



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Audit of Financial Statements Report – **Powys County Council**

Audit year: 2019-20

Date issued: August 2019

Document reference: **1463A2019-20**



This document has been prepared as part of work performed in accordance with statutory functions.

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 the Wales Audit Office are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at

infoofficer@audit.wales.

We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

Mae'r ddogfen hon hefyd ar gael yn Gymraeg. This document is also available in Welsh.

Contents

The Auditor General intends to issue an unqualified audit report on your financial statements. There are some issues to report to you prior to their approval.

Summary report

Introduction	4
Status of the audit	4
Proposed audit report	5
Significant issues arising from the audit	5
Independence and objectivity	9

Appendices

Appendix 1 – Final Letter of Representation	10
Appendix 2 – proposed audit report of the Auditor General to the Members of Powys County Council	13
Appendix 3 – summary of corrections made to the draft financial statements which should be drawn to the attention of the Audit Committee	17

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 (the Council) at 31 March 2019 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 the Council is £4.796 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, these can include for example remuneration and related party disclosures.
- 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 the Council, for 2018-19, that require reporting under ISA 260.

Status of the audit

- 6 We received the draft financial statements for the year ended 31 March 2019 on 3 June 2019, which was mainly in line with the agreed deadline of 31 May 2019 and was almost two weeks before the statutory deadline of 15 June 2019. This is a considerable achievement given that this was also almost two weeks in advance of the date that the 2017-18 draft financial statements were produced and the volume of work that is required to compile the financial statements.
- 7 We have now substantially completed the audit work and 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 Head of Finance and Deputy Head of Financial Services.

Proposed audit report

- 8 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](#).
- 9 The proposed audit report is set out in [Appendix 2](#).

Significant issues arising from the audit

Uncorrected misstatements

- 10 During our audit, one misstatement was identified in the financial statements, which has been discussed with management, but management have chosen not to adjust. The adjustment relates to the Council's Property, Plant and Equipment assets disclosed in the financial statements which are overstated by £374,000. The Council was unable to reconcile the value of the assets per its Fixed Assets Register to the ledger and hence financial statements. The majority of the difference has arisen due to errors in posting in year movements arising from the revaluation of assets.
- 11 Whilst Auditing Standards require us to request that these are corrected, we accept management's view that there is limited benefit in making these non-material amendments given the number of account areas that they affect and the tight timescale for closure of the audit. We request that the Audit Committee consider approving management's rationale for not making the amendments and include reference to this in the Letter of Representation in [Appendix 1](#).

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 During the course of the audit, we consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you. There were some issues arising in these areas this year:

[We have no concerns about the qualitative aspects of your accounting practices and financial reporting](#)

- 14 Generally, we found the information provided to be relevant, reliable, comparable, material and easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear.
- 15 As highlighted previously, the financial statements were prepared two weeks earlier than in 2017-18 and were generally prepared to a good standard. However, there were a number of late adjustments made during the accounts closure process which were not fully reflected throughout the financial statements. This

resulted in some inconsistent disclosures which required amendments and are included in [Appendix 3](#).

16 As was the case in 2017-18, we agreed an 'Audit Deliverables' with management during the year. The purpose of this was to set out our expectations in respect of working papers requirements and other associated information in order to facilitate both the accounts preparation process and the delivery of the audit work. Many of the working papers detailed on the 'Audit Deliverables' were provided with the draft financial statements and were of a good quality. However, as was the case in 2017-18 there were a few exceptions where improvements could be made. We have provided a number of examples below:

- the Fixed Assets Register was not fully reconciled to the ledger;
- an analytical review of the financial statements with explanations for significant movements year-on-year was not received until 13 June;
- a completed CIPFA disclosure checklist was not completed until 6 June;
- ledger reports to enable cut-off testing of income to be completed were not received until 9 July; and
- documentary evidence outlining the quality assurance process that the draft financial statements had been subject to, including for example details of the issues that the process had identified and how these had been resolved prior to the draft statements being submitted for audit.

