



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# Audit of Financial Statements Report and Management Letter – **Central South Consortium Joint Education Service Joint Committee**

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[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.

The team who delivered the work comprised Richard Harries, Mike Jones, Helen Williams, Jayana Finlay.

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This document summarises the conclusions on the 2018-19 audit including our recommendations for the year. 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

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# Summary report

## Introduction

- 1 The purpose of this report is twofold:
  - to set out for consideration the matters arising from the audit of the financial statements of Central South Consortium Joint Education Service Joint Committee (CSEC), for 2018-19, that require reporting to those charged with governance, in time to enable appropriate action; and
  - to formally communicate the completion of our audit and capture the recommendations arising from our audit work for the year.
- 2 The Auditor General's responsibilities were set out in our **Audit Plan** along with your responsibilities as those charged with governance; we do not repeat them in detail again here.
- 3 We confirm we have undertaken the audit as planned and our performance against the agreed measures and actual fee compared to planned fee are reported in [Appendix 4](#). We have no other issues to report to you other than in this report.
- 4 We are particularly grateful to CSEC staff for their assistance, good quality working papers and draft accounts provided during the course of our audit.
- 5 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 CSEC at 31 March 2019 and its income and expenditure for the year then ended.
- 6 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.
- 7 The quantitative levels at which we judge such misstatements to be material for CSEC are £1,666,240 for income and expenditure items and working capital balances, and £1,000 for senior officer remuneration and related party disclosures. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity.

## Status of the audit

- 8 We received the draft financial statements for the year ended 31 March 2019 on 13 May 2019, on the agreed deadline date, and have now substantially completed the audit work.
- 9 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 Assistant Business Manager and the Senior Accountant responsible for financial reporting.

## Proposed audit report

- 10 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](#)
- 11 The proposed audit report is set out in [Appendix 2](#).

## Significant issues arising from the audit

### Uncorrected misstatements

- 12 In December 2018, the Court of Appeal ruled against the Government finding that changes made to pension schemes were discriminatory on grounds of age. On 27<sup>th</sup> June, the Supreme Court denied the Government's application to appeal the Court of Appeal decision. Although the case of McCloud and Sargeant relate to firefighters and judges, other schemes that introduced transitional protections (eg LGPS) are impacted. The costs of providing a remedy to affected employees could be significant. In the case of CSEC the estimated additional IAS19 charge has been calculated at £360,000, and we are content that this is a reasonable estimate. The figure is not material and given the estimate has only recently been made and has not been adjusted in the financial statements. If amended the adjustment would have had no impact upon the reported surplus.

### Corrected misstatements

- 13 There are 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. They are set out with explanations in [Appendix 3](#).
- 14 There was one material misstatement in the draft financial statements which has now been amended. Note 24.1 reported that the previous Managing Director had received a termination payment in the financial year. However, the draft financial statements incorrectly classified the split between salary and the termination payment. This has now been amended to show salary of £79,000 and termination payment of £78,000

## Other significant issues arising from the audit

- 15 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. There are two issues which we would draw to your attention:

- The balance sheet reports a pension fund asset of £301,000, and this reflects the IAS 19 figures produced by the actuary. However, paragraph 64 of IAS 19 states that the asset value should be the lower of the surplus of the defined benefit plan and the asset ceiling (in this case any potential reduction in employer's future contributions). This calculation would be undertaken by the Actuary, which has not been done in this case. Consequently, it is likely that the £301,000 pension fund asset is overstated by a non-material amount.
- During 2018-19 the Managing Director of CSEC left under a mutual settlement agreement, and an Acting Managing Director (MD) was appointed. These were authorised by the Chief Executive of RCT in consultation with the Chief Executives of the other Councils, and the Joint Committee Chair has confirmed that she was aware of, and kept up to date with, the actions being taken in this regard. Permanent appointments of the Managing Director are required to be authorised by the Joint Committee and, whilst not required, our view is that good governance would suggest that termination and temporary appointment of the MD should also be formally noted and minuted to that effect by those charged with governance.

