



WALES **AUDIT** OFFICE

SWYDDFA **ARCHWILIO** CYMRU

Statement of Accounts Memorandum

Powys County Council

Audit year: 2013-14

Issued: December 2014

Document reference: xxxxxxxxxx

Status of report

This document has been prepared for the internal use of Powys County Council as part of work performed in accordance with statutory functions, the Code of Audit Practice and the Statement of Responsibilities issued by the Auditor General for Wales.

No responsibility is taken by the Wales Audit Office (the Auditor General and his staff) in relation to any member, director, officer or other employee in their individual capacity, or to any third party.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 Code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales (and, where applicable, his appointed auditor) is a relevant third party. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at infoofficer@wao.gov.uk.

Contents

The Appointed Auditor was able to provide a clear audit opinion on Powys County Council's Statement of Accounts. However the draft Statement presented for audit contained a significant number of misstatements, resulting from a lack of robust internal quality review arrangements. This put pressure on the audit timetable and resulted in the deadline for the Whole of Government Accounts audit being missed.

Summary report

Summary	4
Recommendations	5

Detailed report

Powys County Council produced the draft Statement of Accounts within the agreed timetable. However, arrangements for quality reviewing the Statement prior to their submission for audit failed to pick up a significant number of errors which had to be corrected during the audit	6
Improvements are required to the controls operating within the key financial systems which will help provide a more reliable financial reporting framework.	8
As a result of the late finalisation of the Statement of Accounts, we were not able to provide the National Audit Office with our Assurance Statement on the Council's Whole of Government Accounts Return by the 30 September deadline.	14

Appendices

Appendix 1: Summary of corrections made to the draft Statement of Accounts which should be drawn to the attention of the Council	16
Appendix 2: Follow up of recommendations made in the 2012-13 Action Plan	21
Appendix 3: 2013-14 Action Plan	28

Summary report

Summary

1. Powys County Council (the Council) was responsible for preparing Statement of Accounts that give a true and fair view of the state of affairs of the Council at 31 March 2014. This included its 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 for the year then ended. It should also ensure that they are properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013-14 based on International Financial Reporting Standards (IFRS).
2. It was also responsible for preparing an Annual Governance Statement (AGS) in accordance with guidance issued by HM Treasury and the Welsh Government.
3. As auditors, we are required to audit the Statement of Accounts and to issue an auditor's report which includes an opinion on whether the Statement of Accounts give a true and fair view of the state of affairs of the Council as at 31 March 2014.
4. In giving this opinion, we comply with International Standards on Auditing (ISAs). In particular: ISA 315 requires us to obtain a comprehensive understanding of the activities of the Board's operations and its internal controls; to identify and assess the level of material risks to the Statement of Accounts; and for each risk of material misstatement identified, ISA 330 requires us to undertake audit procedures to address the identified risks.
5. In undertaking this work we assessed: if there is an effective internal control environment; whether the significant financial systems have appropriate internal controls; and if the Board has appropriate arrangements for producing Statement of Accounts that are free from material misstatements.
6. Based on our risk assessment we identified, documented and evaluated the significant financial systems that support the Council's Statement of Accounts. We also undertook detailed audit work on the accounts and relevant account areas which was tailored to reflect both national and local issues.
7. The key matters arising from our audit in terms of the qualitative aspects of the Council's accounting and reporting practices were reported to the Audit Committee (those charged with governance) on 26 September 2014 (ISA260 report). However, as reported to the Audit Committee there were still nine issues outstanding, some of which we considered material to the accounts.. Consequently, the Audit Committee was unable to approve the Statement of Accounts unconditionally at the 26th September meeting as originally planned.
8. Following the addressing of these issues and the subsequent approval of the Statement of Accounts by the S151 Officer and the Chair of the Audit Committee, the Appointed Auditor was able to issue an unqualified opinion on 30 September 2014.
9. Most public sector bodies including Powys County Council are required to provide Whole of Government Accounts information under the HM Treasury's *Whole of*

Government Accounts (Designation of Bodies) Order. This identifies the English and Welsh bodies to be included in the 2013-14 WGA.

10. We are responsible for interpreting the National Audit Office's instructions for a Welsh context and check that WGA packs have been prepared properly and in accordance with guidance and provide an assurance statement to the National Audit Office. The deadline for the completion of this assurance statement was 30 September. However given the delays in finalising the Council's Statement of Accounts, we were not able to provide our assurance statement by the deadline and a number of audit adjustments had to be made to the Whole of Government Accounts return to correct errors and omissions.
11. This memorandum summarises the more detailed matters arising from the audit of the Statement of Accounts and the Whole of Government Accounts and identifies any scope for improvement which should, if addressed help ensure that this situation isn't repeated again in 2014-15.

Recommendations

12. We have followed up the recommendations made in last year's Statement of Accounts Memorandum. The results of our follow up work are set out in Appendix 2. A significant number have not yet been implemented. These have been raised again and are included in our recommendations for improvement in the Action Plan in [Appendix 3](#). The recommendations highlight that there is scope for the Council to significantly strengthen its policies and procedures in relation to the production of its Statement of Accounts, and internal control environment generally.

