

Audit of Accounts Report **Vale of Glamorgan Council**

Audit year: 2021-22

Date issued: January 2023

Document reference: 3340A2023

This document has been prepared as part of work performed in accordance with statutory functions.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales and the Wales Audit Office are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at infoofficer@audit.wales.

We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

Contents

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

Audit of Accounts Report

Introduction	4
Impact of COVID-19 on this year's audit	4
Proposed audit opinion	5
Significant issues arising from the audit	6
Recommendations	7

Appendices

Appendix 1 – Final Letter of Representation	8
Appendix 2 – Proposed Audit Report	11
Appendix 3 – Summary of Corrections Made	16
Appendix 4 – Recommendations	18

Audit of Accounts Report

Introduction

- 1 We summarise the main findings from our audit of your 2021-22 accounts in this report.
- 2 We have already discussed these issues with the Head of Finance.
- 3 Auditors can never give complete assurance that accounts are correctly stated. Instead, we work to a level of 'materiality'. This level of materiality is set to try to identify and correct misstatements that might otherwise cause a user of the accounts into being misled.
- 4 We have this year set this level at £4.492 million for the Vale of Glamorgan Council (the Council) single entity financial statements, with a materiality level of £4.494 million in respect of the Council's group accounts.
- 5 There are some areas of the accounts that may be of more importance to the reader and we have set a lower materiality level for the following areas:
 - Related Party Transactions for members and senior officers: £5,000; and
 - Senior officer remuneration: £1,000
- 6 We have now substantially completed this year's audit.
- 7 In our professional view, we have complied with the ethical standards that apply to our work; remain independent of yourselves; and our objectivity has not been compromised in any way. There are no relationships between ourselves and yourselves that we believe could undermine our objectivity and independence.
- 8 It has been necessary to make a change to the audit Engagement Lead to that communicated in the Audit Plan. As a result, Matthew Edwards, an Audit Director with Audit Wales, replaced Clare James as the Engagement Lead in November 2022 for the remainder of the audit of the 2021-22 accounts.

Impact of COVID-19 on this year's audit

- 9 The COVID-19 pandemic has had a continuing impact on how our audit has been conducted. We summarise in **Exhibit 1** the main impacts. Other than where we specifically make recommendations, the detail in **Exhibit 1** is provided for information purposes only to help you understand the impact of the COVID-19 pandemic on this year's audit process.

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

Timetable	<p>We received the draft accounts on 5 July 2022 and following Council approval on 30 January 2023 we expect to sign our audit report following their approval.</p> <p>Given the continuing impact of COVID-19, the Welsh Government has continued to provide flexibility in terms of both the accounts preparation deadlines and the audit deadlines. In addition, additional flexibility has been granted because of the ongoing uncertainty relating to the accounting treatment of infrastructure assets (as explained at paragraphs 17 to 20 below), meaning that the publication deadline has been extended by the Welsh Government to 31 January 2023.</p>
Audit evidence	<p>The entirety of our financial audit was undertaken remotely. The Council provided good quality draft accounts with supporting working papers and:</p> <ul style="list-style-type: none">• provided electronic working papers in accordance with our agreed Audit Deliverables Report;• provided audit evidence to the audit team via e-mail or the shared folder accessible to both Council and Audit Wales staff; and• were available via video conferencing for discussions, and for the sharing of on-screen information/evidence.

Proposed audit opinion

- 10 We intend to issue an unqualified audit opinion on this year’s accounts once you have provided us with a Letter of Representation based on that set out in **Appendix 1**.
- 11 We issue a ‘qualified’ audit opinion where we have material concerns about some aspects of your accounts; otherwise we issue an unqualified opinion.
- 12 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards.
- 13 Our proposed audit report is set out in **Appendix 2**.

Significant issues arising from the audit

Uncorrected misstatements

- 14 There is one misstatement we identified in the accounts, which has been discussed with management but remains uncorrected, that we need to bring to your attention. This relates to:
- **Residential care home charges**
Local Authorities charge fees for the provision of care home services. Contributions are made by the resident in the form of capital and a legal charge is placed on any property owned by the resident. Whilst the Council has recognised a debtor in its annual accounts concerning this outstanding care home income of £2.8million, this debt has been fully provided for within the bad debt provision.

In our view this is overly prudent as evidence suggests that a large proportion of this debt, albeit of an unknown value, is recoverable and should be recognised as such in the financial statements.
- 15 This uncorrected misstatement is not material and management's explanation for not correcting this has been included within the Letter of Representation at **Appendix 1**.

Corrected misstatements

- 16 As a result of our audit there have been a number of adjustments to the financial statements and they are summarised, for information, in **Appendix 3**.

