

Archwilydd Cyffredinol Cymru
Auditor General for Wales



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Audit of Financial Statements Report

Powys County Council

Audit year: 2014-15

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Status of report

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Summary report

Introduction

1. The Auditor General 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 2015 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 level at which we judge such misstatements to be material for Powys County Council is £4.356 million. 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 2014-15, that require reporting under ISA 260.

Status of the audit

6. We received the draft financial statements for the year ended 31 March 2015 on 30 June 2015 in line with our agreed deadline, and have now substantially completed the audit work, although our final review processes are still ongoing.
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 Strategic Director Resources and the Professional Lead (Finance).
8. We are pleased to report improvements this year in both the quality of the draft financial statements and the information available to support them. There are still areas, however, where improvements should be made. A Financial Audit Memorandum report will be issued after the Auditor General's opinion on your financial statements. This will give more detail for management on the issues raised in this report, as well as reporting some additional, less significant, but important issues. It will also make recommendations for improvement in those areas, along with management's response to these.

Proposed audit report

9. It is the Auditor General'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](#).
10. The proposed audit report is set out in [Appendix 2](#).

Significant issues arising from the audit

Uncorrected misstatements

11. We set out below the misstatements we identified in the financial statements, which have been discussed with management but remain uncorrected, and request that these are corrected. These errors are not material to the audit opinion. If you decide not to correct these misstatements, we ask that you provide us with the reasons for non-correction.

Not all historic impairments have been correctly reversed out upon revaluation in 2014-15.

- When an asset (that has previously been impaired) is re-valued upwards, the correct accounting treatment is to reverse any historic impairment balance before taking any remaining value to the revaluation reserve. This effectively means offsetting prior year charges to the Income and Expenditure. Our testing identified this had not been done in all cases. The result is an error in the accounts of £213,580. This would reduce the expenditure in 2014-15 by this amount.

Some items of capital expenditure have been included with revenue in the Income and Expenditure Account in 2014-15.

- Our audit testing identified an invoice for capital expenditure that had been coded to a revenue code within the financial ledger. We are satisfied that this is not a systematic issue, but has resulted in an error of £207,274. This would reduce the expenditure in 2014-15 by this amount.

Depreciation has been incorrectly calculated and consequently understated for certain assets in 2014-15.

- Capital expenditure can be used to maintain or extend the useful life of assets, but may not add any value. This expenditure needs to be written off so that it does not incorrectly inflate the value of that asset. Our testing identified that this had been done correctly. However, the useful lives of those assets were reset manually and incorrectly back to their original estimated useful life. Depreciating the assets over this longer period meant the depreciation charged for the year was less than it should have been. This resulted in an error of £394,732.

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- Our audit identified further errors on depreciation with regards to infrastructure assets. Historically, a number of infrastructure assets were brought onto the balance sheet as additions prior to them becoming operational rather than remaining within 'assets under construction'. These were then depreciated over the assigned life in line with the councils accounting policies. However in subsequent years additional expenditure was coded to the same asset and the whole asset was reset incorrectly back to the original life. This has resulted in an understatement of depreciation of £50,185.
 - In total if the understatement of depreciation were corrected this would increase the expenditure in 2014-15 by £444,917.

Corrected misstatements

12. 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. 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. The issue below is considered the most significant area that merits your attention.
- **We have again this year identified a material error in your draft financial statements. Internal recharges of £27.596 million had to be removed from both income and expenditure in the net cost of services.**

During the 2013-14 audit we identified internal recharges of both income and expenditure of £15.2 million were included within the net cost of services in error, and these were corrected prior to the audit opinion being given. We also identified £38.8 million of recharges needing to be removed from the supporting Note 27. For 2014-15 the finance team had identified and removed such charges from the supporting Note 27, but not all of these were removed from the Income and Expenditure Account. Consequently, a material error of £27.596 million existed within the draft Financial Statements. It has now been corrected. Whilst it is encouraging that unlike last year these internal recharges had been identified and removed from Note 27, it is disappointing that there was a material error within the Income and Expenditure Account.
 - **Many of the Internal Recharges are generated by services set up as Trading Operations and reported in Note 31 of the Financial Statements.**

In our view the elements you are currently reporting within Trading Accounts are not strictly trading activities, as few (if any) external charges are generated. These accounting arrangements seem to exist as a consequence of mainly historic legislative and management accounting requirements. Whilst permitted

under the Code, we recommend you review if these items are required in this format for future years.

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 Auditor General, Wales Audit Office and Powys County Council that we consider to bear on our objectivity and independence.