Powys County Council produced the draft Statement of Accounts within the agreed timetable. However, arrangements for quality reviewing the Statements prior to their submission for audit failed to pick up a significant number of errors which had to be corrected during the audit

13. We received the draft Statement of Accounts for audit in line with the agreed deadline of 30 June 2014. However, as previously indicated to us, they excluded the revaluation of County Farms from the Balance Sheet as the need to have these revalued was identified late in the accounts production process and the Council was reliant on the valuation being provided by the District Valuer.
14. No other issues were raised with us at this time and the Strategic Director of Resource signed the accounts on 30th June as giving a true and fair view of the Council's financial position.
15. However, the draft accounts were found to include a significant number of errors, some of which we considered to be material. Although these were corrected through the course of our audit, this along with the difficulties encountered in recording the late adjustment for the valuation of County Farms on the Fixed Asset Register and the substantial delays in receiving responses to audit queries put pressure on the timetable for finalising the Statement of Accounts. This resulted in the Statement of Accounts not being ready for the Audit Committee meeting on 26 September at which they were to be approved.
16. Last year we reported our concerns over the adequacy of the quality review arrangements in place for the accounts production process. The result of this year's audit indicates that more needs to be done to improve the quality review process including the evidencing of such a review.
17. We presented our *Audit of the Statement of Accounts Report* to the Audit Committee (those Charged with Governance) on 26 September 2014. However as the accounts were not finalised and there were still 9 outstanding issues we were not able to report a complete list of all corrected misstatements. This has now been provided at Appendix 1. The overall effect of these amendments was a reduction in the overall 'Deficit on the Provision of Services' from £22 million to £9.2 million. This is primarily due to the write back of the Equal Pay provision of £5.4million and the transfer of £8million from the revaluation reserve to the Income and Expenditure Account for assets previously impaired.
18. We note that some of these errors were also found in last year's draft Statement of Accounts. Those responsible for the accounts production need to review the errors found in this year's audit and ensure that procedures are put in place to address them for the production of next year's draft Statement of Accounts.

-
19. Our *Audit of the Statements of Accounts Report* to the Audit Committee also highlighted that we were awaiting some supporting evidence for some of our sampled items of income and expenditure testing. We extracted the bulk of our samples from the ledger in July following receipt of the Statements of Account. The Council had difficulty in obtaining invoices, journals and other supporting information in the timescale. Although we weren't anticipating the difficulties encountered, we will look to work with the Council to identify ways of sampling income and expenditure items prior to receipt of the draft account in future years so that the testing can begin earlier in the year.
20. Amendments were made to the Statement of Accounts and were approved by the Chair of the Audit Committee and the Section 151 Officer and the Appointed Auditor was able to issue an unqualified audit opinion on 30 September. In all material respects we have concluded that the accounts give a true and fair view and comply with the requirements of the CIPFA Code. However further disclosure requirements should be made in next year's Statement of Accounts. For example:-
- a. The list of services in the Comprehensive Income and Expenditure Statement does not follow the SERCOP headings
 - b. More disclosures should be made in provisions on the timing of future liabilities
 - c. The format of the Property, Plant and Equipment note could be simplified to match the requirements of the Code as set out in the illustrative set of accounts in the Guidance notes to the Code
 - d. The number of leavers who received termination benefits should be disclosed

Recommendations

- R1 A thorough quality control review process needs to be introduced, which includes procedures to evidence this review, to improve the quality of the draft account presented for audit.
- R2 All staff involved in the production of the Statement of Accounts should review the errors corrected in this year's accounts and put in place procedures to avoid the errors being made again in 2014-15. As a minimum, this should include:-
- (a) The exclusion of internal transactions from the accounts
 - (b) The removal of 'trading accounts' which do not meet the definition of the CIPFA Code
 - (c) The correct posting of internal recharges so to ensure that in Note 27, recharges in income and expenditure balance to zero
- R3 The accounts should be reviewed against the requirements of the Code and changes made as appropriate. As a minimum this should include:-
- (a) The use of the appropriate service headings in the Comprehensive Income and Expenditure Account as set out in SERCOP
-

-
- (b) The Property Plant and Equipment Note should follow the format as required in the Code
 - (c) In addition to the bandings showing the cost of Termination Benefits, the Council should disclose the number of individual receiving these benefits in the relevant bandings
 - (d) More disclosures should be made of provisions showing the timing of likely future payments

Improvements are required to the controls operating within the key financial systems which will help provide a more reliable financial reporting framework.

Controls within the main accounting system were mainly operating as intended however there are some weaknesses in bank reconciliations and the Housing Benefit feeder system

21. The main accounting system formed the basis for preparing the 2013-14 Statement of Accounts. We therefore assessed the effectiveness of the controls within the main accounting system and considered whether it accurately reflected the transactions recorded by the respective feeder systems during the year.
22. The regular reconciliation of the Council's bank accounts to the ledger is a key control to ensure that the ledger forms a reliable basis on which to produce all financial reporting information, including the Annual Statement of Accounts.
23. From our review of the year end bank reconciliation we note that the Council was not able to successfully reconcile its main bank account, with there being an unexplained difference of £980.79. Although this is a small value it raises a risk that the difference may be due to two or more, larger compensating errors. However, daily procedures are in place in Finance to check entries on the ledger to the various sources. These checks give us assurance that the likelihood of their being material error is mitigated.
24. Our review also looked at reconciliations from earlier in the year and we also note small discrepancies in two other months. We also note that the monthly reconciliation of this account has not been undertaken since March 2014 to date. Therefore we consider that there is a weakness in the bank reconciliation process which we recommend is addressed.
25. In addition to the bank accounts controlled within Finance, schools also have their own bank accounts and are responsible for controlling these, including their reconciliation to the Schools Information Management System (SIMS) which feeds the Council's ledger. Our audit work has raised a number of control weaknesses in the management of these accounts.

