



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

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Audit of Accounting Statements – Report to  
Audit Committee

**Powys County Council**

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**It is my intention, as Appointed Auditor, to issue an unqualified audit opinion on the Authority's accounts and related notes.**

## **Contents**

<b>Summary</b>	4
<b>Detailed Report</b>	
The high level risks identified at the planning stage and contained within the Financial Audit Strategy have been addressed satisfactorily	6
The Council's Financial Statements are free from material misstatement	7
<b>Appendices</b>	
Sample Letter of Representation	9
Summary of corrections to draft Authority's accounts which should be drawn to the attention of those charged with governance	13

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## Summary

1. Powys County Council (the Authority) is responsible for the preparation of the accounting statements and related notes that show a true and fair view of its financial position as at 31 March 2010 and of its income and expenditure for the year then ended. I am required to give my opinion as to whether the accounting statements give a true and fair view.
2. The Authority submitted a Statement of Accounts to me on 30 June 2010 and I have now substantially completed the audit of the accounting statements and related notes. I am reporting to you the most significant issues arising which I believe you should consider prior to the approval of the Authority's accounts. I have already discussed these issues with the Director of Finance and Infrastructure and his staff.
3. I do not seek to obtain absolute assurance that the accounting statements and related notes are true and fair, but adopt a concept of materiality. In planning and conducting the audit, I seek to identify material misstatements in the accounting statements and related notes, that is, those which might result in a reader of the accounts being misled.
4. The quantitative levels at which I judge such misstatements to be material for the Authority are £3.9 million for income and expenditure items and working capital balances, and £5.3 million for other balances. 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.
5. As required by auditing standards I report to you any Authority issues identified with regard to:
  - accounting practices and financial reporting;
  - material internal control weaknesses;
  - matters of significant governance interest; and
  - any other relevant matters arising from my audit.
6. I would also set out in the detailed report any misstatements identified in the Authority's accounts which remain uncorrected, but I can confirm that all misstatements identified have been amended by management in the revised Financial Statements. A summary of these amendments is attached for your information at Appendix 2.
7. The main conclusions from our audit of the accounting statements are summarised below and set out more fully in the detailed report:
  - the high level risks identified at the planning stage and contained within the Financial Audit Strategy have been addressed satisfactorily; and
  - the Council's Financial Statements are free from material misstatement.
8. It is my intention to issue an unqualified audit report on the accounting statements and related notes once the Authority has provided me with a signed Letter of

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Representation relating to the accounts. An example of the areas we would request representations on is attached at Appendix 1.

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## The high level risks identified at the planning stage and contained within the Financial Audit Strategy have been addressed satisfactorily

9. Our audit strategy reported the risks identified at the audit planning stage. Exhibit 1 summarises these risks and the way in which these have been resolved, together with the significant risks identified from our review of the draft financial statements.

### Exhibit 1: Audit planning risks

Control environment risks	Findings
Continued achievement of budgeted spend through implementing efficiencies and changes to fees and charges.	Effective budgetary control arrangements are in place and medium-term financial planning is being developed.
Effectiveness of Internal Audit as a key element of the control environment	Internal Audit complied with the CIPFA standards although there was some slippage in its plan due to staffing shortages and unplanned assignments.
The Council may not have robust budgetary control arrangements in place.	Effective budgetary control arrangements are in place and medium-term financial planning is being developed.
Financial systems risks	Findings
IT controls over significant financial systems.	Controls in significant financial systems operated satisfactorily during 2009-10.
In October 2009 the Office of Fair Trading identified widespread over pricing in construction contracts in England. Processes at the Council need to be sufficiently robust to mitigate against this.	Our work is still ongoing and will be followed up in 2010-11.
Key controls within significant financial systems may not be in place or may not be effective.	Controls in significant financial systems operated satisfactorily during 2009-10.
Preparation of the accounts risks	Findings
International Financial Reporting Standards (IFRS) accounts conversion including accounting for Private Finance Initiative (PFI) transactions.	Significant progress is being made in preparation for the 2010-11 changes.
Other Statement of Recommended Practice (SORP) changes.	Financial statements were prepared in accordance with the SORP.

