depreciation and there will be no impact on the true and fair view of the accounts as depreciation is cancelled out in the Movement in Reserves Statement and has no effect on Council balances.</p> <p>Given the need to produce the accounts to a tighter deadline and the small team that would have to undertake the work, any change in the componentisation policy would place an additional burden on a small number of staff at a very busy period during the year. It is not felt that the change would have a sufficient material impact on the accounts to justify the additional workload.</p>
<p><b>Procedural Matters</b></p>	<p><b>It is recommend that a more extensive and documented inspection programme is undertaken to ensure that the majority of assets valued each year have been subject to inspection within the relevant year, even if the</b></p>	<p>The Council has an Asset Management Group which maintains an overview of the Council's assets and decides on the future use of costly or redundant assets. The Council has 4000 plus assets which the small Valuation Team do not</p>

	<p><b>inspection is not purely for valuation purposes, i.e. dealing with general management of the assets.</b></p>	<p>have capacity to inspect. However, there are officers with responsibility for assets who do inspect the properties under their remit. For example, the Estates Manager regularly inspects the Council's Farms and Smallholdings. The Housing Technical Manager is aware of the condition of the housing stock and commissions independent surveys regularly. In addition statutory inspections e.g. heating systems are undertaken in accordance with the statutory requirements. It is the inspection of assets by those responsible for them which forms the basis for revenue maintenance and capital refurbishment programmes. These assets are valued by the Senior Valuation Officer on the basis of the assets being maintained in accordance with the legal and other property standards.</p>
<p><b>Non-Housing Valuation Related Issues</b></p>	<p><b>It is recommended that the valuer reviews their Depreciated Replacement Cost (DRC) approach and applies varying percentages as appropriate (typically between 0%, where there are no external works, to 15% for more extensive external works);</b></p> <p>It is noted that for assets valued using the Depreciated Replacement Costs (DRC) approach, (Specialised Operational Assets) the valuer has determined the costs for the external works by adding a percentage to the base build costs for the buildings. This is a recognised and acceptable approach, however the valuer continues to adopt a set percentage of 10%, whereas it is more common to vary the percentage depending on the extent of the external works (actual and on an MEA basis).</p>	<p>The Senior Valuation Officer considers that due to the lack of absolute certainty with any percentage that 10% is a reasonable percentage to apply.</p>



