

Audit of Accounts Report – Merthyr Tydfil County Borough Council

Audit year: 2019-20

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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.

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We intend to issue an unqualified audit report on your Statement of Accounts with two Emphasis of Matter paragraphs drawing attention to disclosure notes in your accounts. There are some issues to report to you prior to their approval.

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Audit of Accounts Report

Introduction

- 1 We summarise the main findings from our audit of your 2019-20 Statements of Accounts in this report.
- 2 We have already discussed these issues with you Chief Finance Officer.
- 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 set this level at £1.94 million for this year's audit.
- 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 these, as follows:
 - Senior officer remuneration £1,000
 - Senior officer/member related parties £10,000
- 6 We have 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.

Impact of COVID-19 on this Year's Audit

- 8 The COVID-19 pandemic has had a significant impact on all aspects of our society and continues to do so. You are required by law to prepare accounts and it is of considerable testament to the commitment of your accounts team that you have succeeded in doing so this year in the face of the challenges posed by this pandemic. We are extremely grateful to the professionalism of the team in supporting us to complete our audit in such difficult circumstances.
- 9 The pandemic has unsurprisingly affected our audit and 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>Your Chief Finance Officer certified the provisional 2019-20 Statement of Accounts on 28 July 2020 and provided them for audit. This submission was two months later than the prior year due to officers being engaged with other higher priority work to address the COVID-19 pandemic.</p> <p>Our audit commenced late August and was substantially complete by the end of October. This revised timetable will enable the accounts to be approved and certified prior to the 30 November 2020 deadline.</p>
Electronic signatures	<p>The Chair/Chief Finance Officer and Auditor General will use electronic signatures to approve and certify the accounts respectively.</p>
Audit evidence	<p>Due to social distancing measures, Audit Wales staff are currently working remotely from home. All audit evidence was received electronically.</p> <p>The Chief Accountant uploaded working papers to Egress (a secure, web-based portal for the sharing of audit evidence) in accordance with our agreed audit deliverables request.</p> <p>Audit Wales staff were given remote access to the Council's financial systems which was fundamental for the delivery of the remote audit.</p> <p>Officers were available via MS Teams for discussions in order to resolve audit queries and for the sharing of on-screen information/evidence.</p>
Other	<p>MS-Teams-based Audit Committee and Council meetings have enabled us to proficiently discharge our responsibility for reporting to those charged with governance.</p>

- 10 We will be reviewing what we have learned for our audit process from the COVID-19 pandemic and whether there are innovative practices that we might adopt in the future to enhance that process. We will engage with officers in this post-project learning soon after the completion of our audit work.

Proposed Audit Opinion

- 11 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**. We also intend to include two Emphasis of Matter paragraphs in the opinion to draw attention to disclosures in your accounts. This matter is set out in **Exhibit 2** below.

- 12 We would issue a 'qualified' audit opinion if we had material concerns about any aspects of your accounts; however, since this is not the case, we anticipate issuing an unqualified opinion.
- 13 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards along with confirmation of other specific information you have provided to us during our audit.
- 14 Our proposed audit report is set out in **Appendix 2**.

Significant Issues arising from the Audit

Uncorrected misstatements

- 15 We set out below the two misstatements we identified in the accounts, which have been discussed with management but remain uncorrected. We request that these are corrected. If you decide not to correct these misstatements, we ask that you provide us with the reasons in writing for not correcting them within the Letter of Representation.
 - Our audit work on asset revaluations identified five assets with a total NBV of £261,000 that should be removed from the asset register.
 - Our grants testing identified that £230,000 grant income had been recognised from the Welsh Government in 2019-20 in advance of the related expenditure which will be incurred in 2020-21.

Corrected misstatements

- 16 The more important misstatements that have been 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

- 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 were some issues arising in these areas this year as shown in **Exhibit 2**:

Exhibit 2: significant issues arising from the audit

<p>Emphasis of matter – valuation of the Council’s property assets</p>	<p>The first emphasis of matter relates to the impact of the COVID-19 pandemic on the valuation of land and buildings as at 31 March 2020. As a result of COVID-19, and in accordance with specific guidance issued by their professional institute, the Council’s valuer declared a ‘material valuation uncertainty’ in their valuation report, with a total valuation of £120 million. The Authority has used this valuation report to inform the measurement of property asset values in the accounts at that date, as described in Note 4.</p>
<p>Emphasis of matter – property investment funds related to the pension fund</p>	<p>The outbreak of the COVID-19 pandemic has impacted on global financial and property markets. Due to these market conditions, material valuation uncertainty clauses have been included in year-end valuation reports related to the Rhondda Cynon Taf Pension Fund’s UK property investment funds. The total value of these investments as at 31 March 2020 is £209 million and the Authority’s share amounts to £15.6 million.</p>