-
- a. Monthly returns from schools to Finance do not provide evidence that the bank accounts are being reconciled to SIMS as there is no list of reconciling items and the 'SIMS' balance in the returns does not agree to SIMS. We were informed that this was due to timing differences between the return and the monthly closedown of the ledger
 - b. Finance could not provide us with evidence that that three bank accounts with a total year end balance of £5,000 which are used by primary schools for petty cash transactions are reconciled
 - c. No monthly reconciliation is done of SIMS to the ledger. At the year end there is an unexplained discrepancy of £30,000.
26. Finance Division has also not been able to confirm where responsibility for reconciling the Housing Benefits payments on the Northgate system to the ledger lies and as such this is not currently being reconciled.

Recommendations

- R4 A review should be undertaken to identify why there remains differences in the bank reconciliation. Monthly reconciliations should also be reinstated.
- R5 Controls over school bank balances need to improve.
- (a) Monthly 'bank reconciliation' returns from schools should be amended to provide evidence of the reconciliation and the timing of the returns needs to be synchronised to the closing down of the period so to avoid any timing differences
 - (b) Responsibility for the three petty cash bank accounts for primary schools should be identified and reconciled on a regular basis
 - (c) Regular reconciliations of SIMS to the ledger needs to be introduced
- R6 Responsibility for reconciling the Northgate system to the ledger for HB payments should be assigned and checks undertaken to ensure that the reconciliation is being undertaken
-

There are some actions that can be taken to improve the IT environment to help minimise future potential risks to the accounting systems

27. As part of our consideration of the control environment we have considered IT related risks and have identified the following issues which should be addressed in order to minimise the risk of future threats to the main accounting system.
- a. Third party suppliers are able to access to the Council's network to address software issues as they arise. Although their access is controlled, best practice would be to give them time limited access only to the network rather than the current unlimited time access. This will give improved control over

network access, limiting risk to inappropriate use within the network (and potentially key financial systems).

- b. As reported since 2010-11, we consider that the current location for storing offsite backups is too close to the Council's offices and therefore maybe at risk should there be a major disaster. However the Council considers it inefficient to store backups as a more distant location. Consideration may be given to using a shared site with Powys LHB.
- c. Setting up new users requires system administrators to log in using a separate security user. This is has a shared generic username and password, used by the system administrators. Good practice would be for the login to be identifiable to a particular user, so providing a good audit trail.
- d. New user request forms do not specify the particular privilege levels required by the user. Having a more specific request would provide a better audit trail to ensure that new users are set up exactly as required
- e. There are a large number of user roles within the system which are specific to individuals rather than to particular groups. These roles would benefit from being refined. This would improve the access controls by making them easier to manage, allowing a more defined segregation of duties.
- f. Password reset procedures are currently ad hoc. For example, users can telephone the administration team and have the password reset over the phone without any security questions being asked. This results in a risk of unauthorised system access. Password reset procedures should be implemented which enforce security checks.
- g. Records of repeated user lockouts are not regularly reviewed. Procedures should be put in place to regularly monitor system logs for repeated user lockouts. This would help identify any potentially malicious users attempting to log in as somebody else.

28. In addition we note the following potential IT risks to the Northgate iWorld system used for NNDR, Council Tax and Housing Benefit.

- a. System administrators log into iWorld using a generic log in. All users (including system administrators) should log in with their own personally identifiable profile, so that any activity within the application can be logged to a specific user.
- b. The creation of new user access on iWorldt, and deletion of leaver's access is not always formally documented. Formal request/authorisation forms are available, but are not always used. Requests for new user access and the deletion of user access should be formally documented. Where new user requests are sent via e-mail, and not using the available forms, e-mails should still include specific details as to what access is required by the new user.

29. We also note the following potential IT risks to the Fixed Asset Register

- a. The current password settings within the Fixed Asset Register system for users includes no password history, which means that the user can keep the

same password forever, which is not good practice and the feature to enforce complex passwords (by ticking 'mixed case passwords' and 'alpha numeric passwords') is not being used.

- b. The creation of new users onto the Fixed Asset system is ad hoc, in that usually a line manager will request somebody be given access, however, and this is not always formally documented. Removing leavers from the system is also ad hoc, with notifications usually received verbally or via email. The council should implement procedures to formally request and document new system user access. Likewise for removing system access from users.

Recommendations

- R7 Improvements need to be made to the IT control environment around the main accounting system:-
- (a) Third party access to the system should be time limited
 - (b) An alternative off site back location should be considered
 - (c) Generic administrator accounts should be replaced with accounts for individual administrators
 - (d) New user request forms should specifically set out the levels of access required
 - (e) The number of user roles should be rationalised to specific groups
 - (f) Password reset procedures should be standardised with security questions asked
 - (g) The log of repeated user lockouts should be reviewed to identify any potential threats
- R8 Improvements need to be made to the IT control environment around the Northgate iWorld system:-
- (a) Generic administrator accounts should be replaced with accounts for individual administrators
 - (b) New user requests and user deletions should be formally documented
- R9 Improvements need to be made to the IT control environment around the Fixed Asset Register system.
- (a) The settings for the complexity and life of passwords should be reviewed
 - (b) New user requests and user deletions should be formally documented
-

Additional control weaknesses were also identified from our review of other financial systems which needs to be addressed

30. In addition to weaknesses in controls in the main accounting system we have identified weaknesses from our review of controls in other systems which support material figures in the account.