Other significant issues arising from the audit

- 17 In the course of the audit, we consider a number of matters relating to the accounts and report any significant issues arising to you. There was one issue arising that we need to bring to your attention.
- 18 In common with other local authorities, the Council has taken advantage of temporary reliefs for reduced disclosures relating to infrastructure assets as allowed for in the Update to the Code and Specifications for Future Codes for Infrastructure Assets and the 2022 amendments to the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003.
- 19 The Council has not disclosed gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean gross cost and accumulated depreciation are not measured accurately and would not faithfully represent the asset position to the users of the financial statements.

- 20 The reliefs are a temporary expedient that are intended to allow authorities to address the information deficits and prepare robust information to support the carrying value of infrastructure assets. These temporary reliefs are only applicable for financial years up to and including 2024-25.

Recommendations

- 21 There a small number of recommendations arising from our audit and these are set out in **Appendix 4**. Management has responded to them and we will follow up progress against 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.

Appendix 1

Final Letter of Representation

Audited body's letterhead

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

30 January 2023

Representations regarding the 2021-22 financial statements

This letter is provided in connection with your audit of the financial statements of the Vale of Glamorgan Council and its group for the year ended 31 March 2022 for the purpose of expressing an opinion on their truth and fairness.

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 the United Kingdom UK 2020-21; 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 Vale of Glamorgan Council and its group and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements.
- Our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others.
- Our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
- The identity of all related parties and all the related party relationships and transactions of which we are aware.

Financial statement representations

- All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.
- The methods, the data and the significant assumptions used in making accounting estimates, and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework.
- 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. Details of the one uncorrected misstatement is set out below:

- The Council currently allows for a full provision for doubtful debts against its income for contributions made to care home services where those contributions are made in the form of capital and a legal charge has been placed on a property owned by the resident, until such time as the income becomes collectable. At a value of £2.8m this sum is significant but not material to the accounts and further works needs to be undertaken to accurately establish an appropriate level at which the provision for doubtful debts should be set. Therefore the Council intends to correct the accounting for this income as part of the preparation of the 2022/23 accounts.

Representations by the Vale of Glamorgan Council

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by the Council on 30 January 2023.

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:

Signed by:

Chief Finance Officer (S151 Officer)

Chair of the Council – signed on behalf
of those charged with governance

Date: 30 January 2023

Date: 30 January 2023

Appendix 2

Proposed Audit Report

The independent auditor's report of the Auditor General for Wales to the members of the Vale of Glamorgan Council

Opinion on financial statements

I have audited the financial statements of:

- Vale of Glamorgan Council; and
- Vale of Glamorgan Council Group

for the year ended 31 March 2022 under the Public Audit (Wales) Act 2004.

The Vale of Glamorgan Council's 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 Vale of Glamorgan's Group financial statements comprise the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet and the Group Cash Flow Statement and the related notes, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2021-22.

In my opinion the financial statements:

- give a true and fair view of the financial position of the Vale of Glamorgan Council and the Vale of Glamorgan Council's Group as at 31 March 2022 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with legislative requirements and UK adopted international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2021-22.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. 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 Vale of Glamorgan Council and the group in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these

requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Vale of Glamorgan Council and the group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the responsible financial officer with respect to going concern are described in the relevant sections of this report.

Other Information

The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. The Responsible Financial Officer is responsible for the other information contained within the annual report. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon.

My responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

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 2021-22;

- 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 Vale of Glamorgan Council and group and its environment obtained in the course of the audit, I have not identified material misstatements in the Narrative Report or the Annual Governance Statement.

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

- adequate accounting records have not been kept, or returns adequate for my audit have not been received from branches not visited by my team;
- 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.

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, the responsible financial officer is responsible for the preparation of the statement of accounts, including the group financial statements, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of statements of accounts that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

My procedures included the following:

- Enquiring of management, internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the Vale of Glamorgan Council and the group's policies and procedures concerned with:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- Considering as an audit team how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the following areas: revenue recognition and posting of unusual journals.
- Obtaining an understanding of the Vale of Glamorgan Council and the group's framework of authority as well as other legal and regulatory frameworks that the Council and group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Council and the group.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management and legal advisors about actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; and
- assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

I also communicated relevant identified laws and regulations and potential fraud risks to all audit team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the Vale of Glamorgan Council and the group's controls, and the nature, timing and extent of the audit procedures performed.

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

Certificate of completion of audit

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

Adrian Crompton
Auditor General for Wales
January 2023

24 Cathedral Road
Cardiff
CF11 9LJ

Appendix 3

Summary of Corrections Made

Some adjustments have been made to the Financial Statements as a result of our audit. These have been corrected by management. A summary of the most significant corrections made are summarised below.

