

Audit of Accounts Report **Powys County Council**

Audit year: 2021-22

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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 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 2021-22 accounts in this report.
- 2 We have already discussed these issues with officers.
- 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 have this year set this level at £5.446m for Powys County Council.
- 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 the following areas:
 - Related Party Transactions for members and senior officers - £10,000; and
 - Senior officer remuneration - £1,000
- 6 We have now substantially completed this year's audit:
 - We received the draft accounts on 30 June 2022;
 - Given the continuing impact of COVID-19, the Welsh Government has continued to provide flexibility in terms of both the accounts preparation deadlines and the audit deadlines. In addition, additional flexibility has been granted as a result of the ongoing uncertainty relating to the accounting treatment of infrastructure assets (as explained at paragraphs 16 to 19 below), meaning that the publication deadline has been extended by the Welsh Government to 31 January 2023; and
 - We expect to sign our audit report on 25 January 2023.
- 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. Within our Audit Plan, communicated to the Governance and Audit Committee on 29 July 2022, we alerted the Council of one potential conflict of interest concerning a member of the audit team. We can confirm that we introduced appropriate arrangements to mitigate this risk. There are no other relationships between ourselves and yourselves that we believe could undermine our objectivity and independence.
- 8 It has been necessary to make a change to the audit Engagement Lead to that communicated in the Audit Plan. As a result, Derwyn Owen, a Director within Audit Wales, has replaced Clare James as the Engagement Lead for the audit of the 2021-22 accounts. In addition, Steve Wyndham has provided temporary cover at Audit Manager level during Phil Pugh's absence.

Proposed audit opinion

- 9 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**.
- 10 We issue a 'qualified' audit opinion where we have material concerns about some aspects of your accounts; otherwise we issue an unqualified opinion.
- 11 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards.
- 12 Our proposed audit report is set out in **Appendix 2**.

Significant issues arising from the audit

Uncorrected misstatements

- 13 There are two misstatements we identified in the accounts, which has been discussed with management but remains uncorrected, that we need to bring to your attention. This relates to:
 - **Residential care home charges**

Local Authorities charge fees for the provision of care home services. Contributions are made by the resident in the form of capital and a legal charge is placed on any property owned by the resident. £1.3m of such income was due to the Council as at 31 March 2022 though the Council has not recognised a debtor in the accounts concerning this outstanding care home income. It is possible that not all of this £1.3m will be recoverable, however the Council has not undertaken detailed analysis to determine what value of this debt should reasonably be provided for within its bad debt provision.
 - **Valuation of Brecon High School**

As a result of significant increases in construction costs uncertainty has existed upon the material accuracy of certain property valuations. As a result, the Council applied indices to revalue some of its property assets, in particular Council Dwellings and those properties valued on a Depreciated Replacement Cost (DRC) basis as these are considered as being the most vulnerable to valuation changes owing to rising costs. Due to a clerical error Brecon High School was missed from this exercise which has resulted in this asset, and consequently the financial statements, being understated by £1.2m.
- 14 These uncorrected misstatements are not material and management's explanation for not correcting this has been included within the Letter of Representation at **Appendix 1**.

Corrected misstatements

- 15 As a result of our audit there have been a number of adjustments to the financial statements, some of which are material. These are summarised, for information, in **Appendix 3**.

Other significant issues arising from the audit

- 16 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 was one issue arising that we need to bring to your attention.
- 17 In common with other local authorities, the Council has taken advantage of temporary reliefs for reduced disclosures relating to infrastructure assets as allowed for in the Update to the Code and Specifications for Future Codes for Infrastructure Assets and the 2022 amendments to the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003.
- 18 The authority has not disclosed gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean gross cost and accumulated depreciation are not measured accurately and would not faithfully represent the asset position to the users of the financial statements.
- 19 The reliefs are a temporary expedient that are intended to allow authorities to address the information deficits and prepare robust information to support the carrying value of infrastructure assets. These temporary reliefs are only applicable for financial years up to and including 2024-25.

Recommendations

- 20 There are several recommendations arising from our audit and these are set out in **Appendix 4**. Management has responded to them and 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

20 January 2023

Representations regarding the 2021-22 financial statements

This letter is provided in connection with your audit of the financial statements of Powys County Council and its group for the year ended 31 March 2022 for the purpose of expressing an opinion on their truth and fairness.