Appendix 1

**David Powell, Strategic Director - Resources /
Cyfarwyddwr Strategol – Adnoddau**

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Your ref / Eich cyf:

Our ref / Ein cyf: DP/RC

Date / Dyddiad: 21st September 2015

Representations regarding the 2014-15 financial statements

This letter is provided in connection with your audit of the financial statements (including that part of the Remuneration Report that is subject to audit) of Powys County Council for the year ended 31 March 2015 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 the Code of Practice on Local Authority Accounting in the United Kingdom 2014-15; in particular the financial statements give a true and fair view in accordance therewith.

-
- 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. The effects of uncorrected misstatements identified during the audit and reported in the ISA260 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:

- not all historic impairments have been correctly reversed out upon revaluation in 2014-15, value £213,580.;
- an invoice for capital expenditure has been coded to revenue, value £207,274; and
- depreciation has been incorrectly calculated and consequently understated for certain assets in 2014-15, value £444,917.

The non-correction of these items does not impact materially on the accounts and does not provide the reader with a different understanding of the accounts or the financial position of the Authority.

Representations by those charged with governance (the Audit Committee)

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by Powys County Council on 28 September 2015.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Signed by:
Section 151 Officer
Date:

Signed by:
Chair of Audit Committee
Date:

Appendix 2

Auditor General for Wales' 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 2015 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 2014-15 based on International Financial Reporting Standards (IFRSs).

Respective responsibilities of the responsible financial officer and the Auditor General for Wales

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, and 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 Financial Reporting Council'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 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 2015 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 2014-15.

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 2015 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 2014-15.

Opinion on other matters

In my opinion, the information contained in the Explanatory Foreword 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 following matters, which I report to you, if, in my opinion:

- adequate accounting records have not been kept;
- the accounting statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit; and
- the Governance Statement contains material misstatements of fact or is inconsistent with other information I am aware of from my audit.

Certificate of completion of audit

I have carried out the audit of the accounts of Powys County Council in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice. The audit cannot be formally concluded and an audit certificate issued until I have completed my review of Domiciliary Care Procurement. I am satisfied that this review does not have a material effect on the financial statements.

For and on behalf of

Huw Vaughan Thomas

Auditor General for Wales 24 Cathedral Road

Cardiff CF11 9LJ

30 September 2015

Appendix 3

Summary of corrections made to the draft financial statements which should be drawn to the attention of the Audit Committee

During our audit we identified the following misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

Value of correction	Nature of correction	Reason for correction
Narrative disclosures	There were a number of narrative and disclosure amendments such as the clarification of accounting policies and correction of casting errors.	In order to comply with the Local Government SoRP, to ensure completeness, clarity, accuracy and consistency throughout the financial statements.
Various – creditors	Note re-categorised to ensure that that the individual balances disclosed were correct.	To ensure that the creditors note reflected the working papers provided by the authority.
Various – Related Parties and Audit Costs	Notes amended to ensure prepared on an accruals basis.	Original notes were prepared on a cash basis which is not in line with the LG SoRP.
£27,596,000	To reduce income and expenditure.	Testing identified that income and expenditure relating to internal charges had been incorrectly included within the I&E.
£133,000	To reduce property, plant and equipment disposals.	Review of disposals identified a disposal that had been accounted for incorrectly.
£210,000	Reduction in capital commitments.	To ensure that the capital commitment note agreed to the audit evidence.
£489,000	To disclose the correct amount of capital grants and contributions within the housing revenue account (HRA).	To ensure that the HRA capital grants and contributions agreed to supporting documentation.
£152,000	Increase creditors and expenditure.	Testing identified a number of errors within creditors. The resulting impact was an overall increase to creditors of £152,000. This would also increase expenditure and hence would increase the deficit on the Income and Expenditure Account by this amount.

Value of correction	Nature of correction	Reason for correction
£218,000	<ul style="list-style-type: none"> • £218,000 being re-analysed across the comprehensive I&E rather than all charged to corporate and democratic core. • Creation of a current intangible asset £218,000. • Increase in creditors £218,000. 	To correct the recognition of costs and disclosures relating to the Carbon Reduction Commitment.
£238,000	Reduction in outstanding lease commitments.	To ensure that the outstanding lease commitments note agreed to the audit evidence.
£170,000	To increase the value of minimum lease payments.	Discount rate to calculate the net present value of minimum lease payments had not been correctly calculated.
Narrative	Decrease remuneration ratio as per note 36 from 10.26:1 to 7.23:1 and include prior year comparator.	Powys County Council is now required to disclose the remuneration ratio between the Chief Executive and the median salary. This was originally calculated incorrectly.
£173,000	Transfer income and expenditure from Central Services to the Public to Children's and Education Services within the I&E.	Grant income and expenditure had been incorrectly classified.
£80,000	Increase in the disclosure of redundancy costs.	Testing of redundancy costs identified that four employees redundancy costs had been excluded in error.
Narrative	To include additional disclosure.	Disclosure of senior staff emoluments had excluded one member of senior staff.

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