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Councillor David Jones – Leader
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Dear Councillor Jones and Jeremy

Annual Audit Letter to the Members of Powys County Council

This letter summarises the key messages arising from my statutory responsibilities under the Public Audit (Wales) Act 2004 as the Appointed Auditor and my reporting responsibilities under the Code of Audit Practice.

The Council complied with most of its responsibilities relating to financial reporting and use of resources, although it did not publish its audited financial statements until 15 October 2012

It is the Council's responsibility to:

- put systems of internal control in place to ensure the regularity and lawfulness of transactions and to ensure that its assets are secure;
- maintain proper accounting records;
- prepare a Statement of Accounts in accordance with relevant requirements; and
- establish and keep under review appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Public Audit (Wales) Act 2004 requires me to:

- provide an audit opinion on the accounting statements;
- review the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources; and
- issue a certificate confirming that I have completed the audit of the accounts.

Local authorities in Wales prepare their accounting statements in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. This Code is based on International Financial Reporting Standards.

The Accounts and Audit (Wales) Regulations 2005, as amended, requires the Council to publish their statement of accounts whether audited or not by 30 September each year. Due to an oversight, caused by a key member of the finance team leaving the Council's employment, the Statement of Accounts were not available on Powys County Council's website until 15 October 2012. The Council have given us assurances this will be rectified for future years.

On 28 September 2012 I issued an unqualified audit opinion on the accounting statements stating that they present a true and fair view of the Council's and the Pension Fund's financial position and transactions. My report is contained within the Statement of Accounts. The key matters arising from the accounts audit were reported to members of the Audit Committee in my Audit of Financial Statements reports on 28 September 2012.

The following issues were identified regarding the statement of accounts of both Powys County Council and Powys Pension Fund:

- 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. 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, and the Council needs to be alert to any future court decisions on this issue that could clarify the legal position.
- 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 were made to the draft accounts as a result of the audit process.
- There were some difficulties encountered this year as a result of a 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 compiling 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.
- As part of our audit work on the Pension Fund, we place a significant amount of reliance on controls assurance statements provided by Fund Managers. These statements typically provide us with sufficient assurance that controls are in place in respect of the valuation and existence of the investments held on behalf of the Pension Fund. This is particularly important where investments are unobservable, ie

they cannot be agreed to the stock exchange valuation listings. During our audit, we identified that a particular controls assurance statement was unavailable for the financial year 2011-12 in respect of CBRE. The Council should ensure that these statements are made available for its own governance requirements. Where these are not available, the Council needs to ascertain why they are not available and assess alternative arrangements to ensure they receive the appropriate assurance over the pension fund investment held by the fund manager.

- We identified a particular retirement benefit calculation where evidence of the calculation could not be provided to us as the record had not been maintained by the pension's administration teams. Whilst we were able to conclude that this was an isolated issue, we would emphasise that evidence of this nature should be maintained as part of the records management and document retention procedures.
- Our audit work also highlighted an amendment to the 2010-11 and 2011-12 figures in respect of the number of pension contributors. During the previous year, there were a number of pension contributors which remained on the pensions administration system (Altair) which should have been removed, ie a backlog had built up in the system. Appropriate amendments have been made to the financial statements in this respect. We recommend that numbers of contributors recorded on the Altair system are regularly reviewed to ensure that it is up to date.

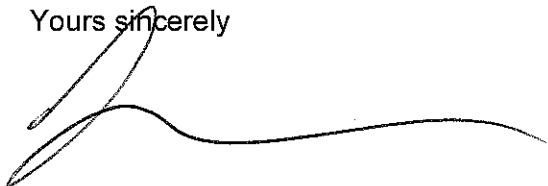
My consideration of the Council's arrangements to secure economy, efficiency and effectiveness has been based on the audit work undertaken on the accounts, as well as placing reliance on the work completed as part of the Improvement Assessment under the Local Government (Wales) Measure (2009). Overall, I am satisfied that the Council has appropriate arrangements in place. The Auditor General will highlight areas where the effectiveness of these arrangements has yet to be demonstrated or where improvements could be made when he publishes his Annual Improvement Report. Whilst, overall, I have concluded that arrangements are in place, there are two areas that I would draw to your attention from my work:

- A review undertaken in the previous audit year highlighted that proper arrangements may not have been in place in relation to waste management procurement and partnerships with the voluntary sector. We have held further discussions with the Council to help ensure that appropriate arrangements for the inclusion of voluntary sector suppliers are put in place.
- As part of a review into issues raised by members in relation to a redevelopment scheme, we considered an associated land sale. Cabinet approved the sale in July 2011, however, there was no evidence to indicate that the concerns raised about the sale process by the Section 151 officer were given proper consideration and attention. The Council needs to ensure it has arrangements in place to document consideration of issues raised by statutory officers.

I issued a certificate confirming that the audit of the accounts had been completed on 28 September 2012.

The financial audit fee for 2011-12 is currently expected to be higher than the agreed fee set out in the Annual Audit Outline. During the year, we were requested by the Council to lead a Joint Review with Internal Audit on areas of concern raised by members, and have also dealt independently with correspondence received by electors. Some of the issues drawn to your attention in this letter are as a direct result of this work. The additional audit fee relating to this work was £12,810.

Yours sincerely

A handwritten signature in black ink, appearing to read 'John Hemiman', written over a horizontal line.

John Hemiman
Group Director

For and on behalf of the Appointed Auditor
27 November 2012