-
- 31.** The following weaknesses have been identified in the procedures around the systems that support the disclosure of non-current assets in the Statement of Accounts.
- a. The Council is required to disclose separately any properties which are held for rental income or capital appreciation purposes only as 'Investment Properties'. There is no system in place to review Council properties to identify which should be categorised as 'Investment Properties'. No review has been undertaken since the introduction of IFRS in Local Government.
 - b. Similarly, assets which are in construction need to be identified separately and then transferred into their appropriate category when they are completed. We note procedures failed to pick up a Waste Centre which had been completed and was in use but was still being categorised as an under construction rather than being part of Land and Buildings.
 - c. Asset valuations prepared by the District Valuer were for the first time uploaded into the Fixed Asset Register (FAR) in bulk in a move to make the updating of the FAR more efficient. However controls and checks in place were not adequate enough to identify that an error had occurred in the upload resulting in the FAR being misstated. A check needs to be put in place to ensure that the upload has worked correctly and further investigation with the software supplier is undertaken to resolve this problem.
- 32.** The Statement of Accounts are required to disclose material related party transactions. These are transactions with bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Although procedures exist that require senior management to provide finance with information about their interests which may require disclosing in the Statement of Accounts, we noted that at the time the draft account was presented for audit, 5 returns were outstanding. Although these were later received, senior managers should be reminded of the timetable and ensure that these returns are provided in good time.
- 33.** The accounts include three Pooled Budget Accounts. These separate memorandum accounts are required to be audited separately by us, as required in legislation. Ideally this should be completed prior to the audit of the Statement of Accounts. Therefore we recommend that this is discussed with us and a timetable agreed for their audit prior to next year's audit.

Recommendations

- R10 Procedures should be put in place to ensure that all assets are correctly classified. Specifically:-
- (a) Buildings that are only being held for rental income or capital appreciation should be reclassified as invest
 - (b) When assets under construction are completed, they are transferred to the appropriate class of asset.
- R11 Further work is needed with the software supplier to ensure that the uploading tool in the FAR works correctly and that procedures should be put in place to ensure that the upload works correctly.
-

R12 Senior management should be reminded of the need to complete the related party returns, including nil returns, in good time for the completion of the draft Statement of Accounts

R13 We need to agree a timetable to ensure that all Pooled Budgets are audited as required in the legislation before next year's Statement of Accounts audit is completed

Controls within the budgetary control system were generally effective. However, financial reporting could be strengthened by improving the quality and detail of the information provided to officers and members

34. Budgetary control is an important part of the control system, acting as a backstop against material errors remaining undetected. As a result, it forms part of the Council's internal control environment and is a high-level control in terms of our audit risk assessment.
35. We reviewed the key controls in the system which we consider are necessary to provide assurance that the system is operating effectively and as intended. However, our work has identified a number of issues which should be addressed to improve the effectiveness of the budgetary control process, and financial reporting to members.
36. As reported last year, we noted that monitoring reports do not contain action plans setting out how significant variances will be addressed in order to achieve the year end forecast position, nor have the Council set 'trigger levels' for variances that require explanations from budget holders. Furthermore there is no formal mechanism recording that budget holders have reviewed monitoring information for accuracy prior to inclusion in Head of Service report; or that Heads of Services have reviewed information prior to inclusion in Cabinet Report.
37. We also consider that although the Financial overview and Forecast Reports presented to Cabinet do provide explanations, the quality of the information could be improved by providing information to explain the underlying reasons for the variance and not just identifying the area where there is an over / under spend.
38. The Financial Reports presented to Cabinet only show actual and forecast net expenditure. Therefore Cabinet members are not receiving information on income and gross expenditure, which may help the decision making process.

Recommendations

- R14 The quality and quantity of budget monitoring information should be improved to enhance decision making. The Council should consider:
- (a) setting 'trigger' points to ensure that all significant variances are adequately explained;
 - (b) including action plans in the reports detailing how the variances will be addressed in order to the achieve the year end forecast position; and
 - (c) clarifying the process for monitoring and reporting reserves and ensure it is consistently applied.
-

R15 The Council should review the budget reports produced for the Cabinet to ensure there is adequate information to enable informed decisions. Consideration should be given to producing the actual income/expenditure position for any given reporting month as well as Forecast position and for providing more detailed explanations of variances which set out the underlying reasons for the variances.

As a result of the late finalisation of the Statement of Accounts, we were not able to provide the National Audit Office with our Assurance Statement on the Council's Whole of Government Accounts Return by the 30 September deadline.

39. Under the Resources and Accounts Act 2000 (the GRAA) the Comptroller & Auditor General (C&AG) is appointed auditor of the Whole of Government Accounts (WGA). His audit opinion is underpinned by work carried out by a central WGA consolidation audit team within the National Audit Office (NAO) and the auditors of component bodies that are included in WGA.
40. Most public sector bodies including Powys Council are required to provide WGA information under the HM Treasury's *Whole of Government Accounts (Designation of Bodies) Order*. This identifies the English and Welsh bodies to be included in the 2013-14 WGA.
41. We are responsible for interpreting the National Audit Office's instructions for a Welsh context and check that WGA packs have been prepared properly and in accordance with guidance and provide an assurance statement to the National Audit Office by the 30 September.
42. However given the delays in finalising the Council's Statement of Accounts, the Council did not provide us with working papers to support the WGA pack until 9 October and further amendments were made to the working papers by the Council after this date.
43. Although the WGA pack should reflect the initial draft Statement of Accounts, we were unable to reconcile the WGA to the draft Statement of Accounts. A number of discrepancies were found between the two. Some of these related to prior year adjustments.
44. In addition errors were found in the WGA pack in relation to the recording of balances and transactions with other bodies included within WGA boundary. These were:-
 - a. A VAT debtor of £1,464,000 was excluded and
 - b. A creditor balance of £1,033,000 with the Department for Work and Pensions had been recorded against the wrong code in the WGA return
45. We completed the audit of the Whole of Government Accounts return on 24 October and have provided the required assurance to the NAO.

