

# 'Audit of Accounts Report Addendum – Caerphilly County Borough Council

Audit year: 2022-23

Date issued: September 2024

Document reference: 4383A2024

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

Audit of Accounts Report Addendum

Introduction 4

Recommendations from this year's audit 4

Recommendations from previous years' audits 12

# Audit of accounts report addendum

## Introduction

- 1 This report is an addendum to our Audit of the Accounts Report, which we presented to the Governance and Audit Committee and full Council earlier this year. The report sets out the recommendations arising from our audit of the 2022-23 accounts and provides an update on management's progress with implementing past recommendations.

## Recommendations from this year's audit

- 2 The report sets out our recommendations for improvement and management's responses. The report should be considered by the Governance and Audit Committee, and wider within the Council as deemed necessary by members or management.
- 3 **Exhibits 1 to 5** set out our audit findings and recommendations, together with management's responses.

## Exhibit 1: matter arising 1

### Matter arising 1 – Some of the Council's processes to ensure the accuracy of its Property, Plant and Equipment balance are inadequate

<b>Findings</b>	<p>As set out in our Audit of Accounts Report (Appendix 3), there were many significant and material misstatements relating to the 2022-23 disclosures for the Council's property, plant and equipment. Further to our reporting in April 2024, the main underlying causes were:</p> <ul style="list-style-type: none"><li>• <u>The quality of the underlying asset records</u> The Council maintains its financial fixed asset register in Logotech (a third-party software system) which we found to be very difficult to cross-reference to the Council's Estates Team's records, which are held in a separate system. Although the Council completed a thorough review of the two systems, the records remain difficult to cross-reference and are not regularly reconciled, which could lead to more significant or material misstatements in future.</li><li>• <u>The accounts preparation processes</u> We found significant misstatements, which far exceeded materiality, that existed because officers had processed many basic data-input errors. The misstatements totalled £38 million in respect of the re-valuation of the Council's fixed assets.</li><li>• <u>Communication</u> The Council's finance team was not always aware of significant events that affected the value of an asset. For example, we found that the financial statements did not reflect the £2.3 million impairment of houses (at Hafodyrynys) that had been demolished during 2022-23. Also, the Council did not identify and account for the transfer of £11.4 million of expenditure from 'Assets under Construction' to 'Land and Buildings'.</li></ul>
<b>Recommendation</b>	<p>The Council should:</p> <ul style="list-style-type: none"><li>• Significantly strengthen the quality of its asset records, including clearly documented references to the Estates Team's records, for all assets;</li></ul>

**Matter arising 1 – Some of the Council’s processes to ensure the accuracy of its Property, Plant and Equipment balance are inadequate**

	<ul style="list-style-type: none"> <li>ensure that the finance team are aware of significant events with a financial impact, or potential financial impact; and</li> <li>improve its accounts preparation process to identify errors of a basic nature prior to audit, including an appropriate and meaningful level of formal management review and sign-off.</li> </ul>
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	Data quality is being improved through the acquisition of a new IT system to consolidate asset data into a single place.
<b>Implementation date</b>	Implementation date of new IT system.

## Exhibit 2: matter arising 2

<b>Matter arising 2 – some of the documented work by the Council's internal valuers was poor</b>	
<b>Findings</b>	<p>The Council's internal valuers provided information in spreadsheet format that was weak and prone to errors and misinterpretation.</p> <p>The weaknesses mainly arose because the internal valuers provided only valuation spreadsheets, and not formal valuation reports. We found that the valuation spreadsheets could be misleading and open to incorrect interpretation by the finance team, and us. For example, we established that the internal valuers' 'component valuation' figures had also been included in their overall valuation, which the finance team subsequently double counted in their workings and the figures presented to us for audit.</p> <p>We consider that formal valuations reports, as required from valuers, would have significantly strengthened the process.</p> <p>Overall, the poor arrangements and records in place resulted in several material misstatements to the valuation of the Council's property, plant and equipment (as reported to you in Appendix 3 of 2022-23 Audit of Accounts Report).</p>
<b>Recommendation</b>	<p>The Council's internal valuers should provide formal valuation reports that meet the requirements of the <u>RICS professional guidance</u>.</p>
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	<p>The format of the information provided to the finance team will be improved by adopting a clear summary page</p>
<b>Implementation date</b>	2024-25 Valuation Cycle

### Exhibit 3: matter arising 3

<b>Matter arising 3 – Material adjustments were required to the Council’s related party disclosures</b>	
	<p>As reported in our 2023 Audit Plan, we audit related party transactions and balances to a far lower level of materiality, of £10,000.</p> <p>A key risk is that material disclosures are overlooked and omitted from the accounts. We therefore test that all councillors and the relevant senior officers have submitted their year-end declarations. We then test the declarations. We also check the Council’s register of interests, and we run searches of Companies House records. We found that two councillors and one senior officer had omitted a relevant position/interest in their declaration.</p> <p>We also check that the values in the note agree to the underlying records. We found that a number of material adjustments were required to the disclosure note as they did not agree to the ledger (as reported to you in Appendix 3 of 2022-23 Audit of Accounts Report).</p>
<b>Recommendation</b>	The Council should strengthen its accounting process for the identification and full disclosure of its related party transactions and balances.
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	We have now amended our year-end process to ensure we capture all members in post during the financial year. We have also updated the notes of guidance provided to members to support completion of the disclosure form.
<b>Implementation date</b>	1 April 2023



