



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# Audit of Financial Statements Report – **Merthyr Tydfil County Borough Council**

Audit year: 2018-19

Date issued: August 2019

Document reference: 1462A2019-20



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](mailto: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

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	4
Status of the audit	4
Proposed audit report	4
Significant issues arising from the audit	5
Recommendations arising from our 2018-19 financial audit work	6
Independence and objectivity	6

## Appendices

Appendix 1 – Final Letter of Representation	7
Appendix 2 – Proposed audit report of the Auditor General to the members of Merthyr Tydfil County Borough Council	10
Appendix 3 – Summary of corrections made to the draft financial statements which should be drawn to the attention of members of Merthyr Tydfil County Borough Council	13

# 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 Merthyr Tydfil County Borough Council (the Council) at 31 March 2019 and its income and expenditure for the year then ended.
- 2 We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might result in a reader of the accounts being misled.
- 3 The quantitative levels at which we judge such misstatements to be material for the Council are £1.9 million. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements, or areas of the financial statements that we consider to be of particular interest to the reader that we therefore judge to be sensitive. Examples of such areas are the remuneration report and related party disclosures, which we consider to be material by nature and hence set lower levels of materiality.
- 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. To meet this requirement, this report sets out for your consideration the matters arising from the audit of the Council's 2018-19 financial statements.

## Status of the audit

- 5 The Section 151 Officer signed the draft 2018-19 financial statements on 30 May 2019 and provided them to us in advance of the agreed date of 3 June. The receipt of the accounts was 2 weeks ahead of the current statutory deadline 15 June. This is a noteworthy achievement by the finance team, preparing the accounts one week earlier than achieved last year.
- 6 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 relevant officers.

## Proposed audit report

- 7 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](#).
- 8 The proposed audit report is set out in [Appendix 2](#).

## Significant issues arising from the audit

### Uncorrected misstatements

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

### Corrected misstatements

- 10 The more important misstatements that were corrected are set out with brief explanations in [Appendix 3](#). We consider that these reported corrections should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

### Other significant issues arising from the audit

- 11 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. We comment below on any significant matters that arose, and also on aspects of our audit that we are required to report to you:

- **The Council has generally sound accounting and financial reporting practices.** We found that the overall quality of the draft financial statements presented for audit has continued to improve, with officers having prepared them to a good standard for 2018-19. These ongoing improvements are particularly important given the challenges of 'earlier closure' whereby from 2020-21, draft financial statements will need to be prepared by 31 May and audited by 31 July.

Generally, we found the information provided to be relevant, reliable, comparable, material and easy to understand. We concluded that the accounting policies, and the accounting estimates, are appropriate and financial statement disclosures unbiased, fair and clear.

- **We did not encounter any significant difficulties during the audit.** We are grateful for the help and assistance provided to us by the staff of the finance and other departments throughout the audit. We generally received information in a timely and helpful manner and were not restricted in our work.
- **There was one significant matter which we discussed and corresponded upon with management which we currently need to report to you.**

In December 2018, the Court of Appeal ruled against the Government, holding the changes made to pension schemes discriminated against a group of public officers on the grounds of age. The changes surrounded a move from a final salary to a career average basis. On 27 June 2019, the

Supreme Court denied the Government's application to appeal the decision. This series of events is referred to as the McCloud judgement.

The cost of providing a remedy to affected employees is likely to be significant. We have concluded that the McCloud judgement gives rise to a past service cost and liability within the scope of accounting for pensions within local authorities which should be accounted for as an increased liability where a reasonable estimate can be made.

The financial impact of this legal judgement has been calculated by the Authority based on assumptions provided by the Governments Actuary Department. This additional liability of £5.4 million is above the Council's materiality threshold and the Council has made the necessary adjustment within the Accounts, increasing the pension liability to £190.2 million.

- **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.**
- **There are no other matters specifically required by auditing standards to be communicated to those charged with governance.**

## Recommendations arising from our 2018-19 financial audit work

- 12 The recommendations arising from our financial audit work will be set out in our Management Letter to be presented to the Audit Committee in the autumn. We will request management responses to our recommendations, for inclusion in that paper, and we will follow up progress on implementation of each agreed recommendation during next year's audit. Where any actions remain outstanding, we will report this to you.

