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Dear Ellis

Annual Audit Letter Merthyr Tydfil County Borough Council 2018-19

This letter summarises the key messages arising from my statutory responsibilities under the Public Audit (Wales) Act 2004 and my reporting responsibilities under the Code of Audit Practice.

The Council complied with its responsibilities relating to financial reporting and use of resources

It is Merthyr Tydfil County Borough Council's (the Council) responsibility to:

- put systems of internal control in place to ensure the regularity and lawfulness of transactions and to ensure that its assets are secure;
- maintain proper accounting records;
- prepare a Statement of Accounts in accordance with relevant requirements; and
- establish and keep under review appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Public Audit (Wales) Act 2004 requires me to:

- provide an audit opinion on the accounting statements;
- review the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources; and
- issue a certificate confirming that I have completed the audit of the accounts.

Local authorities in Wales prepare their accounting statements in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. This Code is based on International Financial Reporting Standards.

On 12 September 2019 I issued an unqualified audit opinion on the accounting statements confirming that they present a true and fair view of the Council's financial position and transactions. My report is contained within the Statement of Accounts. The key matters arising from the accounts audit were reported to Members of the Council meeting on 11 September 2019 in my Audit of Financial Statements report.

I received no electors' questions or objections in relation to the 2018-19 audit. I issued a certificate confirming the audit of the Statement of Accounts had been completed on 12 September 2019.

The Statement of Accounts were provided for audit on 30 May 2019 ahead of the statutory deadline of 15 June for 2018-19 and evidences the Council's continued preparation for the early closing agenda. This is a noteworthy achievement by the finance team, preparing the accounts one week earlier than achieved last year without sacrificing their quality.

I reported to you the more significant issues arising from our audit, which are summarised below:

- The Statement of Accounts were supported by accessible and comprehensive working papers at the outset of my audit. Your officers were helpful and supplied me with all the information I requested helping me to achieve the overall completion timetable.
- I identified misstatements which were corrected, some of which were material by value but note none had an impact on the reported outturn of the Council for the year. I also reported a material prior year restatement.
- There were no misstatements which remained uncorrected within the Statement of Accounts.
- During our audit I suggested 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.
- There was one significant matter which we discussed and corresponded upon with management. The McCloud judgement gives rise to an increased pension liability calculated as £5.4 million as at 31 March 2019 for the Council which was reflected within the Statement of Accounts.
- Since completion of the audit I have held a joint post project learning exercise with your finance officers. I have identified areas where we can both learn from this year, and make improvements for the future, with focus on bringing further audit work forward to the interim audit stage. The financial audit fee for 2018-19 is in line with the agreed fee set out in the 2019 Audit Plan.

I am not yet satisfied that the Council has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources

My consideration of the Council's arrangements to secure economy, efficiency and effectiveness has been based on the audit work undertaken on the accounts as well as placing reliance on the work completed under the Local Government (Wales) Measure 2009 and under the Well-being of Future Generations (Wales) Act 2015.

I am not yet satisfied that the Council has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources. In October 2019, I set out in my Annual Improvement Report¹ the areas where improvements could be made. Also in October 2019, the Minister for Housing and Local Government published a report setting out the findings of an independent assessment of the Council's key challenges and the actions required to address them. The Minister has now established an Improvement and Assurance Board to provide support and challenge to the Council as it takes forward the change and improvement required to address the findings of the independent assessment. The Wales Audit Office attends meetings of the Board as observers. The Council is working constructively with Welsh Government and the Board, but it is currently too early to determine whether arrangements are improving sufficiently. We will continue to monitor the Council's progress during the course of the year. Notwithstanding the above conclusion, I wish to highlight that I am currently undertaking a review of the Council's financial sustainability, on which I expect to report to the Council by February 2020. My report will set out any specific areas where improvements could be made.

My certification of grant claims and returns has not identified significant issues that would impact on the 2018-19 accounts or key financial systems

My certification of grants claims and returns has not identified any significant issues in relation to the accounts or the Council's key financial systems.

Yours sincerely



Derwyn Owen

Director Financial Audit

For and on behalf of the Auditor General for Wales

[1 Merthyr Tydfil County Borough Council Annual Improvement Report 2018-19](#)