Recommendations

R16 The Council should provide detailed working papers which clearly show how the WGA return reconciles to the Statement of Accounts

R17 The Council should ensure that significant balances and transactions with other bodies within the WGA boundary are identified and correctly recorded in the WGA return

Appendix 1

Summary of corrections made to the draft Statement of Accounts 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
£35.5m	The County Farms valuations from the District Valuer weren't available at when the accounts were prepared. This has now been completed and the Net Book Value of County Farms has increased by £35.5m	The Code Requires all Tangible Fixed Assets to be valued at fair value
£15.2m	<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> <p>Net cost of services – £15.2 million removed from both gross income and gross expenditure.</p> <p>Note 27 – £38.8 million removed from both income and expenditure.</p> <p>These adjustments had no impact on net cost of services bottom line.</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.
£12.2m	<p>A prior year adjustment was also needed to remove the internal income and expenditure from last year's account.</p> <p>£12.2m was removed from both the Gross Income and Gross Expenditure figures.</p> <p>Note 27 £31.1m removed from both income and expenditure</p>	Required restatement of prior year figures to provide the correct comparator figures in the Statement of Accounts
£8.0m	Some assets that had previously been impaired were revalued upwards in 2013/14 but the value was not written back to the Comprehensive Income and Expenditure (CIES) Account. Therefore the revaluation reserve decreased and the expenditure in the CIES increased by £8m	The Code requires that when there is an upward revaluation of an asset that has previously been impaired, the revaluation (up to the amount of the historic impairment) is credited to the CIES and any balance to the Revaluation Reserve

Value of correction	Nature of correction	Reason for correction
£6.1m	Note 27 Reconciliation to Subjective Analysis £6.1m of internal recharges was missposted to wrong expenditure codes during the year resulting in recharges income and expenditure not matching to zero in the Draft Statement of Accounts	Correction of postings so that Note 27 recharges (including Insurance recharges) balance to zero
£5.7m	Note 31 Trading Accounts 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. Note 31 Income increased by £5.7million Expenditure within the net cost of services increased by £5.7 million. Net cost of service increase but no effect on bottom line.	The true cost of providing the service needs to be reflected within the Income and Expenditure Account.
£5.4m	The provision for Equal Pay has been reduced by £5.4m to £350,000 and a contingent liability disclosed as the £350,000 is the Council's best estimate of Equal Pay claims yet to be assessed.	Accounting Standard requirements (IAS37) for the disclosure of provisions
£3.3m	A creditor for Equal Pay Claims received and assessed has been reclassified as a provision as there is uncertainty about the actual amounts due and their timing as claimants have yet to receive an offer from the Council and have not been agreed with the Unions.	Accounting Standard requirements (IAS37) for the disclosure of provisions
£3.1m	All Fixed Assets are re-valued on a 5 year rolling basis. And any adjustments to the values entered into the accounts and balance sheet. Some errors were identified from the District Valuers information to the Fixed Asset Register. Net book value of Fixed assets decreased by £3.1million.	The Code requires all Tangible Fixed assets to be valued at fair value.
£0.8m	The provision for additional Care Home costs as a result of the Pembrokeshire case judicial review was decreased by £0.8m following a review by PCC post completion	The provision was overstated

Value of correction	Nature of correction	Reason for correction
	of the draft account as the provision included future costs	
£0.83m	Note 36 Senior Office Emoluments The draft Statement of Accounts did not contain the details for six senior officers' termination costs	The Code requires all senior officer pay and compensation payments to be disclosed
£0.75m	Note 43 Termination Benefits The draft Statement of Accounts excluded £0.75m of Payments in Lieu of Notice to staff who had received termination benefits	The Code requires these costs are included in the disclosure of termination benefits.
£0.12m	Correct of the posting of a transfer of the difference between the revalued amount of depreciation and the historic cost depreciation impacting on the revaluation reserve and the capital adjustment account	To correct missposting
£0.48m	Capital commitments of £0.48m in Note 12 were missed in the draft Statement of Accounts	To correct omission from Draft Statement of Accounts
£0.22m	Council Tax income in Note 38 was increased by £0.22m due to correct a missposting	To correct a missposting
£0.16m	Strategic Director of Law and Governance remuneration details added to Note 36 Senior Officer Emoluments	Requirement of CIPFA Code
£0.16m	Accrual added for Carbon Reduction Commitment to Note 20 Creditors	Omitted from Draft Statement of Accounts
£0.16m	The Capital Grants Unapplied Account was correct to include a transfer of £0.16m which had not been posted	To correctly account for capital grants unapplied.
£0.12m	Expenses paid to Councillors added to Note 35.	Requirement of the CIPFA Code
£0.13m	Removal of a duplicate entry in debtors for a payment in advance .	Removal of duplicate entry
N/A	The Annual Governance Statement was amended to record the conclusion from our ISA260 report for 2012-13 and Whistleblowing Report stating that there were areas for improvement in the Council's Governance arrangements	To more accurately reflect the conclusions in our report
Various	A number of changes were made to the classification of income and expenditure	To correctly classify all income and expenditure in line with the