We did not encounter any any significant difficulties during the audit

17 In addition to issuing our 'Audit Deliverables', we also maintained regular engagement with management throughout the accounts production and audit process which has been very helpful. As a result, we did not encounter any significant difficulties during the audit, and we were not restricted in our work. We are grateful for the help and assistance provided to us by the staff of the Finance and other departments throughout the audit.

18 It is pleasing to note that there have been some noticeable improvements in the timeliness of information provided to support transactions selected for audit. However, there remains some areas where delays were experienced. In addition, we also experienced a number of lengthy delays in explanations being provided to support the accounting treatments of transactions and balances within the financial statements which included:

- Accounting treatment in respect of Vehicle, Plant & Equipment additions funded through the Local Transport Fund and Traws Cymru T4 Network Grants from the Welsh Government;
- Revaluation of Land & Buildings (see paras 25- 27 below); and
- Senior Officer Emoluments and Exit Package disclosures.

19 The 2020-21 statutory deadline for the preparation and certification of the financial statements for local authorities is 31 May and 31 July 2021 respectively. Whilst we

recognise the improvements made by officers in the earlier production of the financial statements, further improvements are required to the accounts closure process over the next two years to ensure that the 2020-21 deadlines are achieved. This will also include the need to bring forward the timetable for the review and approval of the financial statement by the Audit Committee.

There were a number of significant matters discussed and corresponded upon with management which we need to report to you

Additional pension liability

- 20 The draft financial statements were prepared before the Supreme Court denied the Government's application for leave to appeal the legal judgement about age discrimination in public sector pension schemes, including the local government pension scheme. These changes surrounded a move from final salary to a career average basis and is referred to as the McCloud judgement.
- 21 The cost of providing a remedy to affected employees is likely to be significant. We have concluded that the McCloud judgement gives rise to a past service cost and liability within the scope of accounting for pensions within local authorities which should be accounted for as an increased liability where a reasonable estimate can be made.
- 22 The Council has obtained updated evidence from its actuary on the impact of this legal judgement on the valuation of the pension liability. The financial impact will increase the pension liability by £10.13 million. As this is above the Council's materiality threshold for the 2018-19 financial statements, the Council has adjusted the 2018-19 financial statements accordingly. These adjustments are included within **Appendix 3** of this report.

Revaluation of Land & Buildings

- 23 As set out in the accounting policies, the Council undertakes a rolling programme of revaluation of its assets. In 2018-19, all of the Council's dwellings and some of its land and buildings were revalued. As the revaluations took place during the year, we reviewed the results of the revaluation exercise in February. This highlighted some significant movements in the valuation of certain categories of assets most notably Council Dwellings and County Farms / Smallholdings.
- 24 As a result, we asked management for its consideration of the rationale and reasonableness of the movements. It is apparent that prior to our request there had been little management consideration of the reasons for the changes.
- 25 Management has now received additional information from its external and internal valuation experts which supports the revaluation amounts included within the financial statements for these categories of assets. There was however, a significant delay between when we initially made our request for further information (ie February) and it being provided in June/July. In future management should

ensure that it has reviewed the results of the revaluation exercises and understands the rationale / reasons for any significant movements and that this information is retained as evidence prior to the audit of this account area commencing.

2018-19 Revenue Outturn and Revenue Reserve Balances

- 26 We continue to have ongoing discussions with management with regard to the Council's financial position and our 2017-18 Annual Audit Letter issued in December 2018, highlighted that the Council continued to face significant financial challenges in 2018-19 and beyond. Our letter also highlighted that as at 30 September 2018, the Council continued to experience overspends within key service areas. Based on its projected overspend position the Council indicated that it would need to draw on approximately £3.9 million of its Council Fund Reserve to fund the overspend.
- 27 The Financial Outturn report for the year ended 31 March 2019 presented to the Cabinet Executive on 18 June 2019, highlighted that the final revenue outturn position was an overspend of £713,000. This was a significantly improved position from that reported throughout the year. As a result, the draw on the Council Fund Reserve balance was not as high as previously projected.
- 28 The financial statements show that as at 31 March 2019, the total Revenue Reserves available to the Council stood at £27.869 million (31 March 2018 £40.357 million) which includes the General Fund Reserve of £9.065 million (31 March 2018 £9.681 million). We will continue to monitor the Council's financial position and as detailed in our Audit Plan issued in April 2019, we are to undertake a review of the Council's financial sustainability in light of current and anticipated future challenges. A similar review is to be undertaken at all other local authorities.

