



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Audit of Financial Statements Report – Education through Regional Working Joint Committee

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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 Auditor General is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of the Education through Regional Working (ERW) Joint Committee (the Joint Committee) at 31 March 2017 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 Joint Committee are £1.3million. 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.
- 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.
- 5 This report sets out for consideration the matters arising from the audit of the financial statements of the Joint Committee, for 2016-17, that require reporting under ISA 260.

Status of the audit

- 6 We received the draft financial statements for the year ended 31 March 2017 on 2 June 2017, two days after the target deadline of 31 May 2017. This was still well in advance of the current statutory deadline of 30 June.
- 7 We have now substantially completed the audit work and 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 Joint Committee's Section 151 officer and his team.

Proposed audit report

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

Significant issues arising from the audit

Uncorrected misstatements

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

Corrected misstatements

- 11 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](#).

Other significant issues arising from the audit

- 12 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 were some issues arising in these areas this year:
- **We have no significant concerns about the qualitative aspects of your accounting practices and financial reporting although there is scope to improve the accounts closure process.** We were unable to complete the audit by the target deadline of the 17 July 2017 Joint Committee as we needed additional time to work with officers to resolve misstatements identified in the draft accounts presented for audit. Improvements to the closure process, as listed in 'Matter arising 1' of [Appendix 4](#) are required to prevent issues recurring in future years and allow the Joint Committee to be well placed to be able to meet earlier closure deadlines.
 - **We did not encounter any significant difficulties during the audit.** We were not restricted in our work and received the information that we required to complete our audit although we did experience some delays receiving some supporting evidence. We will continue to work with Joint Committee officers to clarify our working paper requirements and delivery timetable to ensure that delays are limited in future years.
 - **There were no significant matters discussed and corresponded upon with management which we need to report to you.**
 - **There is one other matter significant to the oversight of the financial reporting process that we need to report to you.** The value of central expenditure on ERW projects, funded through Welsh Government grant, has increased significantly since the inception of the Joint Committee. This expenditure totalled £4.3million in 2016-17, with £0.31million being used to fund the costs of the Central Team. The financial monitoring reports for Joint Committee and Executive Board continue to focus on central team

'overhead' expenditure. Grant allocations are not split out between those grants paid to member authorities and those grants being used to support ERW's centrally run projects. There appears to be limited Member oversight of the use of centrally held funds.

- **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 2016-17 financial audit work

- 13 The recommendations arising from our financial audit work are set out in [Appendix 4](#). Management has responded to them and we will follow up progress on 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.

Independence and objectivity

- 14 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 15 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 Joint Committee that we consider to bear on our objectivity and independence.

Appendix 1

Final Letter of Representation

[Joint Committee's letterhead]

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

21 September 2017

Representations regarding the 2016-17 financial statements

This letter is provided in connection with your audit of the financial statements of the Education through Regional Working Joint Committee for the year ended 31 March 2017 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 CIPFA Code of Practice on Local Authority Accounting in the UK 2016-17; in particular the financial statements give a true and fair view in accordance therewith; and
- 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 Education through Regional Working 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.

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.

Representations by the Joint Committee

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 the Joint Committee on 21 September 2017.

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:

Section 151 Officer

Chair of Joint Committee

Date: 21 September 2017

Date: 21 September 2017

Appendix 2

Proposed audit report of the Auditor General to the Education through Regional Working Joint Committee

Auditor General for Wales' report to the Members of the Education through Regional Working Joint Committee

I have audited the accounting statements and related notes of Education through Regional Working Joint Committee for the year ended 31 March 2017 under the Public Audit (Wales) Act 2004.

Education through Regional Working Joint Committee's accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet and the Cash Flow Statement.

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 2016-2017 based on International Financial Reporting Standards (IFRSs).

Respective responsibilities of the responsible financial officer and the Auditor General for Wales

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the responsible financial officer is responsible for the preparation of the statement of accounts, which gives a true and fair view.

My responsibility is to audit the accounting statements and related notes in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors.

Scope of the audit of the accounting statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements and related notes sufficient to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Education through Regional Working Joint Committee's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the responsible financial officer and the overall presentation of the accounting statements and related notes.

In addition, I read all the financial and non-financial information in the Narrative Report to identify material inconsistencies with the audited accounting statements and related notes 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.

Opinion on the accounting statements of Education through Regional Working Joint Committee

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Education through Regional Working Joint Committee as at 31 March 2017 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016-2017.

Opinion on other matters

In my opinion, the information contained in the Narrative Report is consistent with the accounting statements and related notes.

Matters on which I report by exception

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

- adequate accounting records have not been kept;
- the accounting statements are not in agreement with the accounting records and returns;
- I have not received all the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with guidance.

Certificate of completion of audit

I certify that I have completed the audit of the accounts of Education through Regional Working in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

For and on behalf of
Huw Vaughan Thomas
Auditor General for Wales
September 2017

Wales Audit Office
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 Education through Regional Working 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
£3,402,000	Note 4.1 Revenue Grants Welsh Government grants 'passport' to member authorities were understated, with payments to schools for specific work and supplies and services being overstated.	To correct the misclassification of transactions where Welsh Government, rather than the Joint Committee, had set the funding for each school. This included payments made for Digital Pioneer Schools, Schools Challenge Cymru and Informal Use of Welsh.
-	Note 4.4.1 Remuneration Details An employee receiving remuneration in excess of £60,000 has been removed from the note as seconded staff should be shown in the member authority accounts and not the Joint Committee accounts.	To comply with the Local Government Code and Accounts and Audit (Wales) Regulations 2014.