Exhibit 2: summary of corrections made

Value of correction	Nature of correction
£4,151,000	Financial Instruments (Note 20) The short-term debtors figure stated in the note is overstated by £4.151 million as it includes an amount for a VAT debtor that should have been excluded. The accompanying narrative disclosures have also been amended as a result.
£483,000	Property Plant and Equipment (Note 16) We identified a number of vehicle and equipment assets that had been fully depreciated and disposed of, but had not been written out of the Council's asset register and were therefore incorrectly included in the Statement of Accounts. As these assets had been fully depreciated there were no associated book values included on the Council's balance sheet. As a result of the correction, the Gross Book Value and Accumulated Depreciation values disclosed within Note 16 were each reduced by £483,000.
N/A	Property Plant and Equipment (Note 16) In accordance with the recent update to the CIPFA/LASAAC Code and the introduction of a new statutory override, the draft accounts no longer disclose the Gross Book Value (GBV) and the accumulated depreciation values of the Council's infrastructure assets. A narrative disclosure note has been included to explain the rationale for not reporting this information.
£429,299	Debtors (Note 21) Classification errors across various debtor categories totaling £429,299 were identified within the disclosure note.

Value of correction	Nature of correction
N/A	<p>Senior Officer Remuneration Disclosures (Note 31) Narrative amendments have been made to the disclosure note.</p>
Various	<p>Capital accounting adjustment Several amendments have been made to various parts of the accounts concerning the accounting treatment of the sale of land to Transport for Wales that occurred at the end of March 2022. These adjustments impact on various parts of the accounts, including:</p> <ul style="list-style-type: none"> • Assets Held for Sale (Note 18) - Removal of all assets relating to the Transport for Wales transaction; and • Deferred capital receipt (Note 27) – decreased by £3.507m.
N/A	<p>Other narrative amendments Several other narrative and presentational amendments have been made to the financial Statements, including:</p> <ul style="list-style-type: none"> • Additional disclosures have been made to ensure the prior period adjustment has been disclosed in accordance with the Code; • The audit fee disclosure in Note 30 has been corrected; • The Joint Committees disclosure at Note 34 has been amended; and • Some small narrative amendments have been made to the Governance Statement.

Appendix 4

Recommendations

We set out below two 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.

Exhibit 3: matter arising 1

Matter arising 1 – Accounting for residential care home charges	
Findings	Local Authorities charge fees for the provision of care home services. Contributions are, on occasions, made by the resident in the form of capital and a legal charge is placed on any property owned by the resident. Whilst the Council has recognised a debtor in its annual accounts concerning this outstanding care home income, at a value of £2.8 million, this debt has been fully provided for within the bad debt provision. In our view this is overly prudent as it is probable that a large proportion of this debt, albeit of an unknown value, is in fact recoverable and so should be recognised as such in the financial statements.
Priority	High
Recommendation	As part of 2022-23 accounts preparation, the Council should review the outstanding debt and undertake an analysis (for example based on previous debt recovery trends) to assess the expected likelihood of recovery to determine a more realistic bad debt provision.
Accepted in full by management	Yes
Management response	A review of historical collection rates has been carried out which indicates a Provision for Doubtful Debts of approximately 18% is required, as this will require additional income of approximately £2m to be recognised in the 22/23 accounts an indication of this

	change and sum has been included in the latest revenue monitoring report. This percentage will be reviewed and applied at 31st March 2023.
Implementation date	Immediate steps taken and full implementation as part of 2022/23 accounts.

Exhibit 4: matter arising 2

Matter arising 2: Classification within the Debtors disclosure note	
Findings	As recorded within Appendix 3 amendments, totalling £429,22K have been made to reclassify some debtors balances within Note 21.
Priority	Low
Recommendation	As the Code provides the Council with some discretion concerning the content of the note, the format of the disclosure note should be reviewed as part of the 2022-23 accounts production process to ensure the classification of the sub-balances are such so to minimise the risk of classification errors reoccurring.
Accepted in full by management	Yes
Management response	The nature of the classification errors made are of the nature that they were as a result of human error due to the extremely high quantity of reserve adjustments required as a result of the grants position in the 2021/22 accounts. A full review of Quality Assurance processes in this area and review of alternative options will be considered as part of the preparation of the 2022/23 accounts however we do not consider that alternative classifications would have prevented these errors from occurring.
Implementation date	To be reviewed as part of the preparation of the 2022/23 accounts.



Audit Wales

24 Cathedral Road
Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

E-mail: info@audit.wales

Website: www.audit.wales

We welcome correspondence and telephone calls in Welsh and English.
Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.