

Audit of Accounts Report Addendum – Powys County Council

Audit year: 2021-22

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Contents

Audit of Accounts Report Addendum

Introduction 4

Recommendations from this year's audit 4

Recommendations from previous years' audits 15

Audit of Accounts Report Addendum

Introduction

- 1 This report is an addendum to our Audit of Accounts Report that we presented to the Governance and Audit Committee in January 2023. The report sets the recommendations arising from our audit of the 2021-22 accounts, in addition to those included in the Audit of Accounts Report, and an update on the progress you have made against previous years' recommendations.
- 2 We should like to take this opportunity to once again thank all your staff who helped us throughout the audit.

Recommendations from this year's audit

- 3 We summarise in **Exhibits 1 to 11** our recommendations arising from this year's audit.

Exhibit 1 – matter arising 1

Matter arising 1 – Inadequate infrastructure assets records maintained

Findings

CIPFA issued Bulletin 12 in January 2023 which allowed a dispensation for councils to only disclose the net book value of infrastructure assets in 2021-22 to 2024-25.

This was following a CIPFA/LASAAC consultation to address the fact that many councils were found not to have sufficient reliable records to support the disclosure of gross book values and accumulated depreciation and also having inadequate arrangements to derecognise replaced infrastructure assets.

The Council's current policy is to derecognise infrastructure assets in the year after they have become fully depreciated. We have been able to go back to 2012-13 accounts and note that since that year, the Council has only derecognised £427,000 of infrastructure assets. In that same period, there have been £96.5 m of infrastructure asset additions.

We also note that the net book value of infrastructure assets includes circa £12 million of assets which were pre local government reorganisation in 1995.

Therefore, in our view, the accounting policy for derecognising infrastructure assets may not be appropriate and is resulting in the gross book value

Matter arising 1 – Inadequate infrastructure assets records maintained

	<p>and accumulated depreciation being overstated by a possible material amount.</p> <p>Had the Council not chosen to apply this dispensation, we would have had to consider qualifying our true and fair opinion on the statement of accounts.</p>
Priority	High
Recommendation	<ol style="list-style-type: none">1. Noting that this dispensation only applies up until 2024-25, we recommend that the Council re-considers its current arrangements for infrastructure assets and keeps abreast of any future information and guidance from CIPFA, so the Council can ensure it will be able to comply with any new requirements from 2025-26.2. The Council should also consider whether the pre-local-government-reorganisation assets should be being depreciated over a shorter period or should be written down.
Accepted in full by management	Yes
Management response	Await future advice from CIPFA and implement accordingly.
Implementation date	Dependent on guidance provided by CIPFA.

Exhibit 2: matter arising 2

Matter arising 2 – Failure to collect debts promptly from Powys THB	
Findings	<p>Our testing of short-term debtors identified £2.5 million of Integrated Care Fund income due for 2021-22, for which an invoice had not been raised to PTHB at the time of our audit work in September 2022 (ie some six months after the year-end). This is a situation which we also identified and raised as part of our 2020-21 audit and is important as it impacts on the Council's cashflow position.</p> <p>The Head of Finance has also previously commented upon amounts owed to the Council by PTHB and recovery of those debts at the Governance and Audit Committee.</p>
Priority	High
Recommendation	We recommend that the Council reviews its processes for raising invoices for goods and services provided to PTHB including those provided as part of the Section 33 agreements. This will help to ensure that debts are raised and collected in a more timely manner.
Accepted in full by management	ICF invoice was raised late, S33 are raised quarterly in advance.
Management response	As per recommendation.
Implementation date	31 July 2023

Exhibit 3: matter arising 3

Matter arising 3 – The Council does not have procedures in place to accurately record inventories that have been donated to the Council	
Findings	<p>The Council was provided with free lateral flow tests from the Welsh Government for use in social care and schools during 2021-22. These had not been accounted for in line with the requirements of the Code, ie a donated asset reserve set up and a charge recognised in the CIES when the assets are used.</p> <p>An exercise undertaken by the Council based on school pupil and teacher numbers estimated that it had used 638,000 lateral flow tests in the year with an approximate cost of £1.39 million.</p> <p>We were satisfied that the estimated amount/value would not materially affect the financial statements and therefore no adjustments to the draft account were required.</p>
Priority	Medium
Recommendation	Going forward, we recommend that the Council introduces procedures to identify the quantity and value of donated stock, to allow it to account for these items in accordance with the CIPFA Code.
Accepted in full by management	<p>Yes, although we accept the findings, we have no central repository to monitor the transactions between the schools and the Welsh Government portal. In 2022-23, lateral flow testing reduced as restrictions were relaxed, so we would expect the amount to reduce significantly also. Gaining the information for 2022-23 would require responses from schools on the amounts used and would also inflate income and expenditure in comparison to 2021-22. As the amount would not materially affect the statements, we propose that in this instance we do not insist schools provide these balances as there will be inconsistency with 2021-22. Identification and processes for other donated assets will be incorporated into the closing programme.</p>

Management response	See above.
Implementation date	N/A

Exhibit 4: matter arising 4

Matter arising 4 – QL reports not retained for bad debt calculations	
Findings	<p>Our testing of the £1.2 million HRA account bad debt provision identified that the QL report provided to support the bad debt figure did not agree to this figure.</p> <p>This was due to the fact that a copy of the 'real-time' QL report produced at the end of the year had not been retained to support the amounts included in the draft financial statements. and therefore the year-end position figure could not be recreated in QL.</p>
Priority	High
Recommendation	As part of the Council's closedown and accounts preparation processes, we recommend that the Council ensures that it identifies all aspects of the financial statements that are based on 'real-time' reports (eg HRA bad debt provision) and has arrangements in place to ensure that it retains copies of the reports produced to support entries in its financial statements.
Accepted in full by management	Yes
Management response	As per recommendation
Implementation date	30 June 2023

