



WALES **AUDIT** OFFICE
SWYDDFA **ARCHWILIO** CYMRU

Audit of Financial Statements Report

Powys County Council

Audit year: 2013-14

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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 (the Council) at 31 March 2014 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 mislead a reader of the accounts.
3. The quantitative level at which we judge such misstatements to be material for the Council are £4,693,000 for income and expenditure items and working capital balances, and £6,812,000 for other balances and £225,00 for the Housing Revenue Account. Whether an item is judged material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity. 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.
4. This report sets out the matters arising from the audit of the Council's financial statements for 2013-14, that require reporting under ISA 260.

Status of the audit

5. We received the draft financial statements for the year ended 31 March 2014 on 30 June 2014 which met the submission deadline and at the date of writing this report the following were outstanding:
 - Awaiting evidence for some items of income and expenditure;
 - supporting evidence and final figure of adjustment to prior year figures in relation to internal recharges being taken out;
 - supporting evidence and verification of the one unadjusted misstatement of approximately £140,000 yet to be charged to the Housing Revenue Account;
 - audit verification of adjustments to Fixed Assets due to the write back of previous year's impairment;
 - audit verification of adjustments to Fixed Asset valuation errors;
 - supporting evidence and final figures for removal of internal recharges, and apportionment of Administration charge from Trading Accounts;
 - audit verification of Equal pay provision and contingent liability calculation;
 - summary and supporting evidence for Note 43 adjustment to termination benefits, where Payment in Lieu of Notice had been excluded in error; and
 - receipt of Final amended set of accounts and audit check of revised figures and changes to notes/narratives.

We will update the Audit Committee on the progress of these matters verbally on 26 September 2014.

6. 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 Strategic Director of Resources and the Professional Lead (Finance).

Proposed audit report

7. 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](#). The proposed audit report is set out in [Appendix 2](#). Please note that the audit report also covers the Powys pension, a separate report on the issues arising from the pension funds audit has been issued for consideration by the Audit Committee.

Issues arising from the audit

Uncorrected misstatements

8. There is one potential uncorrected misstatement in the financial statements which management do not intend to adjust. As part of the exercise to identify and rationalise internal recharges, the Council have identified £140,000 that should have been recharged to the Housing Revenue Account (HRA). This adjustment would increase the expenditure in the HRA and consequently reduce the surplus for the year. We have only just been notified of this misstatement and have not seen evidence to support it, and have not agreed the amount or potential impact. We will update the Audit Committee verbally on this issue at the meeting on 26 September prior to approval and sign-off of the accounts.
9. All the other non-trivial amendments that have been identified during the audit have been adjusted through the financial statements – although at the time writing, and as indicated at paragraph 5 above, the final version of the amended accounts has yet to be reviewed.

Corrected misstatements

10. There are misstatements that management has corrected which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process. The main items are set out below along with explanations:

Description of correction	Reason for correction
<p>Our testing identified that gross income and gross expenditure in both Note 27 and the Income and Expenditure Account, included amounts relating to internally provided services and, as such, were overstated. Management performed an exercise that identified these charges. The resulting amendments were:</p> <ul style="list-style-type: none"> • Net cost of services – £15.2 million removed from both gross income and gross expenditure. • Note 27 – £38.8 million removed from both income and expenditure. <p>These adjustments had no impact on net cost of services bottom line.</p>	<p>The Code requires that all internal recharges within and between directorates are removed such that the costs presented in the Statement of Accounts reflect the true cost to the Council.</p>
<p>Note 31</p> <p>The Central Administration trading income did not fully reflect the central charges needed to be apportioned to the net cost of services within the Income and Expenditure Account.</p> <p>Note 31 Income increased by £5.7million.</p> <p>Expenditure within the net cost of services increased by £5.7 million.</p> <p>Net cost of service increase, but no effect on bottom line.</p>	<p>As we report later we are not convinced that Note 31 is required under the Code – given the nature of your ‘trading activities’ – although it is not material to our opinion.</p> <p>However, either way, the true cost of providing the service needs to be reflected within the Income and Expenditure Account.</p>
<p>Note 36 – Senior Officer Emoluments - the draft accounts did not contain details for six senior officers’ termination costs of £830,417.</p> <p>Note 43 – Payment in Lieu of Notice figures had not been included within the Termination costs note. This will be amended but to date we have not had the final figures. We can update the Audit Committee on this issue on 26 September.</p>	<p>The Code requires all senior officer pay and compensation payments to be disclosed.</p>
<p>County Farms revaluation</p> <p>As reported to the July Audit Committee, the County Farms were being revalued by the District Valuer, but at the time of production of the accounts the exercise was not complete. This has now been completed and the Net Book Value of County Farms has increased by £35.5 million.</p>	<p>The Code requires all Tangible Fixed assets to be valued at fair value.</p>
<p>Some assets that had previously been impaired were revalued upwards in 2013/14, but the value was not written back to the Income and expenditure account.</p> <ul style="list-style-type: none"> • Revaluation Reserve decreased by £7.4 million • Expenditure decreased by £7.4 million 	<p>The Code requires that when there is an upward revaluation on an asset that has previously been impaired, the revaluation (up to the amount of the historic impairment) is credited to the Income and Expenditure account, and any balance to the Revaluation Reserve.</p>