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 United Kingdom UK 2021-22; 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 Powys County Council and its group 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.
- The methods, the data and the significant assumptions used in making accounting estimates, and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework.
- 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. Details of the two uncorrected misstatements are set out below:

- The Council have not accrued deferred payments where contributions from clients are calculated as a running total in respect of care received at a Care Home and the payment is reliant on the sale of the client's property at a later date. The Council considers the £1.3m calculation not to be material and its exclusion would not change the readers view of the accounts. We would like to review in more detail the likelihood of bad debt within this total. Some of this debt maybe due many years in the future which creates a level of uncertainty. For example, house price depreciation on a property that is not occupied for a lengthy period. It is felt a corresponding adjustment against the bad debt provision should possibly be made.
- Uplifts were made to non-current assets valued at Depreciated Replacement Cost to reflect increased costs. Brecon High School was overlooked in these calculations and as a result other land and buildings have been understated by £1.2m. Due to the late identification of this error and as it is not considered material in the context of the accounts an adjustment has not been made to the accounts in 2021/22 but will be adjusted in 2022/23.

Representations by Powys County 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 the Council's Governance and Audit Committee on 20 January 2023.

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 Finance Officer (S151 Officer)

Date: 20 January 2023

Signed by:

Chair of the Governance and Audit Committee – signed on behalf of those charged with governance

Date: 20 January 2023

Appendix 2

Proposed Audit Report

The independent auditor's report of the Auditor General for Wales to the members of Powys County Council

Opinion on financial statements

I have audited the financial statements of Powys County Council for the year ended 31 March 2022 under the Public Audit (Wales) Act 2004.

Powys County Council's financial statements comprise the Movement in Reserves Statement, the Expenditure and Funding Analysis, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Movement on the Housing Revenue Account Statement and the Housing Revenue Account Income and Expenditure 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 UK adopted international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2021-22.

In my opinion the financial statements:

- give a true and fair view of the financial position of Powys County Council as at 31 March 2022 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with legislative requirements and UK adopted international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2021-22.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. 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 Powys County 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.

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on Powys County Council to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the responsible financial officer with respect to going concern are described in the relevant sections of this report.

Other Information

The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. The Responsible Financial Officer is responsible for the other information contained within the annual report. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon.

My responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

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 2021-22;
- 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 Powys County 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:

- adequate accounting records have not been kept, or returns adequate for my audit have not been received from branches not visited by my team;
- 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.

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, the responsible financial officer is responsible for the preparation of the statement of accounts, including the group financial statements, 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 Powys County Council 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

My procedures included the following:

- Enquiring of management, internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to Powys County Council's policies and procedures concerned with:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- Considering as an audit team how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the following areas: revenue recognition and posting of unusual journals;
- Obtaining an understanding of Powys County Council's framework of authority as well as other legal and regulatory frameworks that the Council and group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Council.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management and legal advisors about actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

I also communicated relevant identified laws and regulations and potential fraud risks to all audit team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of Powys County Council's controls, and the nature, timing and extent of the audit procedures performed.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Certificate of completion of audit

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

Adrian Crompton
Auditor General for Wales
25 January 2022

24 Cathedral Road
Cardiff
CF11 9LJ

Appendix 3

Summary of Corrections Made

Some adjustments have been made to the Financial Statements as a result of our audit. These have been corrected by management. A summary of the most significant corrections made are summarised below.

Exhibit 2: summary of corrections made

Value of correction	Nature of correction
£39.191m	Property Plant and Equipment (Note 12) We identified a number of assets that had been fully depreciated and disposed of but had not been written out of the Council's asset register. As these assets had been fully depreciated the net book value within the draft accounts was zero, but the Gross Book Value and Accumulated Depreciation values disclosed within Note 12 were each required to be reduced by £39m.
N/A	Property Plant and Equipment (Note 12) In accordance with the recent update to the CIPFA/LASAAC Code and the introduction of a new statutory override (see paras 16 to 19), the accounts no longer disclose the Gross Book Value (GBV) and the accumulated depreciation values of the Council's infrastructure assets. A disclosure note has instead been added to explain the rationale for not reporting this information.
£16.404m	Property Plant and Equipment (Note 12) As a result of significant increases in construction costs uncertainty has existed of the continued material accuracy of certain property valuations. As a result the Council has during our audit applied indices to revalue some of its property assets, in particular Council Dwellings and those properties valued on a Depreciated Replacement Cost (DRC) basis as these are considered as being the most vulnerable to valuation changes owing to rising costs. These revaluation uplifts have been calculated via the application of indices and as a result the Net Book Value of the Council's Property Plant and Equipment has increased overall by £16.404m.
£15.600m	Reclassification error The Council has received £33m funding from the Welsh Government in relation to the Global Centre for Rail Excellence (GCRE) joint

