



WALES **AUDIT** OFFICE  

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# Audit of Financial Statements Report

## **Powys County Council**

**Audit year:** 2011-12

**Issued:** September 2012

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# Status of report

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## **Status of report**

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The Appointed Auditor intends to issue an unqualified audit report on your financial statements although there are some issues to report to you prior to their approval

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# Summary report

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## Introduction

1. The Appointed Auditor is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of Powys County Council (the Council) at 31 March 2012 and its income and expenditure for the year then ended.
2. We received the draft financial statements for the year ended 31 March 2012 on 29 June 2012 and have now completed the audit work. 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 relevant staff within your Finance department.
3. 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 mislead a reader of the accounts.
4. The quantitative levels at which we judge such misstatements to be material for the accounts are £3.97 million for income and expenditure items and working capital balances, and £5.4 million for other balances. Certain qualitative issues such as legal and regulatory requirements and political sensitivity can also affect whether an item is judged to be material.

## Proposed audit report

5. It is the Appointed Auditor'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](#).
6. The proposed audit report is set out in [Appendix 2](#).

## Significant issues arising from the audit

### Uncorrected misstatements

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

### Corrected misstatements

8. There were 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](#).

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## **Other significant issues arising from the audit**

9. 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.

### **We have no concerns about the qualitative aspects of your accounting practices and financial reporting and the draft financial statements were prepared to a high standard but there is one matter we need to bring to your attention**

10. In line with other local authorities in Wales, the Council is in the process of agreeing equal pay settlements with employees. The 2011-2012 accounts include a provision in respect of this liability and the related pension contributions.
11. Legal advice obtained by the Appointed Auditor suggests that it is appropriate to recognise this liability. However, there are diverging legal views and uncertainty regarding the need to recognise a provision in respect of the pension contributions on equal pay settlements.
12. The Appointed Auditor has concluded that he is not required to undertake any further action regarding this matter as part of the 2011-2012 audit of accounts. However, the Council needs to be alert to any future court decisions on this issue that could clarify the legal position and impact on the need for a provision in respect of the pension contributions.

### **We did not encounter any significant difficulties during the audit, although there are two areas we would bring to your attention**

13. There were no significant difficulties encountered during the audit which we need to report to you. We will provide detailed feedback to management at the conclusion of the audit, and will report any less significant issues in a more detailed report for the next Audit Committee. There were two areas which we would take the opportunity to highlight to you within this report:
- In 2010-11 we reported to you some concerns on the quality of your accounting practices and financial reporting. This resulted in an additional audit fee and significant amendments to the accounts. One of the key areas we had difficulty with was capital accounting and financing. We are pleased to report this year that we have seen significant improvement in the quality of the accounting practices and working papers in this area, and only relatively minor amendments have been made to the draft accounts as a result of the audit process.
  - There were some difficulties encountered this year as a result of the key member of staff within finance leaving the Council's employment part way through the audit process. The member of staff had been responsible for putting together the draft Financial Statements and supporting working papers. However, whilst there were some delays within the audit process, the co-operation and hard work of the finance staff has meant we were able to complete the audit process on time, and without the Authority incurring any additional audit costs.

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**There were no significant matters discussed and corresponded upon with management which we need to report to you**

**14.** No significant matters arose that were corresponded upon with management.

**We did not identify any material weaknesses in your internal controls**

**15.** No material weaknesses in the Council's internal controls were identified during our audit.

**There are no other matters significant to the oversight of the financial reporting process that we need to report to you**

**16.** There are no other matters relevant to the oversight of the financial reporting process and overall control environment that we need to report to you.

# Appendix 1

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## Final Letter of Representation

Anthony Barrett  
Wales Audit Office  
24 Cathedral Road  
Cardiff  
CF11 9LJ

Date:

## Representations regarding the 2011-12 financial statements

This letter is provided in connection with your audit of the financial statements of Powys County Council for the year ended 31 March 2012.

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 insert relevant Code; in particular, the financial statements give a true and fair view in accordance therewith.

We acknowledge our responsibility 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 Powys County Council 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; and
  - 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. The effects of uncorrected misstatements identified during the audit are immaterial, both individually and in aggregate, to the financial statements taken as a whole.

### **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 Powys County Council on 28 September 2012.

Signed by:

[Officer who signs on behalf of management]

Date:

Signed by:

[Officer or Member who signs on behalf of those charged with governance]

Date:



# Appendix 2

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## Proposed audit report of the Appointed Auditor

### Independent auditor's report to the Members of Powys County Council

I have audited the accounting statements and related notes of:

- Powys County Council; and
- Powys Pension Fund

for the year ended 31 March 2012 under the Public Audit (Wales) Act 2004.

Powys County Council's accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet and the Cash Flow Statement.

Powys Pension Fund accounting statements comprise the Fund Account and the Net Assets 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 2011/12 based on International Financial Reporting Standards (IFRSs).

### Respective responsibilities of the responsible financial officer and the independent auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 20, 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 Auditing Practices Board'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 Powys County Council's and Powys Pension Fund'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 Explanatory Foreword to identify material inconsistencies with the audited accounting statements and related notes. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

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### **Opinion on the accounting statements of Powys County Council**

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Powys County Council as at 31 March 2012 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 2011/12.