Description of correction	Reason for correction
<p>All Fixed Assets are revalued on a five year rolling basis. And any adjustments to the values entered into the accounts and balance sheet. Some errors were identified from the District Valuer's information to the Fixed Asset Register.</p> <ul style="list-style-type: none"> Net book value of Fixed assets decreased by £3.1 million. 	<p>The Code requires all Tangible Fixed assets to be valued at fair value.</p>
<p>Equal Pay Creditors and Provisions £3.3 million reclassified from a creditor to a provision because the amount is not yet known exactly. £5.3 million moved from a provision to contingent liabilities, as the criteria for providing are not met and contingent on receiving claims not yet received. This adjustment reduced the Income and Expenditure deficit by £5.3 million</p>	<p>Accounting Standards requirements.</p>

11. Further less significant adjustments will be included in [Appendix 3](#) (to be completed once final version of accounts received and all audit work complete as per para 5).

Significant audit risks

12. In our Financial Audit Strategy, we set out information regarding the significant and other audit risks that were identified during the audit planning process. The table below sets out the initial risks identified and the outcome of our audit procedures in respect of those risks:

Risks	Action taken
Control environment risks	
<p>Management override of controls In any organisation, management may be in a position to override the financial controls that you have in place. A breach of controls of this nature may result in a material misstatement.</p>	<ul style="list-style-type: none"> We understood and evaluated internal control processes and procedures as part of our planning work. We reviewed and tested the appropriateness of a sample of manual journals processed during the year. We looked carefully at management estimations and considered if they were subject to bias. We understood the business rationale for significant transactions which appeared out of the normal course of business. Our audit procedures also included an unpredictable element that varies year on year. <p>We have not identified any misstatements of this nature as a result of our testing.</p>

Risks	Action taken
<p>Revenue recognition</p> <p>There is an inherent risk of material misstatement due to fraud in revenue recognition in entities with material revenue sources and, as such, this is treated as a significant risk.</p>	<ul style="list-style-type: none"> • We reviewed the controls over grant income during the year. • We reviewed the controls over treasury management. • We substantively tested the Council's main sources of Income. <p>We have not identified any misstatements of this nature as a result of our testing.</p>

Other risks

Risks	Action taken
Preparation of accounts risks	
<p>Risk of material misstatement in the financial statements arising from the accounting for Non-current Assets. I have identified some specific risks for 2013-14:</p> <ul style="list-style-type: none"> • Transposition errors were identified in last year's Fixed Asset Register, which I reported to you in our Report to Those Charged with Governance in September 2013. 	<p>We considered the accounting treatment and disclosure of non-current assets to ensure that issues identified previously have now been addressed and issues new to 2013-14 have been accounted for appropriately. The same errors were not found to exist but further errors were found and are reported in significant amended misstatements above.</p>
<ul style="list-style-type: none"> • The method of valuation of Council Houses has changed in 2013-14. Indications are that changing to the 'Beacon' methodology of valuation could result in a significant increase in valuations. • The Council's Valuers have raised some questions over the validity of the carrying value of County Farms within the Fixed Asset Register. 	<p>We considered the valuation of Council Houses and tested transactions. No misstatements were identified. County Farms have been revalued between the draft and final Financial Statements. This is reported above as a significant amended misstatement.</p>
<p>In my Report to Those Charged with Governance for 2012-13, I highlighted some areas for improvement in the quality of the draft financial statements, working papers and timeliness of responses to audit queries. Actions have been taken by management since, but we note that there have been a number of changes to personnel and responsibilities within Finance which could impact upon the accounts preparation and audit process.</p>	<p>We considered the quality of the draft financial statements, and reviewed the closedown plans produced by Finance. We report within qualitative aspects of financial practices below, that the quality of the account processes still require improvement.</p>

Risks	Action taken
<p>The Council has undergone a management restructuring and other staffing changes, and exit packages paid need to fully comply with the requirements of the Code and Council policy. Such payments are considered sensitive and material by nature.</p>	<p>We considered the accounting treatment and disclosure of exit packages. Some termination payments were not disclosed within the draft accounts. These have been reported above as significant amended figures.</p>
<p>The Council have entered into an agreement with a private company (Section 106 agreement) which provides financial cover to restore land to its previous condition after the project has finished or if the project is not completed.</p>	<p>We reviewed the completeness and accuracy of the agreement and its disclosure within the financial statements. No misstatements were identified.</p>

Other 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.

