



WALES **AUDIT** OFFICE

SWYDDFA **ARCHWILIO** CYMRU

Audit of Financial Statements Report

Powys County Council

Audit year: [2012-13]

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Status of report

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Summary report

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 at 31 March 2013 and its income and expenditure for the year then ended.
2. 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 result in a reader of the accounts being misled.
3. The quantitative levels at which we judge such misstatements to be material for Powys County Council are £4.5 million for income and expenditure items and working capital balances, and £5.7 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.
4. International Standard on Auditing (ISA) 260 requires us to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
5. This report sets out for consideration the matters arising from the audit of the financial statements of Powys County Council for 2012-13 that require reporting under ISA 260.

Status of the audit

6. We received the draft financial statements for the year ended 31 March 2013 on 28 June 2013 as agreed, and have now substantially completed the audit work.
7. 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 the Accountancy Manager and Finance Team.

Proposed audit report

8. 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](#). However, the audit cannot be formally concluded and an audit certificate issued until enquiries arising from matters raised by a number of "whistleblowers" have been formally completed.
9. The proposed audit report is set out in [Appendix 2](#).

Significant issues arising from the audit

Uncorrected misstatements

10. There is one misstatement identified in the financial statements, which has been discussed with management but remains uncorrected. If you decide not to correct this misstatement, we ask that you provide us with the reasons for non-correction.
- 2 assets were identified by the Council as being 'surplus', and at this stage they were re-valued and the value deemed to have fallen by £611,000. The Code of Practice on Local Authority Accounting (the Code) requires that "...the fair value of surplus assets should be based on the existing use value of the asset, applying the same assumptions relating to the level of usage, etc as those in the most recent revaluation as an operational asset." The re-valuation of the asset should only take place once the asset is categorised as an "Asset held for sale". The assets are therefore understated by £611,000.

Corrected misstatements

11. There are 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. The more significant amendments were:
- Note 27 – Reconciliation to subjective analysis. The bottom line on this note was accurate but many of the other lines needed amendment. These amendments were often material – for example, the grants figure was misstated by £19 million (from £126 million to £107 million); the depreciation and impairment figure was misstated by £13.7 million (from £10 million to £23.7 million); precepts and levies misstated by £13.7 million (from £7 million to £20.7 million); Agency fees misstated by £13.7 million (from £108.2 million to 94.5 million); and Interest and Similar Charges misstated by £14.9 million (from 21.5 million to £6.6 million).
 - Income and Expenditure Statement – Gross Income and Expenditure for Cultural, Environmental and Planning contained approx £11.8 million relating to internal recharges. This meant that both income and expenditure were overstated by this amount and have been adjusted.
 - The council accrued £3.549 million relating to costs associated with Job Evaluation pay protection. There was no working paper to support this figure initially, but when documentation was provided it was clear that the costs related to future costs and as such should not be accrued for. Consequently the figure was moved out of accruals and back into earmarked reserves. This resulted in the bottom line effect of reducing the year-end deficit by £3.549 million.
 - From our testing of fixed assets we identified that an asset re-valued at £130k was recorded on the asset register at £1.3 million. Therefore the asset value was overstated by £1.17 million.

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12. There were other corrected misstatements and they are set out with explanations in [Appendix 3](#).

Other significant issues arising from the audit

13. 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. There were some issues arising in these areas this year:

- **We have some concerns about the qualitative aspects of your accounting practices and financial reporting.**

From our work on the fixed assets we have concluded that the improvement noted last year in the compilation of the financial statements from the fixed asset register has continued. However, our work has highlighted some concerns on how the fixed asset register is used and the information contained within it. Our concerns can be summarised as:

- The estates department valuers use the fixed asset register as their prime source of documentation. Whilst this does have its advantages of removing duplication, it does have risks associated with it. Firstly there are no valuation certificates or schedules to support the valuation of individual assets, with reliance being placed on notes and calculations input onto the fixed asset register. If these notes are not complete or unclear the data can be hard to verify. Secondly, as detailed above we did find one input error resulting in a misstatement of £1.17million. The system does not allow for any reconciling of values input in different parts of the system and it is not always easy to see that a difference exists between the valuation calculations and the final value entered into the value field. We also identified several instances where the valuation basis had been incorrectly input. Significant amounts of additional work by the estates department, the capital accountant and ourselves has allowed us to conclude that the assets are fairly stated. Controls within the system need to be strengthened to avoid similar errors on uncertainties reoccurring.
- There is also scope to improve the communications between the various departments within the council and finance staff to ensure that asset details within the asset register are up to date and accurate. Instances were identified where assets had been disposed of, and asset categories changed but these had not been communicated to Finance to ensure the asset register could be updated.
- We have also identified some valuations that do not appear to be in line with the Code. There were examples where Land and Buildings were not valued on the correct basis and instances were also identified where assets were disposed of without being transferred to Asset Held for Sale (where applicable) and re-valued at that point. Our work has concluded that the fixed assets within the financial statements are materially accurate

after additional audit work, but action needs to be taken to ensure that valuations adhere to the Code, and procedures are put in place to make the system more robust and less susceptible to input error, including periodic quality assurance reviews and sense checks.

- **We encountered some significant difficulties during the audit.**

In some areas of our work we found it difficult to get accurate and timely information to support the figures in the financial statements. Some examples of this are listed below:

- There were examples of inaccurate and incomplete system reports. During the audit we requested a list of all the year-end journals for us to test. A report was provided and audit testing started. However, from our testing in other areas, it became clear that the report provided was not complete, and a new report had to be requested and our sample testing revisited. This resulted in some duplication of our work, and delays in completion of the audit work. We had similar problems with a report requesting all the payments made from the accounts payable system after the year-end.
- We had difficulties in getting satisfactory explanations to large variances within the accounts. For example, finance staff were, initially, unable to tell us why the gross income figure on ‘Cultural, Environmental and Planning’ within the Income and Expenditure statement had increased by 50 per cent (£10.4 million). We eventually received the information we required on 25 September (resulting in an adjustment to both income and expenditure of £11.8 million to remove an internal recharge), but it took a lot of audit time and effort to receive explanations for something we believe should have been to hand immediately, and resulted in a material amendment to the financial statements. This error should have been relatively easy to spot as the accounts were being prepared if there have been sufficient quality assurance reviews in place.
- We had examples of figures in the financial statements not having supporting documentation to substantiate them. An example of this being the £3.5 million provision for the cost of job evaluation. When details were produced (on 24 September 2013) it was clear that the £3.5m was wrongly categorised and should not have been a provision as the costs did not relate to past years.
- It was clear from a high level review of the accounts that Note 27 – A Reconciliation of Subjective Analysis to the Comprehensive Income and Expenditure Statement - was inaccurate and did not reconcile to the main financial statements and supporting notes. This was another area where material amendments were required to be made, and should have been picked up by the Council’s own quality assurance arrangements.
- The Whole of Government Accounts (WGA) return was submitted late for audit – The deadline set by the Welsh Government for submission of WGA

DCT returns by Local Government bodies was 21st August. Two extensions were granted to Powys CC by the Welsh Government – one to 28th August, and a further one to 3rd September. The DCT return was then submitted on the 3rd September but, due to required Welsh Government checks, it was not made available for audit until 5th September. Much of this delay was outside of the Council's control but there is a risk that we will not meet the deadline for audited returns of 4th October 2103.

- **There was one significant matter discussed and corresponded upon with management which we need to report to you.**

Incorporating the Pension Fund within the Annual Governance Statement of Powys County Council – we note that the Annual Governance Statement of Powys County Council makes no reference to the Powys Pension Fund. The Pension Fund's governance arrangements form part of the overall governance arrangements for the Authority (as the designated statutory body responsible for administering the Powys Pension Fund). Whilst the Pension Fund financial statements make reference to key governance arrangements in respect of the Pension Fund, we recommend that appropriate reference is included within the Powys County Council Governance Statement for 2013-14.