### **Opinion on the accounting statements of Powys Pension Fund**

In my opinion, the pension fund accounts and related notes:

- give a true and fair view of the financial transactions of Powys Pension Fund during the year ended 31 March 2012 and of the amount and disposition of the Fund's assets and liabilities as at that date other than liabilities to pay pensions and benefits after the end of the scheme year; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

### **Opinion on other matters**

In my opinion, the information contained in the Explanatory Foreword for the financial year for which the accounting statements and related notes are prepared, 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 Governance Statement on which I report to you if, in my opinion, it does not reflect compliance with 'Delivering Good Governance in Local Government: Framework' published by CIPFA/SOLACE in June 2007, or if the statement is misleading or inconsistent with other information I am aware of from my audit.

### **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 Code of Audit Practice issued by the Auditor General for Wales.

Anthony Barrett  
Wales Audit Office  
24 Cathedral Road  
Cardiff  
CF11 9LJ

# Appendix 3

## Summary of corrections made to the draft financial statements

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.

Value of correction £'000	Nature of correction	Reason for correction
Net - 0	<p>Note 9</p> <ul style="list-style-type: none"> <li>Gains on the Disposal of Non-Current Assets is overstated and should be £785k</li> <li>Transfer to deferred Credits – Landlord Loans is understated by £322k</li> </ul>	New landlord loans paid out in 2011-12 of £322k have been incorrectly classified.
Net - 0	<p>Note 37 – Audit Costs</p> <ul style="list-style-type: none"> <li>Reduce the accounts figure by £71k</li> <li>Increase the Performance audit figure by £71k</li> </ul>	Incorrect classification of expenditure.
1,893	<ul style="list-style-type: none"> <li>Increase Capital Grants in Advance</li> <li>Increase Debtors, and all notes that refer to Capital reserves</li> </ul>	Late grant allocation received from WAG (after closure of accounts had been completed).
676	Insurance recharge to services overstated.	Income and Expenditure Cost of Service to reflect actual Insurance cost.
Various	<p>Adjustments required to:</p> <ul style="list-style-type: none"> <li>Capital Grants Unapplied</li> <li>Grants in advance</li> </ul> <p>Adjustments on these accounts impact on the MIRS and Capital Adjustment Account.</p>	Grants had not been transferred out of the Grants in advance account once the grant conditions were met.
296	Note 30 – Government Grants. Sports Council Grant understated, which impacts on the total of the note and hence the Cashflow statement.	A Council officer identified the omission when drawing together supporting documentation for audit.
3,240	Included in the cash flow is a line for 'net change in other liquid resources'. This relates to the net movement in the NNDR payments to the pool and NNDR receipts. The Code guidance notes state that if NNDR is a net outflow (the difference between the cash collected from NNDR taxpayers and the amount paid to the pool) then this should be disclosed as 'other payments for financing activities' within the	Incorrect classification.

Value of correction £'000	Nature of correction	Reason for correction
205	financing activities section of the cash flow.  Incorrect figure included for the NNDR net outflow.	When calculating the NNDR net outflow the amount used for the Amount Paid to the Pool was incorrect.
6,008	For 2010/2011 the Income and expenditure in the Cost of services are overstated.	Due to a change in accounting for some central costs in 2011/2012 the opening balances were adjusted to be comparable, however there was an error in the accounting treatment resulting in the Income and Expenditure for 2010/11 being overstated.
1,880	For 2010/2011 the Income and Expenditure for Cultural, Environmental and Planning were overstated.	Internal recharges had not been posted correctly in 2010/2011.
2,937	Equal pay provision is understated.	The original assumptions applied to the calculation this year were revisited during the audit which resulted in the provision being recalculated.
618	Department of Works and Pension Debtors and creditors are overstated.	The balance at year-end for Department of Works and Pension was incorrectly split between debtors and creditors, the net position should be posted to the accounts (ie net debtor balance).
3,179	Disclosure note – Note 48 Sundry Debtors at 31 March 2012 incorrectly stated.	The bad debt provision for sundry debtors had been incorrectly netted off the debt outstanding. This figure should show the total debt outstanding.
401	Bank overdraft figure is overstated, creditors is understated	Included in the bank overdraft figure was a sum for purchase cards payments which have yet to be invoiced for which should therefore be shown as a creditor.
<b>Housing Revenue Account (HRA)</b>		
1,337	The figure included in the HRA income and expenditure account for taxation and non-specific grant income of £5,050k needs to be amended to £3,713k.  The contra entry to this is to adjust the MIRS – Adjustments between Accounting Basis and Funding Basis Under the Statute and the supporting note - Note 5.	The sum of £1,337k has been included twice in Note 5 to the HRA, correctly as Direct Revenue Financing but incorrectly as Insurance Receipts. Note 5 is overstated which in turn has an effect on the MIRS and the Revenue Account.

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Value of correction £'000	Nature of correction	Reason for correction
5,131	Impairment total in Note 3 is understated by £5,131k.	<p>The figure included in Note 3 for impairments only includes impairments charged to the provision of service. It should however also include the total impairments charged to the revaluation reserve.</p> <p>Therefore Total Impairment needs to be amended to £6,450k.</p>
N/A	There were several other 'trivial' adjustments and enhanced disclosure made to the draft accounts.	Adjustments made to capture relevant disclosures and correct mistakes noted in the first draft.



WALES AUDIT OFFICE  

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