There are no other matters significant to the oversight of the financial reporting process that we need to report to you.

- 29 We have not identified any other matters significant to the oversight of the financial reporting process that we need to report to you.

We did not identify any material weaknesses in your internal controls, but we have identified some areas for improvement

- 30 We have not identified any matters, which are material to the accuracy and completeness of the financial statements, or any matters which are significant enough to be brought to your attention. We have however identified some areas for improvement which we will include in our Accounts Memorandum with a view to improving the accounts closure process. We plan to issue our memorandum shortly after the financial statements have been certified. We will discuss and

agree the content of the memorandum with management and will include its response to the issues raised within the final document.

There are no other matters specifically required by auditing standards to be communicated to those charged with governance.

- 31 There are no other matters (such as those relating to fraud, compliance with laws and regulations, or subsequent events) that we need to report to you.

Independence and objectivity

- 32 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 33 We have complied with ethical standards and in our professional judgment, we are independent, and our objectivity is not compromised. As reported in our Audit Plan dated April 2019, there is one potential conflict of interest that was brought to your attention. This relates to a member of my financial audit team who holds a voluntary role as Treasurer of a charity which has a contract to provide a service within Adult Social Care. I can confirm that appropriate arrangements were introduced to ensure that this officer did not undertake any audit work in respect of this area of the Council's operations. With the exception of this, all other members of my team are independent of the Council and your officers and there are no relationships between the Wales Audit Office and Powys County Council that we consider to bear on our objectivity and independence.

Appendix 1

Final letter of representation

[Audited body's letterhead]

Auditor General for Wales

Wales Audit Office

24 Cathedral Road

Cardiff

CF11 9LJ

6 September 2019

Representations regarding the 2018-19 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 2019 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; in particular the financial statements give a true and fair view in accordance therewith; and
- 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.

All contingent liabilities have been identified and properly assessed. Contingent liabilities are considered to be not material to the financial statements

The financial statements are free of material misstatements, including omissions. The effect of one uncorrected misstatement identified during the audit is immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The adjustment relates to the Council's Property, Plant and Equipment assets disclosed in the financial statements which are overstated by £374,000. We have been unable to reconcile the value of the assets per the Fixed Assets Register and the ledger. This will be reviewed in the 2019-20 financial year.

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 6 September 2019.

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:

Head of Finance & Section 151 Officer

Date: 6 September 2019

Signed by:

Chair of the Audit Committee

Date: 6 September 2019

Appendix 2

Proposed audit report of the Auditor General to the Members of Powys County Council

The independent auditor's report of the Auditor General for Wales to the members of Powys County Council

Report on the audit of the financial statements

Opinion

I have audited the financial statements of Powys County Council for the year ended 31 March 2019 under the Public Audit (Wales) Act 2004.

Powys County Council's financial 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 and the related notes, including a summary of significant accounting policies.

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 2018-19 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial position of Powys County Council as at 31 March 2019 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2018-19.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the council in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the responsible financial officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the council's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

Other information

The responsible financial officer is responsible for the other information in the Narrative Report and Statement of Accounts. The other information comprises the information included in the Narrative Report other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated later in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information to identify material inconsistencies with the audited financial statements 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.

Report on other requirements

Opinion on other matters

In my opinion, based on the work undertaken in the course of my audit:

- the information contained in the Narrative Report for the financial year for which the financial statements are prepared is consistent with the financial statements and the Narrative Report has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018-19; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and the Annual Governance Statement has been prepared in accordance with guidance.