- **There is one matter relating to the oversight of the financial reporting process that we need to report to you.**

As this report has documented there are areas for significant improvement in the production of the accounts, supporting documentation, timely and accurate information and quality assurance procedures. We have already had initial discussions with the new Section 151 Officer on some of the high level issues, and he has indicated that he is keen to ensure that improvements are put in place.

It should be noted that during the accounts audit this summer there was no Director in Finance or Head of Finance in post, and the Accountancy Manager who was overseeing the Accounts and Audit process had additional responsibilities during this key time. We would take this opportunity to document our appreciation for the support and hard work of the key finance staff (the Accountancy Manager, the Capital Accountant and the Accountant responsible for putting the accounts together). They were professional, co-operative and responded to our queries in a timely manner.

- **We did not identify any material weaknesses in your internal controls.**
- **There are not any other matters specifically required by auditing standards to be communicated to those charged with governance.**

Independence and objectivity

14. As part of the finalisation process, we are required to provide you with representations concerning our independence.
15. We have complied with ethical standards and in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between the Wales Audit Office and Powys County Council that we consider to bear on our objectivity and independence.

Appendix 1

Proposed Letter of Representation

(Audited body's letterhead)

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

[Date]

Representations regarding the 2012-13 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 2013 for the purpose of expressing an opinion on their truth and fairness and their proper preparation.

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 CIPFA Code of Practice on Local Authority Accounting; 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

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- 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 the aggregate, to the financial statements taken as a whole. A summary of these items is set out below:

Note 12 PPE – Surplus Assets – Incorrect Revaluation Adjustment understating the accounts by £611

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 preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by the Audit Committee on 26 September 2013.

Signed by:

Signed by:

[Officer who signs on behalf of management]

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

Date:

Date:

Appendix 2

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 2013 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, the Cash Flow Statement, the Movement on the Housing Revenue Account Statement and the Housing Revenue Account Income and Expenditure Statement.

Powys Pension Fund's 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 2012-13 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 22, the responsible financial officer is responsible for the preparation of the statement of accounts, including Powys Pension Fund's accounting statements, 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 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.

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 Pension Fund as at 31 March 2103 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 2012-13.

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 2013 and of the amount and disposition of the fund's assets and liabilities as at that date; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012-13.

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

The audit cannot be formally concluded and an audit certificate issued until enquiries arising from matters raised by a number of 'whistleblowers' have been formally completed.

Anthony Barrett
Appointed Auditor
Wales Audit Office
24 Cathedral Road
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Date **September 2013**

Appendix 3

Summary of corrections made to the draft financial statements which should be drawn to the attention of those charged with governance

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. There were numerous narrative amendments and smaller misstatements not reported here.

Value of correction	Nature of correction	Reason for correction
£849,000	HMRC creditor balance included £849k relating to DWP.	Incorrect classification.
£3,105,000	North Wales Trunk Road Agency debtor increased from 'other short term debtors'	Incorrect classification.
£766,000	Out of County recoupment debtor moved from 'other debtors' to 'other local and education authorities' debtor.	Incorrect classification.
£2,319,000	Note 18 – Financial Liabilities understated. Disclosure note only.	Incorrect fair value calculation
£1,739,000	Note 18 – Loans and Receivables understated. Disclosure note only.	Incorrect fair value calculation
£3,880,000	Note 23 – creditor balances held over long period unlikely to be paid within 12 months. Movement from short term to long term creditors.	Incorrect classification.
£1,285,000	Note 41 – operating lease obligations expiring in 2-5 years overstated.	Incorrect figure in accounts.
£558,000	Note 23 – Part of WG creditor classified incorrectly as payment in advance.	Incorrect classification.
£316,000	Note 38 – Capital Grants Unapplied understated.	Incorrect classification.



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