Value of correction	Nature of correction	Reason for correction
	<p>lines within the HRA account. Adjustments were also made to records the revised calculation of the debt management expenses and the impact of audit adjustments to depreciation and impairment were fed through.</p> <p>A prior year adjustment was also added to correctly classify last year's HRA income and expenditure figures</p>	<p>requirements of the Code</p>
<p>N/A</p>	<p>A number of narrative adjustments have been made to the accounts. The main ones are listed below:</p> <ol style="list-style-type: none"> 1. A prior year adjustment note (note 50) was added to correctly show the impact on the prior year figures as a result of restatements due to:- <ol style="list-style-type: none"> (a) Changes to the account requirements for accounting for pension costs under IAS19 (b) Correction of errors in HRA (Note to HRA account) (c) removal of internal income and expenditure 2. Additional disclosures to accounting policies <ol style="list-style-type: none"> (a) accounting policy for adopted roads (b) Contingent liabilities (c) reserves (d) capital grants 3. Creditors Note (Note 23) Short term provisions figures were moved from the creditors note into the provisions note which were erroneously disclosed within the creditors note 4. The debtors and creditors notes were amended to correct numerous categorisation errors 5. Adjustment made to Note 16 Capital Financing requirement so that the opening balance matched last year's closing balance 6. Changes to the Explanatory Foreword to make it consistent with the Statement of Accounts 7. Contingent Liability added for potential future MMI payments 8. Disclosure added to record the Council's choice of a 40% adjustment factor for the HRA revaluation 	

Appendix 2

Follow up of recommendations made in the 2012-13 Action Plan

Recommendation	Responsibility and actions	Completion date	Follow up in 2013-14
<p>R1 The Council should ensure that there are up to date detailed budgetary control procedures in place to act as a reference point for staff involved in the process.</p>	<p>Head of Professional Services Development of a new Contract with services clearly defining the roles of responsibilities of both Budget Holders and Finance Staff.</p> <p>Development of a handbook/toolkit for budget managers detailing procedures.</p> <p>Professional Lead for Finance – Development and delivery of budget management training for budget holders.</p>	<p>May 2014</p> <p>October 2014</p> <p>July 2014 to March 2015</p>	<p>Ongoing in 2014-15</p>
<p>R2 The quality and quantity of budget monitoring information should be improved to enhance decision making. The Council should consider:</p> <p>(a) setting 'trigger' points to ensure that all significant variances are adequately explained;</p> <p>(b) including action plans in the</p>	<p>Professional Lead Finance/Strategic Director Resource/Reporting and Data Integrity Accountant</p> <p>Cross Council Working Group established to review and improve the provision of budget monitoring information to ensure it is effective for decision making.</p> <p>Review of the roles in reporting budget monitoring information Budget</p>	<p>April 2014 – August 2014</p> <p>April 2014 – August 2014</p> <p>March 2014 – July</p>	<p>(a) Not addressed. We have raised this again. See recommendation R14 (a)</p> <p>(b) Not addressed. We have raised this again. See recommendation R14 (b)</p>

Recommendation	Responsibility and actions	Completion date	Follow up in 2013-14
<p>reports detailing how the variances will be addressed in order to the achieve the year end forecast position; and</p> <p>(c) clarifying the process for monitoring and reporting reserves and ensure it is consistently applied.</p>	<p>Managers/HoS/Strategic Directors.</p> <p>Review of Budgetary control requirements with the wholesale review of the Financial Regulations.</p> <p>Centralisation of Reserves and corporate decision making in their use.</p> <p>Reporting of reserves position included in the Financial Monitoring Reports</p>	<p>2014</p> <p>April 2014</p> <p>Already in place</p> <p>Already in place</p>	<p>(c) In progress. Reserves are being centralised in 2014-15</p>
<p>R3 The Council should ensure that there is a clear process for the identification, recording, authorisation and reporting of virements.</p>	<p>Review of Financial Regulations together with provision of clear roles and responsibilities – refer to R1 above</p>	<p>June 2014</p>	<p>Ongoing.</p>
<p>R4 The Council should review the budget reports produced for the Cabinet to ensure there is adequate information to enable informed decisions. Consideration should be given to producing original budget figures as well as revised budget figures and also producing the actual income/expenditure position for any given reporting month as well as Forecast position. The</p>	<p>Professional Lead for Finance – Reports being reviewed and improvements implemented for financial year 2014/15.</p> <p>Reports have already been amended to include Original Budget, and reserve movements.</p>	<p>April 2014</p> <p>Already in place</p>	<p>Not addressed. We have raised this again. See recommendation R15</p>

Recommendation	Responsibility and actions	Completion date	Follow up in 2013-14
Council should also consider the way in which it reports transfers to and from reserves to ensure the position is transparent.			
R5 Ensure that Windows 2003 operating systems are replaced before the end of the extended support lifecycle.	The Windows 2003 Server refresh project is currently being commissioning to replace servers across the authority.		Ongoing. Windows 2003 servers are being phased out.
R6 Ensure that the desktop refresh project is completed before the end of Microsoft support for Windows XP.	Windows 7 completed 31 st March with the exception of small number of library and comms centre PC that are dependent on external software.		Ongoing Complete for PC's other than those running external software that requires Windows XP
R7 Expedite the repair of the hole which is leaking the fire suppression gas.	Quote has been received and the work has been passed to property to complete.		Ongoing. Following remediation work another survey was undertaken to assess whether further work was needed to stop the leaking of the fire suppression gas.
R8 Consider implementing time limited access for supplier / third parties.	This has been reviewed inline with our security policy and will be considered when these policies are refreshed 14/15		Not addressed. We have raised this again. See recommendation R7(a)
R9 Identify a new location for storage of offsite backup media at a suitable distance away from the main building, based on risk assessment of the surrounding	PCC investigating 2 nd site replication facilities to Welshpool. Tapes required near for restore requirements.		Not addressed. We have raised this again. See recommendation R7(b)