## Independence and objectivity

- 16 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 17 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 CSEC that we consider to bear on our objectivity and independence.

# Appendix 1

## Final Letter of Representation

Auditor General for Wales  
24 Cathedral Road  
Cardiff  
CF11 9LJ

15 July 2019

## Representations regarding the 2018/19 Central South Consortium – Joint Education Service Joint Committee 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 the Central South Consortium – Joint Education Service 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.

In addition, we have completed the questionnaires (Appendix A) provided to us regarding:

- ISA240 - the auditor's responsibilities relating to fraud in an audit of financial statements;
- ISA250 - consideration of laws and regulations in an audit of financial statements; and
- ISA550 - related parties.

## Management Representations

### Responsibilities:

We have fulfilled our responsibilities for the preparation of the financial statements in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19; in particular the financial statements give a true and fair view in accordance therewith.

We have fulfilled our responsibilities for 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 Central South Consortium – Joint Education Service Joint Committee 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; and
  - any other matters that the auditor may consider necessary.

## Financial Statement representations:

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

Paragraph 64 of IAS 19 states: 'When an entity has a surplus in a defined benefit plan, it shall measure the net defined benefit asset at the lower of: (a) the surplus in the defined benefit plan; and (b) the asset ceiling, determined using the discount rate.' In the financial statements of Central South Consortium, the Balance Sheet includes a Net Pensions Asset (surplus) before applying a surplus restriction as required by IAS 19 detailed above. This is not material.

The financial statements do not make provision for the impact of the McCloud judgement following the Supreme Court decision on 27 June 2019 to deny the Government's application to appeal the prior decision of the Court of Appeal. It is estimated that the impact of any additional liability is not material. Please refer to Contingent Liabilities within the Statement of Accounts at Appendix 1 for further detail.



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. 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.

## Representations by Central South Consortium – Joint Education Service Joint Committee:

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

We acknowledge our responsibility for ensuring that the Council maintains adequate accounting records.

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 Central South Consortium – Joint Education Service Joint Committee on 15<sup>th</sup> July 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:

S.151 Officer

Date:

Chair of Joint Committee

Date:

# Appendix 2

## Proposed audit report of the Auditor General to the Central South Consortium Joint Education Service Joint Committee

### The independent auditor's report of the Auditor General for Wales to the members of Central South Consortium Joint Education Service Joint Committee

#### Report on the audit of the financial statements

##### Opinion

I have audited the financial statements of:

- Central South Consortium Joint Education Service Joint Committee; for the year ended 31 March 2019 under the Public Audit (Wales) Act 2004.

Central South Consortium Joint Education Service Joint Committee 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.

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 [year] based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial position of Central South Consortium Joint Education Service Joint Committee 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.

##### 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 [joint committee [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 joint committee'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 [year]; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and the 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 joint committee [and the group] and its environment obtained in the course of the audit, I have not identified material misstatements in the Narrative Report or the 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 the Central South Consortium Joint Education Service Joint Committee 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 11 to 13, 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 joint committee'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 Joint committee'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  
[Date]

24 Cathedral Road  
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# Appendix 3

## Summary of corrections made to the draft financial statements which should be drawn to the attention of Joint Committee

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 1: summary of corrections made to the draft financial statements

Value of correction	Nature of correction	Reason for correction
£751,000	Local Authority Contributions income was decreased by £751,000 and Grant and Other Income was increased by £751,000.	Contributions from the Local Authorities in relation to redundancy costs were included as Contributions when they should have been classified as Other Income in the Comprehensive Income and Expenditure Account.
£129,000	Host Authority debtors were reduced by £129,000 and Local Authority and Schools Debtors were increased by £129,000.	Debtors had been mis-categorised in the note to the balance sheet for debtors.
£35,000	£35,000 was reclassified in the senior officers note from salary to compensation for loss of office.	The total compensation for loss of employment received by the managing director who stood down in year should be in accordance with the settlement agreement approved.
Narrative amendment	Temporary was added to the title of Senior Lead Teaching & Learning Experiences.	The post was a temporary appointment.



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