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

The Council has a process for accounting for internal recharges for central services such as human resources (HR), legal and accountancy. This ensures that the expenditure on these services only appears once in the accounts. The Council also has processes for internal invoicing where one service provides a service to another or one element of a service provides services to other elements within the same service, for example, the central education department providing services to schools. These processes are fine for budgetary control purposes at a service level but mean that, at a Council level, income and expenditure was recorded twice in net cost of services in the statement of accounts. There was not a robust process in place to identify and eliminate this double counting. We worked with Council to identify and eliminate this double counting from net cost of services. As indicated above, this resulted in a reduction in gross income and gross expenditure of around £15.2 million. For future years' accounts the Council has agreed to put in place arrangements to eliminate these transactions from the draft accounts presented for audit.

The Trading operations entries in Financing and Investment Income and Expenditure (Note 10 from Note 31) should only reflect the external trading operations of the Council. Internal trading should be reflected in net cost of services. The elements you are currently reporting within Trading Accounts are not strictly trading activities and therefore we recommend you review if these items are required in this format for future years.

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- **We encountered difficulties in the timeliness of receiving audit evidence during the audit.**

In the main where our queries and requests for evidence could be answered within the Finance department, these were answered in a reasonable time frame. Where, however, Finance had to request evidence from other departments or schools, we sometimes encountered very long delays in responses to audit queries, and did not always give us the required assurance meaning further queries had to be made. This resulted in cases where evidence was requested in July but not supplied until the latter half of September. This makes the clearance of any issues very protracted and can result in late queries and adjustments to the Accounts and is a contributory factor to the list of outstanding points set out in paragraph 5 above.

- **There were no matters discussed and corresponded upon with management which we need to report to you.**
- **There are no other matters significant to the oversight of the financial reporting process that we need to report to you.**
- **We identified two significant weaknesses in your internal controls.**

We reported last year that an important part of the accounts closedown process is a robust quality control check of the draft financial statements. Whilst this was built into the closedown plan for 2013-14, Finance were unable to complete this prior to the draft accounts being submitted. In our view this would have identified in advance many of the audit issues reported above, and would make the audit process more effective and less protracted.

Whilst we are able to conclude that your cash and bank figures within the financial statements are materially correct, we are concerned that the overall bank reconciliation to the financial ledger did not reconcile at the year-end (albeit by a small amount). Furthermore, due to time pressures on staff, the monthly summary bank reconciliation has not been completed since March 2014. There are some mitigating controls in place, such as daily checks and balances on the bank transactions to the financial ledger. However, the summary bank reconciliation is a key control within all financial systems and, consequently, the production of the accounts and should be completed and reviewed on a regular, at least monthly, basis.

- **There are not any other matters specifically relating to fraud, compliance with laws and regulations, subsequent events etc, required by auditing standards to be communicated to you.**

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.

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Appendix 1

Final Letter of Representation

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

Representations regarding the 2013-14 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 2014 for the purpose of expressing an opinion on their truth and their proper preparation and the regularity of income and expenditure.

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 the Code of Practice on Local Authority Accounting in the United Kingdom 2013-14; in particular the financial statements give a true and fair view in accordance therewith.

I 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.
 - 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. There were no uncorrected misstatements.

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 Powys County Council on 26 September 2014.

Section 151 Officer

Leader of the Council

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Appendix 2

Proposed audit report of the Appointed Auditor 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 2014 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, the Movement on the Housing Revenue Account Statement and the Housing Revenue Account Income and Expenditure Statement.

Powys County Council 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 2013-14 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 19, 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 Foreword to identify material inconsistencies with the audited accounting statements and related notes and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. 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 County Council as at 31 March 2014 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 2013-14.

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 the Powys Pension Fund during the year ended 31 March 2014 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 2013-14.

Opinion on other matters

In my opinion, the information contained in the 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
Appointed Auditor
Wales Audit Office
24 Cathedral Road
CARDIFF

Date September 2014

Appendix 3

Summary of other corrections made to the draft financial statements which should be drawn to the attention of the Council

During our audit we identified the further 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	Nature of correction	Reason for correction

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