

Archwilydd Cyffredinol Cymru  
Auditor General for Wales



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

# Audit of Financial Statements Report

## **Powys County Council**

**Audit year:** 2015-16

**Issued:** September 2016

**Document reference:** **561A2016**

# Status of report

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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 [info.officer@audit.wales](mailto:info.officer@audit.wales).

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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.

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# Summary report

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## 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 2016 and its income and expenditure for the year then ended.
2. We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might result in a reader of the accounts being misled.
3. The quantitative levels at which we judge such misstatements to be material for Powys County Council are £4.092 million for income and expenditure items, working capital balances, and other balanced. 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, for example, related parties and the Senior Officers' Remuneration Note.
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 2015-16, that require reporting under ISA 260.

## Status of the audit

6. We received the draft financial statements for the year ended 31 March 2016 on 24 June, six days prior to the agreed deadline of 30 June, and have now substantially completed the audit work.
7. We are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. The audit team has already discussed these issues with the Professional Lead Finance (Resources) and the Financial Reporting & Policy Accountant.

## 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](#).

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## Significant issues arising from the audit

### Uncorrected misstatements

10. We set out below the one misstatement we identified in the financial statements, which has been discussed with management but remains uncorrected, and request that this is corrected. If you decide not to correct this misstatement, we ask that you provide us with the reason for non-correction.

#### Legal costs have been capitalised for an unidentified asset(s)

- Our testing identified that an asset(s) (with a Gross book value of £424,940 and a Net book value of £342,488) related to legal costs associated with the acquisition of an asset or multiple assets. However, the Authority is unable to identify to which specific asset(s) the legal costs relate to due to the fact that the asset(s) that were acquired in 2006/07. Legal costs associated with the acquisition of assets is permissible providing that the asset to which they relate can be identified. Due to the fact that the Council is unable to identify the asset(s) to which the legal costs relate, we are of the opinion that Plant, Property and Equipment is overstated by £342,488.

### Corrected misstatements

11. There are misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process. They are set out with explanations in [Appendix 3](#).

### Other significant issues arising from the audit

12. In the course of the audit, we consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you. There were some issues arising in these areas this year:
- **We have some concerns about the qualitative aspects of your accounting practices and financial reporting.**  
Generally, we found that the overall quality of the draft financial statements presented to us for audit had improved from previous years. It is also pleasing to note that the Council has acted positively to correct some of the more significant issues identified in previous years with regards to internal recharging. However, in our view, there are opportunities for further improvements to be made. For example, our review of the draft financial statements identified that they contained numerous errors in terms of casting, cross casting and comparator figures. In addition, we also found that working papers provided in support of the draft financial statements either did not agree to the balances or transactions

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disclosed in the financial statements or were updated throughout the audit. This meant that the initial working paper information provided to audit was out of date which led to some unnecessary delays in the audit process (eg Remuneration disclosures and Debtors).

A more rigorous internal quality assurance review of the draft financial statements and supporting working papers would prevent errors or issues of this nature.

- **We have not encountered significant difficulties during the audit.**

We are grateful for the help and assistance provided to us by the staff of the finance department throughout the audit. Although we have not encountered any significant difficulties during the audit, we have experienced some significant delays in obtaining information in support of some aspects of the financial statements. With regard to our testing of income and expenditure information that was requested in April was still outstanding at the beginning of September. We also experienced delays of over four weeks in obtaining information in respect of Pooled Budgets and Land Registry documents to support the ownership of assets.

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

*Note 42 'Obligations under Long Term Contracts'* highlights that the Council has a long term contract with BUPA to purchase a minimum number of beds in relation to care homes. When initially agreed in 1999, this contract was for a period of 10 years, with the opportunity for the Council to renew for a further term of 15 years. Since the initial contract expired in 2009, the Council has extended the term of its agreement with BUPA through variations to the original contract. These variations were agreed in 2009, 2011 and again in 2016. In 2015 the Public Contract Regulations took effect and we have suggested that it may be prudent for the Council to seek advice to ensure that the extensions agreed through the variations is in accordance with the requirements of the Public Contract Regulations 2015.

- **There are no 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**

- **There are not any other matters specifically required by auditing standards to be communicated to those charged with governance.**

## Independence and objectivity

13. As part of the finalisation process, we are required to provide you with representations concerning our independence.