The Council's Whole of Government Accounts (WGA) consolidation return which the government intends to publish for 09/10.	Submission deadlines for the draft return were achieved, and our audit testing has identified that only minor changes are required. We intend approving the Council's revised WGA return by 30 September.
<b>Financial statements risks</b>	<b>Findings</b>
The conclusion of the Job Evaluation process could result in higher costs than currently predicted.	We have reviewed the provision made for Job Evaluation and equal pay costs and are content that the provision is based upon a reasonable estimate given current legal advice and progress made.
There may be material misstatements in the financial accounts particularly around capital transactions.	We have tested all material transactions and whilst non-material misstatements have been identified, these have all been amended by the Authority.
The authority had £4 million invested in failed Icelandic banks, and provisions need to reflect the most up to date advice and risk of non-recovery.	We have tested the accounting entries and are satisfied that they are fairly stated.

## The Council's Financial Statements are free from material misstatement

10. Auditing standards require us to report any matters that might result in a material misstatement in the financial statements, specifically if we identify:
  - material weaknesses in your internal controls;
  - other matters of governance interest;
  - suspected or detected fraud; and
  - inconsistencies in financial information.
11. In the course of the accounting statements audit, we also consider the qualitative aspects of the financial reporting process as well as the accuracy of the statements.
12. We report to you any uncorrected misstatements, other than those of a clearly trivial nature, and prepare an auditor's report that comments on whether:
  - the accounting statements and related notes give a true and fair view of the Council's financial position as at 31 March 2010 and of its income and expenditure for the year then ended; and
  - the Statement on Internal Control is compliant with applicable guidance and is consistent with our knowledge and understanding of the Council's arrangements.

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13. Exhibit 2 summarises our findings.

**Exhibit 2: Accounting statements audit**

<b>Auditing standards areas</b>	<b>Findings</b>
Internal controls	We did not identify any material weaknesses in your internal controls. A number of minor issues are being discussed and agreed with officers, and will be reported in our Financial Accounts memorandum.
<b>Accounting statements audit</b>	
Qualitative aspects of your accounting practices	The accounting statements preparation processes have continued to improve resulting in good quality draft statements supported by comprehensive working papers. The Finance staff have been very co-operative and professional in all their conduct with the auditors.
Misstatements	The Council's accounting statements have been prepared in accordance with the amended Accounts and Audit Regulations. There are no uncorrected misstatements. A number of misstatements in the draft accounts have been corrected – and a list of amendments for your information is attached at Appendix 2.
Auditor's report	We intend to issue an unqualified audit opinion.



## Appendix 1

(Letterhead)

John Herniman  
Wales Audit Office  
24 Cathedral Road  
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CF11 9LJ

[Date]

## **Representations regarding the 2009-2010 Statement of Accounts**

This letter is provided in connection with the audit of the accounting statements and related notes of Powys County Council (the Authority) for the year ended 31 March 2010 for the purpose of expressing an opinion as to whether they give a true and fair view, in all material respects, of the financial position of the Authority as at 31 March 2010 and of the result of its operations and its cash flows for the year then ended in accordance with the Accounts and Audit (Wales) Regulations 2005 (as amended) and the Code of Practice on Local Authority Accounting in the United Kingdom - a Statement of Recommended Practice 2009 (the SORP).

### **Overall representations**

All the transactions undertaken by the Authority have been properly reflected and recorded in the accounting records.

There are no pooled budget projects arising from any partnership agreements entered into under section 31 of the Health Act 1999, associates, joint ventures or joint arrangements other than those disclosed in the accounting statements and associated notes.

The Authority has complied with all conditions imposed by relevant grant paying organisations and can reasonably expect to receive the amounts of grant included within the accounts.

The Authority has complied with all aspects of contractual agreements that would require adjustment to, or disclosure in, the accounting statements and related notes.