Appendix 4

Recommendations arising from our 2016-17 financial audit work

We set out all the recommendations arising from our audit with management's response to them. We will follow up these next year and include any outstanding issues in next year's audit report:

Exhibit 2: Matter arising 1

Matter arising 1 – Accounts closure processes	
Findings	We were unable to complete the audit by the target deadline of 17 July 2017 due to some delays in obtaining working papers at the start of the audit. We also needed additional time to work with officers to address and correct a number of misstatements in the draft financial statements.
Priority	High
Recommendation	<p>The accounts closure process should be reviewed to ensure that high quality financial statements and working papers can be produced on a timely basis. This should include:</p> <ul style="list-style-type: none">• a review of how transactions are recorded in the ledger to reduce the amount of time required to check and allocate transactions on a line-by-line basis as part of closure processes;• clarifying roles and responsibilities between Joint Committee officers and Pembrokeshire County Council officers (as lead authority for Finance);• reviewing the classification of transactions in the ledger and having a clear rationale for when transactions are payments to schools for specific work, supplies and services and payments made directly to local authorities; and• agreement of working paper requirements and a deliverables timetable with the Wales Audit Office.
Accepted in full by management	Accepted.

Management response	Having been the first body to have their 2015-16 statement of accounts audited and approved, it is disappointing that there was a delay in having the 2016-17 statement of accounts audited and approved. The delay was due to changes in accounting personnel during 2016-17, workload levels (volume and late notification of grants by Welsh Government) and limited capacity at the time of closure and compilation of the statement of accounts. We will review and update the accounts closure process to ensure that in future, high quality financial statements and working papers are produced on a timely basis.
Implementation date	November 2017

Exhibit 3: Matter arising 2

Matter arising 2 – Overview of Joint Committee Central Expenditure	
Findings	<p>Joint Committee central expenditure consists of the costs of running the central team which is predominantly made up of permanently employed officers and running costs. In addition, expenditure is incurred on the delivery of projects directly by the Joint Committee. These costs are for a range of transactions but mainly for staff seconded to the Joint Committee from member authorities or schools and funding for specific projects to be undertaken by specific schools.</p> <p>The costs of the central team are included in budget monitoring reports reviewed by the Joint Committee and/or Executive Board but there is little analysis in those reports on the expenditure incurred on central projects.</p>
Priority	High
Recommendation	Budget monitoring reports should be expanded to provide Members with information on the expenditure incurred on centrally delivered projects.
Accepted in full by management	Accepted.
Management response	Future reporting will include Central Team expenditure and expenditure on projects delivered by the Central Team.
Implementation date	Next Joint Committee meeting.

Exhibit 4: Matter arising 3

Matter arising 3 - Use of Grant Funding	
Findings	The costs of the central team (salaries and running costs such as translation) are funded via member authority contributions, reserves and, increasingly, grant funding. However, some grant funding streams are not guaranteed for more than one financial year.
Priority	High
Recommendation	Whilst we have not identified any funding of central costs which appears contrary to grant terms and conditions, the Joint Committee should be clear on which fixed costs are being funded using grants and ensure that this approach is sustainable for funding fixed costs.
Accepted in full by management	Accepted.
Management response	Any posts in the Central Team which are funded by grant are fixed term for the period of grant funding. We will review the sustainability of grant funding contributing to the costs of the Central Team. This risk has been recognised and included in the ERW Annual Governance Statement for 2016-17.
Implementation date	November 2017

Exhibit 5: Matter arising 4

Matter arising 4 – Allocation of transactions to financial years and supporting evidence	
Findings	We identified one payment where the full value of the invoice was recognised in the accounts but the supporting evidence confirmed that work was only partly completed at 31 March. We also identified another transaction where it was difficult to confirm whether work undertaken on behalf of the Joint Committee had been completed in advance of the financial year-end.
Priority	High
Recommendation	Accounts closure processes need to ensure that only transactions relating to work completed before the financial year end are recognised in expenditure in the financial statements. Robust evidence of the completion of work should be requested from providers and retained for audit purposes, particularly where the Joint Committee uses estimates to establish the value of expenditure to be recognised.

Accepted in full by management	Accepted.
Management response	We will review and update the accounts closure process to ensure that only transactions relating to work completed before the financial year end are recognised in expenditure in the financial statements, and to ensure that robust evidence of the completion of work is requested from providers and retained for audit purposes, particularly where we use estimates to establish the value of expenditure to be recognised.
Implementation date	November 2017

Exhibit 6: Matter arising 5

Matter arising 5 – Related Party/Conflict of Interest Declarations	
Findings	We identified that up to date conflict of interest declarations were not available for all members of the Joint Committee and Executive Board at the time of audit. These are due to be collated in Autumn 2017.
Priority	Medium
Recommendation	Declarations of interest returns should be completed by all members of the Joint Committee and Executive Board in advance of preparing the annual statement of accounts. This should ensure that any relevant disclosures can be made in the accounts.
Accepted in full by management	Accepted.
Management response	All members of the Joint Committee and Executive Board will be required to complete and/or update their register of interest declarations.
Implementation date	November 2017

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

Website: 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

Gwefan: www.archwilio.cymru