14. We have complied with ethical standards and in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships

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between the Wales Audit Office and Powys County Council that we consider to bear on our objectivity and independence

# Appendix 1

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## Final Letter of Representation

[Audited body's letterhead]

Auditor General for Wales  
Wales Audit Office  
24 Cathedral Road  
Cardiff  
CF11 9LJ

XX September 2016

## Representations regarding the 2015-16 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 2016 for the purpose of expressing an opinion on their truth and fairness, their proper preparation and the regularity of income and expenditure.

We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

## Management representations

### Responsibilities

We have fulfilled our responsibilities for:

- The preparation of the financial statements in accordance with legislative requirements and the Code of Audit Practice; 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

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- unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
  - The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
  - Our knowledge of fraud or suspected fraud that we are aware of and that affects Powys County Council and involves:
    - management;
    - employees who have significant roles in internal control; or
    - others where the fraud could have a material effect on the financial statements.
  - Our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others.
  - Our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
  - The identity of all related parties and all the related party relationships and transactions of which we are aware.

## Financial statement representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

The financial statements are free of material misstatements, including omissions. The effects of uncorrected misstatements identified during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

There is one uncorrected misstatement with a net book value of £342,488 which relates to legal costs that have been capitalised following the acquisition of assets in 2006/07. Due to the passage of time we are unable to identify which specific asset(s) the legal costs relate to. We believe that the adjustment would not change the position of the financial statements or the understanding of them to any reader.

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## 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 ensuring that the Council maintains adequate accounting records.

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 30 September 2016

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 the Audit Committee

Date:

# Appendix 2

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## Proposed audit report of the Auditor General

### **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 2016 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 2015-16 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 12, the responsible financial officer is responsible for the preparation of the statement of accounts, including Powys Pension Fund's accounting statements, which gives a true and fair view.

My responsibility is to audit the accounting statements and related notes in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the 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 the 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 Narrative Report and Annual Governance Statement 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.

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### **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 2016 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 2015-16.

### **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 2016 and of the amount and disposition of the fund's assets and liabilities as at that date, and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16.

### **Opinion on other matters**

In my opinion, the information contained in the Narrative Report 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;
- the Annual Governance Statement does not reflect compliance with guidance.

### **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.

For and on behalf of  
Huw Vaughan Thomas  
Auditor General for Wales  
30 September 2016

24 Cathedral Road  
Cardiff  
CF11 9LJ

# Appendix 3

## Summary of corrections made to the draft financial statements

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
<b>Corrections Made – Overstatements and Understatements</b>		
£62,160,000	<p><b>Note 44: Defined Benefit Pension Schemes</b></p> <p>The fair value of pension assets disclosed was understated. The figure included in the draft financial statements was disclosed as £403.65 million, whereas the supporting actuary's report states the fair value as £465.81 million.</p>	To ensure the values disclosed agree to the underlying actuary report.
£27,123,000	<p><b>Cash Flow Statement</b></p> <p>Various amendments were identified to total cash 'inflows' and 'outflows' resulting in both being reduced by £27.123 million. These were as a result of:</p> <ul style="list-style-type: none"> <li>figures not being presented in line with the requirements of the Code; and</li> <li>figures not agreeing to underlying Authority records.</li> </ul>	To ensure compliance with the Code and agreement with the supporting information and records.
£5,305,000	<p><b>Note 41: Leases</b></p> <p>The figures disclosed in respect of the Authority acting as both a 'lessor' and 'lessee' had been subject to discounting techniques which is not in line with the requirements of the Code. As a result, the figures disclosed in Note 41 were understated as follows:</p> <p><b>2015-16</b></p> <ul style="list-style-type: none"> <li>Authority as a lessee £25,000; and</li> <li>Authority as a lessor £2.638 million.</li> </ul>	To ensure lease disclosures are in compliance with the Code.