Recommendation	Responsibility and actions	Completion date	Follow up in 2013-14
area.			
R10 All journals should be appropriately authorised in line with the scheme of delegation prior to being posted to the ledger.	Professional Lead for Finance Enforce authorisation procedures. Regular review to ensure procedures have been applied.	January 2014	Addressed Journals tested this year were found to be properly authorised
R11 The significant issues raised in the 'Audit of Statement of Accounts Report' presented to the Audit Committee in September must be addressed.	Strategic Director Resources – Review of the Closing of Accounts, work commissioned. Head of Professional Services/Professional Lead for Finance – to address and rectify issues raised	April 2014 Procedures in place for Closure of Accounts for 2013/14.	Not fully addressed. We have raised a number of issues again this year. This has been raised again. See Recommendation R1
R12 A review should be carried out of the production of the final accounts working papers and supporting documents. All working papers and systems prints supporting the statement of accounts should be retained and be complete.	Head of Professional Services/Professional Lead for Finance – to address and rectify issues raised in paragraph 26.	March 2014 – Procedures in place for closure of 2013/14 Accounts	The working papers were generally found to be of an acceptable quality. Some improvements could be made as often spreadsheets alone do not provide enough of an audit trail. Explanations are also needed as well as indications of where we can obtain prime documents.
R13 The procedures for producing the cashflow need to be reviewed and changed to ensure that errors in classification and calculation of cashflow figures are minimised.	Professional Lead for Finance – review of appropriate method to produce cashflow. Training and support for Financial Reporting and Policy Accountant	Actioned for Closure of Accounts 2013/14	No classification errors we noted on this year's cashflow statement

Recommendation	Responsibility and actions	Completion date	Follow up in 2013-14
The figures included must be fully supported.			
R14 Reconciliations of the schools bank balances to the financial ledger should be carried out to ensure that SIMS balances have been transferred accurately.	<p>Professional Lead for Finance – Review of cash advance amounts to schools within the Scheme for the Financing Schools.</p> <p>Schools requested to submit monthly Bank reconciliations to ensure that they are being completed.</p> <p>Reconciliation of School Bank Account Balances to the Authorities Financial Ledger.</p>	<p>Currently underway - April 2014</p> <p>Already in place</p> <p>Actioned as Accounts closed with schools May 2014</p>	<p>Not fully addressed.</p> <p>Monthly bank reconciliation reports have been provided, however they are not in a format that provides evidence of the bank reconciliation. We have raised this again this year. See recommendation 5</p> <p>At the time of our audit, schools bank accounts remained open.</p> <p>There also remained differences between the schools bank balances and the ledger. We have raised this again this year. See recommendation 5</p>
R15 The process for accounting for capital grants should be reviewed and the balances checked for correct classification and accounting treatment.	<p>Professional Lead for Finance</p> <p>Review and ensure procedures applied for Closure of Account 2013/14</p>	Actioned for Closure of Accounts 2013/14	No errors were found in the classification of capital grants
R16 When completing the Whole of Government Accounts care needs to be taken to ensure that all significant balances and transactions with other public bodies are clearly identified and	Professional Lead for Finance – Review processes and ensure compliance for 2013/14 submission.	Actioned for Closure of Accounts 2013/14 July 2014	Two errors were found during this year's audit. See recommendation 17

Recommendation	Responsibility and actions	Completion date	Follow up in 2013-14
recorded.			
R17 All balances over the £5 million threshold set by Welsh Government should be confirmed and agreed with the body in question	Professional Lead for Finance – Review processes and ensure compliance for 2013/14 submission.	Actioned for Closure of Accounts 2013/14 July 2014	The Council had agreed all those balances over £5m that were required to be agreed with the other party.
R18 The impact of staff absences and unplanned work should be continually assessed and reported to the Audit Committee.	Internal Audit Manager Any significant staff absences and unplanned work that impacts on Internal Audit's ability to give an opinion on control will be reported to the Audit Committee.	On-going	No matters have been reported. The Head of Internal Audit was able to provide his annual audit opinion based on the work completed.
R19 Procedures need to be put in place to ensure that all IA files record: (d) a clear trail of the risk assessment through to the detailed testing carried out to support the risk identified; and (e) TSS should all be supported by audit evidence allowing an independent experienced auditor to re-perform the test.	Internal Audit Manager Internal processes will be reviewed to ensure improved transparency of risk assessment from the initial identification stage through to the audit testing / reporting. The processes for the collection and presentation of audit evidence will be reviewed. Training will be given to Team Members	May 2014 May 2014 May 2014	Our review of audit files was undertaken in 2013-14, prior to the implementation date. Therefore we will consider again in 2014-15

Recommendation	Responsibility and actions	Completion date	Follow up in 2013-14
	<p>to support the above measures.</p> <p>A new quality control process has already been implemented to support compliance and provide constructive feedback</p>	<p>Already in place</p>	