## Independence and objectivity

- 13 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 14 We have complied with ethical standards and in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between the Wales Audit Office and the Council that we consider to bear on our objectivity and independence.

# Appendix 1

## Final Letter of Representation

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

XX September 2019

### Representations regarding the 2018-19 financial statements

This letter is provided in connection with your audit of the financial statements (including that part of the Remuneration Report that is subject to audit) of Merthyr Tydfil County Borough Council for the year ended 31 March 2019 for the purpose of expressing an opinion on their truth and fairness and their proper preparation.

We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

### Management representations

#### Responsibilities

We have fulfilled our responsibilities for:

- The preparation of the financial statements in accordance with legislative requirements and the Code of Audit Practice on Local Authority Accounting in the United Kingdom; 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 Merthyr Tydfil County Borough Council and involves:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements.
- Our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others.
- Our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
- The identity of all related parties and all the related party relationships and transactions of which we are aware.

### Financial statement representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

The financial statements are free of material misstatements, including omissions.

We are aware that a restatement of the prior expenditure was required due to the material reclassification of costs between the Corporate and Place and Transformation directorates to bring into line with the current year reporting format.

### Representations by the members of Merthyr Tydfil County Borough 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 Merthyr Tydfil County Borough Council on 11 September 2019.

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 Financial Officer

Chair of Council

Date:

Date:

# Appendix 2

## Proposed audit report of the Auditor General to the members of Merthyr Tydfil County Borough Council

### Report on the audit of the financial statements

#### Opinion

I have audited the financial statements of Merthyr Tydfil County Borough Council for the year ended 31 March 2019 under the Public Audit (Wales) Act 2004.

Merthyr Tydfil County Borough Council's financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and the related notes, including a summary of significant accounting policies and the Expenditure and Funding Analysis.

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 2018-19 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial position of Merthyr Tydfil County Borough Council as at 31 March 2019 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 2018-19.

#### Basis for opinion

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

#### 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 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 2018-19;
- 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 Annual Governance Statement.

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

- proper accounting records have not been kept;
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit.

## **Certificate of completion of audit**

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

## **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 pages 18 to 19, 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  
12 September 2019

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 members of Merthyr Tydfil County Borough Council

We consider that the following misstatements, which management have corrected, should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

### Exhibit 1: summary of corrections made to the draft financial statements

Value of correction	Nature of correction	Reason for correction
Prior year restatement £2,304,000	<b>2017-18 CIES and EFA</b> Decrease in Corporate costs and increase in Place and Transformation costs.  A reconciliation of the effect of the restatements has been included within <b>Note 1.4</b> .	A restatement was required due to the material nature of the reclassification of HR, legal and Performance costs from Corporate to Place and Transformation to bring into line with management reporting from 2018-19. This ensures comparability with 2018-19 classification of costs.
£8,912,000	<b>CIES and EFA</b> Decrease in Corporate costs and increase in Place and Transformation costs of £6,381,000 and People and Performance costs of £2,531,000.	Following submission of the draft accounts for audit, the Council identified that its annual charges for depreciation, impairment, REFCUS and accumulated absences had all been incorrectly classified within Corporate costs.
5,383,000	<b>Balance Sheet, CIES, EFA and related notes</b> Increase in the Pension Liability of £5,383,000 and corresponding increase to the Pension Reserve.  The increased liability has been allocated to the directorates within the CIES and Balance Sheet as follows:	The Council has estimated that an additional past service cost of £5,383,000 is to be recognised in 2018-19 as a result of the McCloud judgement (see para 11).  The adjustment has also been reflected within the MIRS and other notes to the accounts.