Value of correction	Nature of correction	Reason for correction
	<p><b>2014-15</b></p> <ul style="list-style-type: none"> <li>Authority as a lessor £2.642 million.</li> </ul> <p>Additionally, for 2014-15, the comparative figures had not been included within the note for operating leases where the Authority was acting as a lessee. Therefore, an additional disclosure of £2.195 million was required.</p>	
£3,575,000	<p><b>Note 48: Nature and Extent of Risks Arising from Financial Instruments</b></p> <p>The figure included in respect of 'Deposits with Bank and financial institutions' of £9.450 million within Note 48 was overstated by £3.575 million. The figure disclosed should be £5.875 million in line with the Loans and Receivables balance disclosed in Note 18.</p>	To ensure that the balances disclosed throughout the financial statements are consistent.
£2,023,000	<p><b>Note 26: Revaluation Reserve</b></p> <p>Our review of the revaluation reserve identified that upward and downward revaluations of fixed assets had been incorrectly netted off against each other. Consequently, both lines were understated by £2.023 million.</p>	To ensure compliance with the requirements of the Code and to agree to the Authority's records.
£194,000	<p><b>Note 38: Taxation and non-specific grant income</b></p> <p>Both Income and expenditure were understated due to a grant being coded incorrectly.</p>	To ensure the Comprehensive Income and Expenditure Statement (CIES) is correctly stated.
£126,000	<p><b>Note 12: Property, Plant and Equipment</b></p> <p>The revaluation loss with regards to surplus assets had been incorrectly disclosed as being charged to the CIES rather than to the Revaluation Reserve.</p>	To ensure that allocation of revaluation losses are accounted for in both the Revaluation Reserve and CIES in line with the requirements of the Code.
£137,000	<p><b>Note 40: Related Parties</b></p> <p>Three additional payments were added to the members' disclosure totalling £37,000 which had been</p>	To ensure the completeness of related party disclosures within the financial statements.

Value of correction	Nature of correction	Reason for correction
	omitted in error in the draft financial statements. Further, the amount received from Powys Pension Fund had been understated by £100,000.	
Various	A number of casting, cross casting, and comparator errors were identified. In addition, a number of narrative and disclosure amendments were also identified.	In order to comply with the Code, and for completeness, accuracy and consistency throughout the financial statements.

#### Corrections Made – Classification/Disclosure Amendments

£72,423,000	<p><b>Note 27: Amounts reported for Resource Allocation Decisions</b></p> <p>Within this note Revenue Expenditure Funded from Capital Under Statute (REFCUS), was disclosed as a total of £78.025 million. This figure included an amount of £72.423 million which related to the Authority's buyout of its Housing Revenue Account (HRA) subsidy.</p> <p>The HRA subsidy buyout has now been disclosed separately, with the Reffcus disclosure being reduced by the £72.423 million from £78.025 million to £5.602 million.</p>	To ensure that the figures reported within the financial statements are disclosed transparently and appropriately.
£2,719,000	<p><b>Note 26: Capital Adjustment Account</b></p> <p>The Revaluation Reserve highlights that the 'amount written off to the capital adjustment account' was a total of £10.241 million.</p> <p>Our testing of the Capital Adjustment Account identified that both the value and description of the entries recorded within it were incorrect and not in accordance with the Code. There was however no overall impact on the balance of the Capital adjustment account at 31 March 2016.</p>	To ensure that note disclosures within financial statements are consistent and are in accordance with the code.
£1,600,000	<p><b>Note 20 Short Term Debtors:</b></p> <p>An amount of £1.6 million has been reclassified from 'Celtic energy</p>	Amount reclassified to ensure that the financial statements are

Value of correction	Nature of correction	Reason for correction
	section 106' to 'Other short term debtors'.	disclosed consistently between years.
£800,000	<p><b>Note 4: Assumptions made about the Future and other major sources of estimation uncertainty</b></p> <p>Arrears figure was incorrectly stated as £2.8 million rather than £2 million as per the Authority's records.</p>	To ensure that the disclosures agree to the Authority's records and supporting information.
£333,000 & £18,000	<p><b>Note 32: Agency Services</b></p> <p>Our testing confirmed that there had been a transposition error within the note relating to the amounts disclosed under the headings 'Home Improvement Loans' and 'Vibrant and Viable Places'</p> <p>Home Improvement Loans should have been disclosed as £333,000 and not £18,000 and vice versa for Vibrant and Viable Places.</p>	To ensure that the disclosures agree to the Authority's supporting information.



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