Value of correction	Nature of correction
	venture with the Welsh Government and Neath Port Talbot Council. £15.6m of this funding was treated as cash within the draft accounts but has now been reclassified as an investment
£16.057m	<p>Obligations under Long Term Contracts (Note 37)</p> <p>One of contract's disclosed within the note had been extended until June 2024, and the value of this extension had been omitted from Note 37.</p>
£10.001m	<p>Contingent Liabilities (Note 41)</p> <p>The disclosure of the balance held under a Section 106 agreement concerning Nant Helen Surface Mine and Celtic Energy in Note 41 had not been updated since the prior year, and as such was overstated and inconsistent with Short Term Creditors.</p>
£7.457m	<p>Liquidity Risk (Note 42)</p> <p>The disclosure note concerning the maturity analysis of financial liabilities was understated.</p>
£13.480m	<p>Cash overdraft (Note 17)</p> <p>There was £13.480m of 'cash in transit' included within Cash Held by the Authority in Note 17; however, this had been transferred to a different bank account before year-end and therefore should not have been classified as 'cash in transit'. As such, it has been reclassified as Bank Current Accounts within Note 17.</p>
N/A	<p>Other narrative amendments</p> <p>Several other narrative and presentational amendments have been made to the financial Statements, including:</p> <ul style="list-style-type: none"> • The Related Party Transactions disclosure note has been updated as some additional disclosures concerning Members interests had been omitted; • Amendments have been made to Note 31 – Senior Officer Emoluments; and • Some disclosure amendments have been made to the Narrative Report and the Governance Statement.

Appendix 4

Recommendations

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

Exhibit 3: matter arising 1

Matter arising 1 – Accounting for residential care home charges	
Findings	Local Authorities charge fees for the provision of care home services. Contributions are, on occasions, made by the resident in the form of capital and a legal charge is placed on any property owned by the resident. Although £1.3m of such income was due to the Council as at 31 March 2022 the Council has not recognised a debtor in its annual accounts.
Priority	High
Recommendation	As part of 2022/23 accounts preparation, the Council should review the debt outstanding and undertake analysis (for example based on previous debt recovery trends) to assess the expected likelihood of recovery to determine whether any of this debt should be provided within a bad debt provision.
Accepted in full by management	Yes
Management response	As per the recommendation
Implementation date	31/05/2023

Exhibit 4: matter arising 2

Matter arising 2: Council dwellings enhancing expenditure	
Findings	<p>We identified that within the draft accounts the council had treated the majority of its 2021-22 capital expenditure on Council Dwellings as enhancing. Per the CIPFA Code, capital expenditure can only be treated as enhancing where it increases economic benefits (e.g. extends useful life) or service potential. Based upon a review of the capital schemes treated as enhancing we believe that there is a risk that the Council has not complied with these Code requirements. As a result of the valuation uplift this year there has been no impact on the 2021/22 accounts, however the Council should review this further as part of its 2022/23 accounts preparation.</p>
Priority	High
Recommendation	<p>To ensure that the value of its Council Dwellings asset category is not materially overstated, the Council should review its procedures for ensuring that it complies with the CIPFA Code and that only enhancing capital expenditure is treated as a capital addition.</p>
Accepted in full by management	Yes
Management response	<p>The council will continue to review the capital transactions in relation to Council Dwellings to ensure that the expenditure is accounted for correctly. The move from a 5 year to a 3 year valuation cycle should also reduce the risk of misstatement.</p>
Implementation date	Continuous

Exhibit 5: matter arising 3

Matter arising 3: Evidence to support the Related Party Transaction disclosures	
Findings	<p>Two areas for improvement were identified during our audit concerning the level of evidence retained to support the Council's related party transactions disclosures:</p> <ul style="list-style-type: none">• During our audit it was found that the Council had not retained audit evidence in regard to the interests disclosed by former Members who were not re-elected in the May 2022 council elections. Although sufficient additional work was undertaken by the Council and the audit team to ensure that we had the necessary assurance upon the Related Party Transactions disclosure, it is important that this information is retained in future years to ensure that this material disclosure note is fully supported.• Per the requirements of the CIPFA Code, the related party transactions disclosure must include any transactions between members of the Council and other entities that are either controlled by Members or where Members have significant influence. These requirements also extend to their close family members. However, whilst the Council routinely obtain and update Member's declarations of interests, Members are not explicitly asked within the return to provide details of the interests of close family members.
Priority	High
Recommendation	<p>To support the Related Party Transactions disclosure note the Council needs to ensure that:</p> <ul style="list-style-type: none">• arrangements exist to ensure that the interests disclosed by former Members are retained as audit evidence; and

	<ul style="list-style-type: none"> the declaration of interests return completed by Members should explicitly ask Members to disclose the nature of any entities that are controlled by close family members.
Accepted in full by management	Yes
Management response	As per the recommendation the process and evidence held will be strengthened.
Implementation date	31/05/2023



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