Appendix 3

2013-14 Action Plan

Page	Recommendation	Agreed	Responsibility and actions	Completion date
7	R1 A thorough quality control review process needs to be introduced, which includes procedures to evidence this review, to improve the quality of the draft account presented for audit			
7	R2 All staff involved in the production of the Statement of Accounts should review the errors corrected in this year's accounts and put in place procedures to avoid the errors being made again in 2014-15. As a minimum, this should include:- <ul style="list-style-type: none">(a) The exclusion of internal transactions from the accounts(b) The removal of 'trading accounts' which do not meet the definition of the CIPFA Code(c) The correct posting of internal recharges so to ensure that in Note 27, recharges in income and expenditure balance to zero			

Page	Recommendation	Agreed	Responsibility and actions	Completion date
7	<p>R3 The accounts should be reviewed against the requirements of the Code and changes made as appropriate. As a minimum this should include:-</p> <ul style="list-style-type: none"> (a) The use of the appropriate service headings in the Comprehensive Income and Expenditure Account as set out in SERCOP (b) The Property Plant and Equipment Note should follow the format as required in the Code (c) In addition to the bandings showing the cost of Termination Benefits, the Council should disclose the number of individual receiving these benefits in the relevant bandings (d) More disclosures should be made of provisions showing the timing of likely future payments 			
9	R4 A review should be undertaken to identify why there remains differences in the bank reconciliation. Monthly reconciliations should also be reinstated.			
9	R5 Controls over school bank balances need to			

Page	Recommendation	Agreed	Responsibility and actions	Completion date
	<p>improve.</p> <p>(a) Monthly 'bank reconciliation' returns from schools should be amended to provide evidence of the reconciliation and the timing of the returns needs to be synchronised to the closing down of the period so to avoid any timing differences</p> <p>(b) Responsibility for the three petty cash bank accounts for primary schools should be identified and reconciled on a regular basis</p> <p>(c) Regular reconciliations of SIMS to the ledger needs to be introduced</p>			
9	<p>R6 Responsibility for reconciling the Northgate system to the ledger for HB payments should be assigned and checks undertaken to ensure that the reconciliation is being undertaken</p>			
11	<p>R7 Improvements need to be made to the IT control environment around the main accounting system:-</p> <p>(h) Third party access to the system should be time limited</p> <p>(i) An alternative off site back location</p>			

Page	Recommendation	Agreed	Responsibility and actions	Completion date
	<p>should be considered</p> <ul style="list-style-type: none"> (j) Generic administrator accounts should be replaced with accounts for individual administrators (k) New user request forms should specifically set out the levels of access required (l) The number of user roles should be rationalised to specific groups (m) Password reset procedures should be standardised with security questions asked (n) The log of repeated user lockouts should be reviewed to identify any potential threats 			
11	<p>R8 Improvements need to be made to the IT control environment around the Northgate iWorld system:-</p> <ul style="list-style-type: none"> (a) Generic administrator accounts should be replaced with accounts for individual administrators (b) New user requests and user deletions should be formally documented 			
11	<p>R9 Improvements need to be made to the IT</p>			

Page	Recommendation	Agreed	Responsibility and actions	Completion date
	<p>control environment around the Fixed Asset Register system.</p> <p>(a) The settings for the complexity and life of passwords should be reviewed</p> <p>(b) New user requests and user deletions should be formally documented</p>			
12	<p>R10 Procedures should be put in place to ensure that all assets are correctly classified. Specifically:-</p> <p>(c) Buildings that are only being held for rental income or capital appreciation should be reclassified as invest</p> <p>(d) When assets under construction are completed, they are transferred to the appropriate class of asset.</p>			
12	<p>R11 Further work is needed with the software supplier to ensure that the uploading tool in the FAR works correctly and that procedures should be put in place to ensure that the upload works correctly.</p>			
12	<p>R12 Senior management should be reminded of the need to complete the related party returns, including nil returns, in good time for the completion of the draft Statement of</p>			

Page	Recommendation	Agreed	Responsibility and actions	Completion date
	Accounts			
12	R13 We need to agree a timetable to ensure that all Pooled Budgets are audited as required in the legislation before next year's Statement of Accounts audit is completed			
13	R14 The quality and quantity of budget monitoring information should be improved to enhance decision making. The Council should consider: <ul style="list-style-type: none"> (f) setting 'trigger' points to ensure that all significant variances are adequately explained; (g) including action plans in the reports detailing how the variances will be addressed in order to the achieve the year end forecast position; and (h) clarifying the process for monitoring and reporting reserves and ensure it is consistently applied. 			
13	R15 The Council should review the budget reports produced for the Cabinet to ensure there is adequate information to enable informed decisions. Consideration should be given to producing the actual income/expenditure position for any given			

Page	Recommendation	Agreed	Responsibility and actions	Completion date
	reporting month as well as Forecast position and for providing more detailed explanations of variances which set out the underlying reasons for the variances.			
14	R16 The Council should provide detailed working papers which clearly show how the WGA return reconciles to the Statement of Accounts			
14	R17 The Council should ensure that significant balances and transactions with other bodies within the WGA boundary are identified and correctly recorded in the WGA return			



WALES **AUDIT** OFFICE

SWYDDFA **ARCHWILIO** CYMRU

Wales Audit Office
24 Cathedral Road
Cardiff CF11 9LJ

Swyddfa Archwilio Cymru
24 Heol y Gadeirlan
Caerdydd CF11 9LJ

Tel: 029 2032 0500

Ffôn: 029 2032 0500

Fax: 029 2032 0600

Ffacs: 029 2032 0600

Textphone: 029 2032 0660

Ffôn Testun: 029 2032 0660

E-mail: info@wao.gov.uk

E-bost: info@wao.gov.uk

Website: www.wao.gov.uk

Gwefan: www.wao.gov.uk