Recommendations

- 18 We will report recommendations arising from our audit separately. There are no issues sufficiently significant to warrant bringing to your attention. 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

25 November 2020

Representations regarding the 2019-20 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 2020 for the purpose of expressing an opinion on their truth and fairness and their proper preparation.

We confirm that to the best of [my/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.

A restatement of the prior expenditure was required due to the material reclassification of costs between the People and Performance and Place and Transformation directorates to bring into line with the current year reporting format.

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.

A summary of these items is set out below:

- Five assets with a total NBV of £261,000 that should be removed from the asset register have not been adjusted on the grounds of immateriality, they will be removed during 2020-21.
- A timing difference resulting in us recognising £230,000 grant income from the Welsh Government in 2019-20 in advance of the related expenditure. This will be corrected in 2020-21 as the expenditure is incurred.

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 25 November 2020.

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:

Chief Financial Officer

Date:

Signed by:

Chair of Council

Date:

Appendix 2

Proposed Audit Report

The independent auditor's report of the Auditor General for Wales 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 2020 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 2019-20 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 2020 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 2019-20.

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.

Emphasis of Matter – effects of COVID-19 on the valuation of the Council's property assets

I draw attention to Note 4 to the financial statements which describes a material valuation uncertainty clause in the valuation report of certain property items arising from circumstances caused by the COVID-19 pandemic. My opinion is not modified in respect of this matter.

Emphasis of Matter – valuation of Rhondda Cynon Taf Pension Fund’s property investment funds

I draw attention to Note 4 to the financial statements which describes a material valuation uncertainty related to property investment funds managed on behalf of the Rhondda Cynon Taf Pension Fund. My opinion is not modified in respect of this matter.

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 12 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 2019-20;
- 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 [name of local government body] 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 22 to 23, 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](#). This description forms part of my auditor's report.

Adrian Crompton
Auditor General for Wales
26 November 2020

24 Cathedral Road
Cardiff
CF11 9LJ

Appendix 3

Summary of Corrections Made

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.

Exhibit 3: summary of corrections made

Value of correction	Nature of correction	Reason for correction
Prior year restatement £2,300,000	2018-19 CIES Decrease in People and Performance income and expenditure and increase in Places and Transformation income and expenditure. A reconciliation of the effect of the restatements has been included within Note 1.4.	A restatement was required due to the material nature of the reclassification of grant income and related expenditure from People and Performance to Places and Transformation to bring into line with management reporting from 2019-20. This ensures comparability with 2019-20 classification.
£2,450,000	CIES and EFA Decrease in expenditure within the Cost of Services, with a matching increased in Other Comprehensive Expenditure.	To ensure that the adjustment between the 2018-19 estimated cost of the McCloud judgement, and the actual figure included in 2019-20 is correctly treated in the accounts.

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 4: summary of disclosure amendments made

Disclosure Note	Nature of amendment
Note 1.4 Prior Period Adjustments	Narrative disclosure to highlight a restatement of the comparatives within Note 25 Cash Flow Statement surplus or deficit on the provision of services reconciliation. The 2018-19 note incorrectly omitted the additional pension costs arising from the McCloud adjustments; hence the deficit and pension liability figures have been restated by £5,383,000 accordingly.
Note 8 Expenditure and Income analysed by nature	Decrease the Employee Benefits Expenses line and increase the Other Service Expenses line by £1,119,000. This is to correctly reflect the nature of expenditure within the note.
Note 17 Short-term Debtors	Decrease the Trade receivables and increase the Other receivables figure by £508,000 to ensure that the note correctly agrees back to supporting documentation.
Note 34 Capital Expenditure and Financing	Decrease the Joint Committee Additions and Impact of Joint Committees lines by £778,000 to remove expenditure that was accounted for in previous years.
Annual Governance Statement	Various narrative and clarification points made.
Various disclosure notes	A number of narrative and disclosure amendments, not identified separately in this table, as not regarded as material to the financial statements.



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