The accounting statements and related notes are free of material misstatements, including omissions.

All books of account and supporting documentation and all minutes of meetings of the Authority have been made available to you.

The Authority has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the accounting statements and related notes.

The measurement methods, including the related assumptions, used in determining fair values are appropriate and have been applied consistently. Disclosures relating to fair values are complete and appropriate.

The effects of uncorrected misstatements identified during the audit are immaterial, both individually and in the aggregate, to the accounting statements taken as a whole.

All the amendments in the SORP requirements, particularly those relating to accounting for Public Finance Initiative and similar schemes, have been considered and the appropriate entries made in the 2009-2010 Statement of Accounts.

## **Assets**

### **General**

All assets included in the balance sheet were in existence at the balance sheet date and owned by the Authority, and free from any lien, encumbrance or charge, except as disclosed in the accounts. The balance sheet includes all tangible assets owned by the Authority.

### **Fixed assets**

All assets over the de minimis level are capitalised. They are revalued every five years via a rolling programme. Also, this year, asset values have been reviewed for impairment in light of the current economic climate and are reflected in the financial statements accordingly. Depreciation is calculated to reduce the net book amount of each asset to its estimated residual value by the end of its estimated useful life in the Authority's operations.

### **Investments**

All investments included in the balance sheet were in existence at the balance sheet date and owned by the Authority, and free from any lien, encumbrance or charge, except as disclosed in the accounts. The balance sheet includes all investments owned by the Authority. The Authority's investments, including those in the xxxx Bank (Icelandic), have been reviewed for impairment and any such impairment is reflected in the financial statements accordingly.

### **Current assets**

On realisation in the ordinary course of the Authority's operations, the other current assets in the balance sheet are expected to produce at least the amounts at which they are stated. Adequate provision has been made against all amounts owing to the Authority which are known, or may be expected, to be irrecoverable.

There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

## Liabilities

### General

All liabilities, both actual and contingent, have been recorded and disclosed as appropriate as well as all guarantees that we have given to third parties.

There is no pending litigation which may result in significant loss to the Authority, and which have not been disclosed in the accounting statements and related notes, either as current or contingent liabilities.

All obligations under finance leases or hire purchase contracts have been disclosed in the accounts.

All unfunded benefits (such as discretionary added years) have been considered in the compilation of the FRS 17 figures included in the accounting statements and related notes.

### Results

Except as disclosed in the accounting statements and related notes, the results for the year were not materially affected by transactions of a sort not usually undertaken by the Authority, or circumstances of an exceptional or non-recurring nature.

### Internal control

I acknowledge my responsibility for the design and implementation of internal control to prevent and detect error. There have been no:

- irregularities involving management who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; and
- communications from regulatory agencies concerning non-compliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements.

### Post balance sheet events

Except as disclosed in the accounting statements and related notes, there have been no material changes since the date of the balance sheet affecting liabilities and commitments, and no events or transactions have occurred which, though properly excluded from the accounting statements and related notes, are of such importance that they should have been brought to the notice of the auditor.

### Representations by those charged with governance

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

We acknowledge our responsibility for the fair presentation of the accounting statements and related notes in accordance with the applicable financial reporting framework.

We acknowledge our collective responsibility for the preparation of the Statement of Accounts, which has been approved by the Authority.

We have disclosed to you all known or possible non-compliance with laws and regulations whose effects should have been considered when preparing the accounting statements and related notes.

There are no other material transactions with related parties (as defined by FRS 8 and the SORP), other than those recorded and disclosed in the accounting statements and related notes.

We acknowledge our responsibility for the design and implementation of internal control to prevent and detect fraud and have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Authority's accounting statements and related notes communicated to the Authority by employees, former employees, regulators or others.

We have disclosed to you our knowledge of fraud or suspected fraud affecting the Authority involving:

- those charged with governance;
- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the accounting statements and related notes.