Value of correction	Nature of correction	Reason for correction
	<ul style="list-style-type: none"> <li>- People and Performance £2,910,000</li> <li>- Place and Transformation £2,304,000</li> <li>- Corporate costs £169,000</li> </ul>	
£718,000	<b>Note 21 Creditors</b> <b>Note 16 Financial Instruments</b> Decrease in short-term Creditors £718,000 and increase in long term Creditors £356,000 and long term Borrowing £362,000.	To correctly reflect the substance of the grant and repayable funding in respect of the WG Empty Homes scheme.
£389,000	<b>Note 17 Debtors</b> Decrease in short-term Debtors and increase in long term debtors.	To correctly reflect the repayment date of loans to businesses under the scheme.
£990,000	<b>Note 21 Creditors</b> <b>Note 16 Financial Instruments</b> Decrease in short-term Creditors £990,000 and increase in long term Borrowing £990,000.	To correctly reflect the substance of the repayable funding in respect of the Vibrant and Viable Places Programme.
£563,000	<b>Note 21 Creditors</b> Decrease in short-term Creditors and increase in long-term Creditors	To reclassify Section 106 monies received in advance repayable after more than one year.
£1,275,000	<b>Note 17 Debtors</b> <b>Note 21 Creditors</b> Decrease in Debtors and Creditors.	To reflect the net amount due to the Cwm Taf Care Home Accommodation Pooled Fund.

During our audit we recommended a number of additions, amendments and deletions to disclosures within the financial statements to ensure completeness, clarity, accuracy and consistency throughout, and to comply with best practice as set out in the Code.

**Exhibit 2: summary of disclosure amendments made to the draft financial statements**

Disclosure Note	Nature of amendment
<b>Narrative Report</b>	Capital outturn to budget table updated for correct year end values.

<b>Disclosure Note</b>	<b>Nature of amendment</b>
<b>Note 8 Expenditure and income analysed by nature</b>	<p>Corrections:</p> <ul style="list-style-type: none"> <li>- Include £1,119,000 exit costs within Employee Benefits Expenses and remove from Other Service Expenses.</li> <li>- Include £3,411,000 REFCUS within Other Service Expenditure and remove from Other Services Expenditure, plus prior year reclassification of £3,693,000 noted as a restatement.</li> <li>- Include £285,000 education grants within Government Grants and Contributions and remove from Other Service Expenses.</li> <li>- Include £328,000 joint committee contributions within Government Grants and Contributions and remove from Fees and Other Service Income (prior year reclassification of £290,000 not amended).</li> </ul>
<b>Note 9 Adjustments between accounting basis and funding basis under regulations</b>	For elimination of the capital contribution to the Cardiff Capital Region City Deal of £485,000 (note: the prior year figure of £954,000 has not been removed from the prior year comparative).
<b>Note 21 Creditors</b>	For reclassification of the £777,000 provision for employee severance costs from trade to other payables.
<b>Note 28 Pooled Budgets</b>	Narrative updated to reflect the minimum disclosure requirements of the Code.
<b>Note 33 Related party transactions</b>	Amendments required to the transactions and balances disclosed within the tables to correctly reflect the in-year transactions and year end position.
<b>Note 34 Capital Expenditure and Capital Financing</b>	Reduction in Joint Committee Additions and Impact of Joint Committees within the reconciliation by £778,000.
<b>Annual Governance Statement</b>	<p>Further information required for:</p> <ul style="list-style-type: none"> <li>- Regional Internal Audit service from 1 April 2019.</li> <li>- Inclusion of CIW's key findings from its review of children's services.</li> <li>- Current financial pressures and concerns over governance which give rise to the current package of support being offered by the Welsh Government.</li> </ul>
<b>Various disclosure notes</b>	A number of narrative and disclosure amendments, not identified separately in this table, as not regarded as material to the financial statements.

Wales Audit Office  
24 Cathedral Road  
Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone.: 029 2032 0660

E-mail: [info@audit.wales](mailto:info@audit.wales)

Website: [www.audit.wales](http://www.audit.wales)

Swyddfa Archwilio Cymru  
24 Heol y Gadeirlan  
Caerdydd CF11 9LJ

Ffôn: 029 2032 0500

Ffacs: 029 2032 0600

Ffôn testun: 029 2032 0660

E-bost: [post@archwilio.cymru](mailto:post@archwilio.cymru)

Gwefan: [www.archwilio.cymru](http://www.archwilio.cymru)