Exhibit 5: matter arising 5

Matter arising 5 – The percentages used in bad debt calculations may be out of date	
Findings	Our testing of the £6.734 million bad debt provision identified that each category of debt has different percentages used for the calculation of bad debt. However, we were informed that the percentages used are historic and have not been reviewed for a number of years.
Priority	High
Recommendation	We recommend that the Council review the basis upon which it provides for bad debts, to ensure that percentages used for each category of bad debt remain appropriate and reflect the likelihood of aged debts being recovered.
Accepted in full by management	Yes
Management response	As per recommendation
Implementation date	28 April 2023

Exhibit 6: matter arising 6

Matter arising 6 – Lack of evidence of review of reconciliations	
Findings	<p>Our testing of a sample of bank reconciliations identified that bank reconciliations had been undertaken, but there was no evidence that they had been formally reviewed by a more senior officer. We understand from discussions that the process was to review via Teams calls, but nothing had been retained as evidence to support that reviews had taken place.</p>
Priority	High
Recommendation	<p>We appreciate that processes and working practices have changed in a post-pandemic world where remote working is now the norm, however, we recommend that the Council review the processes and procedures it has in place to evidence that key reconciliations (including bank reconciliations) have been completed and have been subject to appropriate review.</p>
Accepted in full by management	Yes
Management response	Checking process will be better documented.
Implementation date	31 March 2023

Exhibit 7: matter arising 7

Matter arising 7 – Assets not revalued within five-year cycle	
Findings	Our testing of asset values as a result of the indexation exercise identified 30 land and building assets included in the Council's Fixed Asset Register with a carrying value of £1.797 million which had not been revalued within the past five years. This is not in line with the requirements of the Code or the Council's internal revaluation policy.
Priority	High
Recommendation	We recommend that the Council review its Fixed Asset Register to ensure that all its land and building assets have been subject to recent revaluation in line with its internal revaluation policy. This will ensure that the carrying value of assets continues to be appropriate in the financial statements.
Accepted in full by management	Yes
Management response	As per recommendation
Implementation date	28 April 2023

Exhibit 8: matter arising 8

Matter arising 8 – Assets not disposed of	
Findings	Our audit of the impairment review undertaken identified three assets (with a total net book value of £7,700) which were no longer held by the Council but which had not been disposed of in the Asset Register.
Priority	Medium
Recommendation	We recommend that the Council ensure procedures are in place to monitor assets and remove those which have been disposed of from the Asset Register and ensure correct treatment in the financial statements.
Accepted in full by management	Yes
Management response	Assets to be reviewed and disposed of if appropriate.
Implementation date	31 May 2023

Exhibit 9: matter arising 9 Powys Pension Fund

Matter arising 9 – Not all expected liabilities accrued for	
Findings	Our payables cut-off testing identified one invoice for £5,069.75 for services provided relating to quarter 4 which had not been accrued back into 2021-22 and therefore was not included in the payables balance. We were informed that although the invoice was expected, it was not received until June 2022 and therefore it was not accrued for as the exact value was unknown at the year-end.
Priority	Medium
Recommendation	We recommend that the Council review its procedures for identifying accruals at the year-end. When orders for goods or services have been placed, budget holders should be aware of the estimated cost of these and it is this cost that should be used to estimate the potential liability if an invoice is yet to be received.
Accepted in full by management	Yes
Management response	As per recommendation
Implementation date	30 June 2023

Exhibit 10: matter arising 10 Powys Pension Fund

Matter arising 10 – Altair report not run at year-end	
Findings	<p>Our audit work required us to reconcile the pensions in the ledger to the Altair pensions system. However, the list of current pensions in the payment report from Altair was not run and saved at the year-end. The report was run in October and therefore included the 2022-23 uplift, meaning it was not easily reconciled to the ledger. This resulted in additional audit work having to be undertaken to gain assurance over the figures in the accounts.</p>
Priority	High
Recommendation	<p>Similar to recommendation 4 above, we recommend that the Council retain a copy of all real-time reports produced at year-end which are used in the preparation of the pension fund accounts.</p> <p>Details of any such reports should be included in the Pension Fund's accounts preparation and closedown plans to ensure that the need for them to be retained is not overlooked.</p>
Accepted in full by management	Yes
Management response	<p>Pensions to provide underlying detail reports before the Pension Increase is applied for 2023-24.</p>
Implementation date	05 April 2023

Recommendations from previous years' audits

- 4 We summarise in **Exhibit 11** recommendations arising from previous years' audits along with our comments on the progress you have made against those recommendations.

Exhibit 11: progress against previous years' recommendations

Audit Year	Recommendation	Progress
2020-21 (Pension Fund)	We recommended that the Council ensure that all reconciliations between Altair and iTrent are undertaken on at least a monthly basis. This will ensure that any potential errors are identified, investigated, and corrected at the earliest opportunity.	<p>Our 2021-22 audit identified that there had been no regular reconciliations for standard benefits paid. Prior-year response from management gave the implementation date as 31 October 2022.</p> <p>There has also been no GMP reconciliation in 2021-22, and management have advised this is due to be carried out in February 2023.</p>



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