We confirm, to the best of our knowledge and belief, that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Signed by

S.151 Officer

Date

Leading Member

Date

## Summary of corrections to the draft accounting statements and related notes which should be drawn to the attention of those charged with governance

Nature of correction	Reason for correction
<p><b>Net deficit on the Income and Expenditure</b> As a result of the following corrections, the net deficit on the Income and Expenditure Account for 2009/10, has decreased from £14,987,000 to £ 14,467,000.</p>	<p>To correct the accuracy of the financial statements and comply with guidance.</p>
<p><b>Note 49 Icelandic Banks</b> In accordance with CIPFA guidance, the authority has also disclosed (the worst case scenario) the value of its Investments in Glitner and Landsbanki Banks should priority creditor status not be achieved.</p>	<p>Increased information provided to comply with guidance.</p>
<p><b>Note 27 Accrued interest categorisation</b> £1,377,000 accrued interest has been re-categorised from long term liabilities to current liabilities.</p>	<p>To correct the accuracy of the financial statements.</p>
<p><b>Note 23 Long term debtors</b> The £3,199,000 authority's investment in low cost housing scheme has been re-categorised as long term investments in note 27.</p>	<p>To comply with Wales Audit Guidance.</p>
<p><b>Note 18 Transactions with Related Party</b> Transactions to the value £33,000 with Banwy Fuels, in which Councillor W.B.Thomas has an interest, has been disclosed.</p>	<p>To comply with guidance.</p>
<p><b>Note 26 Short Term Creditors</b> An Education liability of £55,383, relating to 2010/11 has been removed.</p>	<p>To correct the accuracy of the financial statements</p>
<p><b>Statement of Total Recognised Gains and Losses</b> A £329,000 surplus relating to the correction of prior year asset values has been charged directly to the Income and Expenditure Account.</p>	<p>To correct the accuracy of the financial statements and comply with guidance.</p>
<p><b>Housing Revenue Account</b> An asset already disposed of, but incorrectly recorded at £100,000, has been removed and charged to the Income and Expenditure Account and Revaluation Reserve</p>	<p>To correct the accuracy of the financial statements.</p>
<p><b>Note 16 Senior officers emoluments</b> Both 2009/10 and 2008/09 statistics have been corrected to agree to payroll records.</p>	<p>To correct the accuracy of the financial statements.</p>

<p><b>Note 16 Higher paid officer emoluments bandings</b> Both 2009/10 and 2008/09 statistics have been corrected to exclude employers pension contributions. Disclosure is only required for senior officers.</p>	<p>To correct the accuracy of the financial statements.</p>
<p><b>Note 47 Analysis of Government Grants</b> The 2008/09 comparative figures have been restated. £1,787,000 has been re-categorised from Other Education grants to Reffcus.</p>	<p>To correct the accuracy of the financial statements.</p>
<p><b>Assets Held Note 22</b> The number of Administration Offices held at 2009/10 was corrected from 15 to 17, reflecting the one disposal made in 2009/10.</p>	<p>To correct the accuracy of the financial statements.</p>
<p><b>Presentational and minor errors</b> A number of corrections were made to improve the presentation of the statements' narrative disclosures and to correct minor discrepancies and casting errors.</p>	<p>To correct the accuracy of the financial statements and improve readability.</p>
<p><b>Statement on Internal Control</b> The Statement of Internal Control has been corrected to reflect the actual assurances given by Internal Audit.</p>	<p>To reflect the actual assurances given by Internal Audit.</p>
<p><b>Debtors Note 25</b> The authority originally showed debtors net of the bad debt provision. These have been grossed up increasing both debtors and bad debt provision by £225,000. A debtor balance of £110,400 also existed within creditors and has been grossed up.</p>	<p>To correct the accuracy of the financial statements and comply with guidance.</p>
<p><b>Note 34 Post balance Sheet Events</b> A note has been added. The actuaries have predicted that future Pension Fund liability could fall by £46 million as a consequence of linking future pension increases to the Consumer Prices Index as opposed to Retail prices Index.</p>	<p>To comply with guidance</p>





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