#### Exhibit 4: matter arising 4

<b>Matter arising 4 – The Council had not reviewed its bad debt provision as at 31 March 2024</b>	
<b>Findings</b>	<p>We found that the Council had not reviewed its bad debt provision for the housing benefit debts and sundry debtors as at 31 March 2024.</p> <p>As a result, we needed to undertake additional audit work, with officers, which established that the Council's debtors were not materially mis-stated.</p> <p>We did identify a non-material misstatement of £1.318 million, (as reported to you as an uncorrected misstatement in the 2022-23 Audit of Accounts Report.</p>
<b>Recommendation</b>	<p>As part of the annual accounting process, each year the Council should review its debtor balance at 31 March year-end to identify any invalid or misstated debtors.</p> <p>The Council should also review and document the position throughout each financial year, ideally monthly.</p>
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	<p>At the point the draft accounts were prepared the Benefits system was being migrated to the Cloud. At this time the reports required from the Benefits system to review the bad debt provision were not available. These reports were run after the migration and the bad debt provision was amended in the final accounts. Going forward the provision will be reviewed in advance of the production of the draft accounts.</p>

**Matter arising 4 – The Council had not reviewed its bad debt provision as at 31 March 2024**

	<p>The Council's sundry debtor team manage its debt. All outstanding balances are regularly reviewed by the team as part of the ongoing recovery process.</p> <p>The debt of £1.3m relates to the Edtech program where the debt recovery is managed by Procurement as part of the administration of the Edtech Scheme.</p>
<b>Implementation date</b>	Immediately.

## Exhibit 5: matter arising 5

<b>Matter arising 5 – the Council’s year-end bank reconciliation had an unreconciled difference</b>	
<b>Findings</b>	There was an unreconciled difference of £393.42 on the year-end bank reconciliation, which could not be explained. We are satisfied that it did not represent a material risk to the accounts.
<b>Recommendation</b>	The Council should ensure that the monthly and year-end bank reconciliations are always balanced.
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	The Council will balance monthly and annual bank reconciliations.
<b>Implementation date</b>	1 April 2023

## Recommendations from previous years' audits

- 4 We raised nine recommendations last year, all of which were accepted by management. **Exhibit 14** sets out the accepted recommendations that management are yet to fully implement. We comment on the progress that has been made thus far (including two comments that relate to 2020-21).

### Exhibit 6: progress against last year's recommendations

Audit Year	Recommendation	Progress
2020-21	<p><b>Matter arising 2 – weaknesses in the quality and timeliness of the working papers supporting the draft accounts</b></p> <p>The Council should provide all working papers to a high standard and in accordance with the agreed dates.</p> <p>We will continue to work with finance officers to improve the process and documentation for 2021-22.</p>	<p>The timeliness of the Council's accounts and working papers has improved.</p> <p>In terms of the quality of the working papers, some areas had improved, but we still had working papers that did not agree to the accounts; and many spreadsheet-based working papers had figures typed into cells rather than the user of formula and automated links.</p>
2020-21	<p><b>Matter arising 8 – invalid capital commitment</b></p> <p>The Council should strengthen its accounting process for the assessment of capital commitments, by requiring officers to verify that each commitment meets the criteria set out by the CIPFA Code.</p>	<p>While the Council had reviewed its capital commitment process for 2022-23, we again identified four omitted commitments that totalled £6.975 million.</p>

2021-22	<p><b>Matter arising 1 - extended valuations of the Council's buildings was necessary for 2021-22, and is likely to be necessary for 2022-23, due to the high level of inflation</b></p> <p>The Council should review all its assets and their last valuations and ensure that their current value as at 31 March 2023 is appropriate.</p>	<p>The Council had undertaken a materiality review of each class of assets for 2022-23, but they did not consider the cumulative impact of such revaluation movements (i.e. revaluation movement since last valuation). Hence an audit adjustment of £4.312 million was required.</p>
2021-22	<p><b>Matter arising 5 – the Council has not reconciled its revaluation reserve to its fixed asset register</b></p> <p>The Council should undertake and document a reconciliation of its revaluation reserve to its Logotech fixed asset register at least annually, at the financial year-end.</p>	<p>The Council has made some progress since the 2021-22 audit, but there is still an unreconciled difference between the revaluation reserve to its fixed asset register regarding Council Dwellings.</p>
2021-22	<p><b>Matter arising 8 – inaccurate disclosure of the maturity analysis of the Council's borrowings</b></p> <p>The Council should strengthen its arrangements so that its maturity-analysis of borrowings is correct each year.</p>	<p>The Council has made some improvements, but audit adjustments were again required to the note.</p>
2021-22	<p><b>Matter arising 9 – the Council's business continuity plans are overdue a thorough review and update</b></p>	<p>Progress is ongoing as the Council agreed to implement for 2023-24 financial year.</p>

The Council should review its Corporate Business Continuity Plan, and its underlying Service Area Continuity Plans, and strengthen them where required. The reviews and updates should include an assessment of the impact of losing key IT systems, and how essential services would continue to be delivered during an IT absence.





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](mailto:info@audit.wales)

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

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