Matters on which I report by exception

In the light of the knowledge and understanding of the council and its environment obtained in the course of the audit, I have not identified material misstatements in the Narrative Report or the Annual Governance Statement.

I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

- proper accounting records have not been kept;
- the financial 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.

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 Auditor General for Wales' Code of Audit Practice.

Responsibilities

Responsibilities of the responsible financial officer for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the responsible financial officer is responsible for the preparation of the statement of accounts, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of statements of accounts that are free from material misstatement, whether due to fraud or error.

In preparing the statement of accounts, the responsible financial officer is responsible for assessing the council's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Anthony J Barrett
For and on behalf of the Auditor General for Wales
10 September 2019

24 Cathedral Road
Cardiff
CF11 9LJ

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.

Exhibit 1: summary of corrections made to the draft financial statements

Value of correction	Nature of correction	Reason for correction
£10.130 million	The liability relating to the defined benefit pension scheme analysed in Note 39 has been increased. In addition, the gross expenditure of the Resources Directorate in the Comprehensive Income and Expenditure Statement has also been increased. The adjustment has no impact on the Council's usable reserves.	As noted in paragraphs 20-22, this is to record the additional estimated liability and associated past service cost arising from the McCloud judgement.
£0.454 million	Short Term Creditors in Note 18 and Transport, Plant and Equipment Assets (Note 12) have decreased.	The Council agreed to purchase three buses from a bus contractor. This was treated as a 2018-19 transaction. However, as both the contract and the invoice are dated April 2019, this should have been accounted for in 2019-20. As a result, property plant and equipment and creditors were overstated in 2018-19.

Value of correction	Nature of correction	Reason for correction
£0.340 million	Transport, Plant and Equipment Assets (Note 12) and capital grant income have decreased (Note 11).	A bus contractor who had previously agreed to sell some of its buses to the Council refunded the Council payment. This was misposted as grant income rather than being removed from the Council's transport, plant and equipment assets.
Various	Various changes to Note 31 Senior Officer emoluments.	The emoluments for three of the roles were misstated, due to errors collating the figures from the payroll system. Some roles were removed from Note 31 as the roles do not meet the criteria for disclosure in the financial statements as required by the Code of Practice.
Various	Various changes to Note 35 Related Parties.	The related party disclosures were amended due to errors made in collating the income figures.
£7.943 million	Capital Commitments disclosed in Note 12 has been increased.	The Capital Commitments figures were misstated as the capital accruals figures were disclosed in the financial statements rather than the capital commitment figures.
£0.526m	Reclassification of expenditure within Note 3 of the HRA.	The HRA was not updated for a late adjustment being made as part of the production process of the financial statements. This resulted in £526,000 of expenditure on HRA dwellings being disclosed as Non-Operational expenditure.
Various	The bandings of officers' remuneration greater than £60,000 in Note 31 has been amended.	The remuneration bandings were incorrect as the remuneration did not include the exit packages for four officers.

Value of correction	Nature of correction	Reason for correction
Various	Various amendments to the Narrative Report and Annual Governance Statement.	We noted a number of inconsistencies between the information in the Narrative Report and Annual Governance Statement to that disclosed in the Financial Statements.
Various	Various numerical changes throughout the account.	A number of minor numerical changes have been made to various notes in the financial statements to correct casting errors and internal inconsistencies which were not initially identified during the Council's quality assurance process.

Wales Audit Office
24 Cathedral Road
Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone.: 029 2032 0660

E-mail: info@audit.wales

Website: www.audit.wales

Swyddfa Archwilio Cymru
24 Heol y Gadeirlan
Caerdydd CF11 9LJ

Ffôn: 029 2032 0500

Ffacs: 029 2032 0600

Ffôn testun: 029 2032 0660

E-bost: post@archwilio.cymru

Gwefan: www.archwilio.cymru