

Annual Financial Audit Outline

Powys County Council

Audit year: 2013-14

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This document was produced by: John Herniman and Mike Jones

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Annual Financial Audit Outline

Introduction

1. This Annual Financial Audit Outline has been prepared by John Herniman on behalf of Anthony Barrett, the Appointed Auditor.
2. As your external auditor my objective is to carry out an audit which discharges my statutory duties as Appointed Auditor and fulfils my obligations under the Code of Audit Practice, namely to:
 - examine and certify whether your financial statements are 'true and fair'; and
 - assess whether you have made proper arrangements for securing economy, efficiency and effectiveness in the use of resources.
3. The purpose of this outline is to explain to you:
 - My audit team's approach to:
 - the audit of your financial statements for the year ending 31 March 2014 including the significant risks of material misstatement in your financial statements and how we plan to address them; and
 - the assessment of your arrangements for securing economy, efficiency and effectiveness in the use of resources.
 - The planned timetable, fees and audit team.
 - The scope of the audit, our respective responsibilities and how we ensure independence and objectivity in our work.
4. There have been no limitations imposed on me in planning the scope of this audit

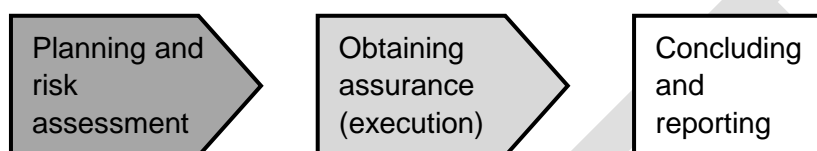
Financial statements audit

5. It is my responsibility to issue a report on the financial statements which includes an opinion on:
 - Whether or not the accounts give a 'true and fair view' of Powys County Council's (the Council) financial out-turn and position. This provides assurance that the accounts:
 - are free from material misstatement, whether caused by fraud or error;
 - comply with statutory and other applicable requirements; and
 - comply with all relevant requirements for accounting presentation and disclosure.
 - The consistency of information in the Explanatory Foreword with the financial statements.
6. My report must also state by exception if the Annual Governance Statement for 2013-14 does not comply with requirements.

Audit approach

7. My team's audit work uses a range of techniques to assess risk and obtain audit evidence and assurance and is based on a thorough understanding of your business. This understanding allows my team to develop an audit approach which focuses on addressing specific risks whilst providing assurance for the financial statements as a whole. Our audit approach consists of three phases as set out in [Exhibit 1](#).

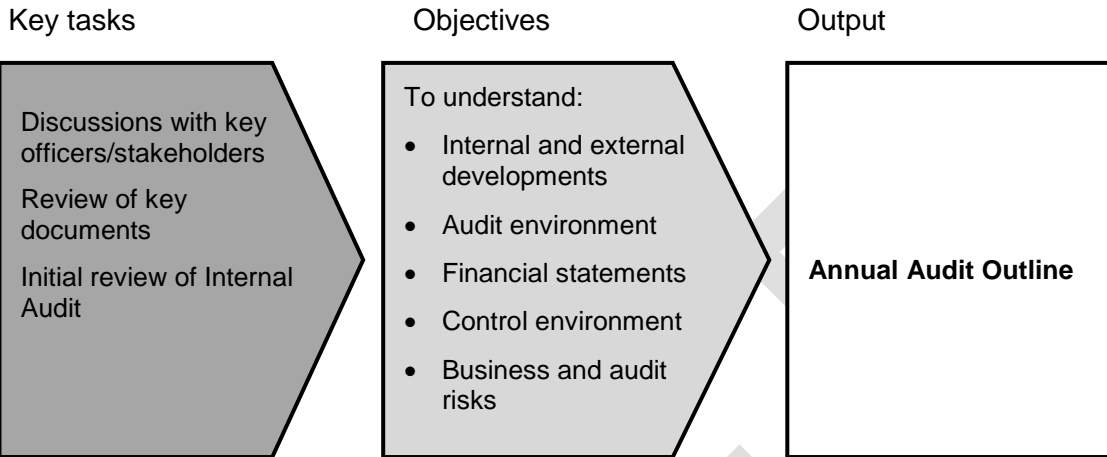
Exhibit 1: Our audit approach



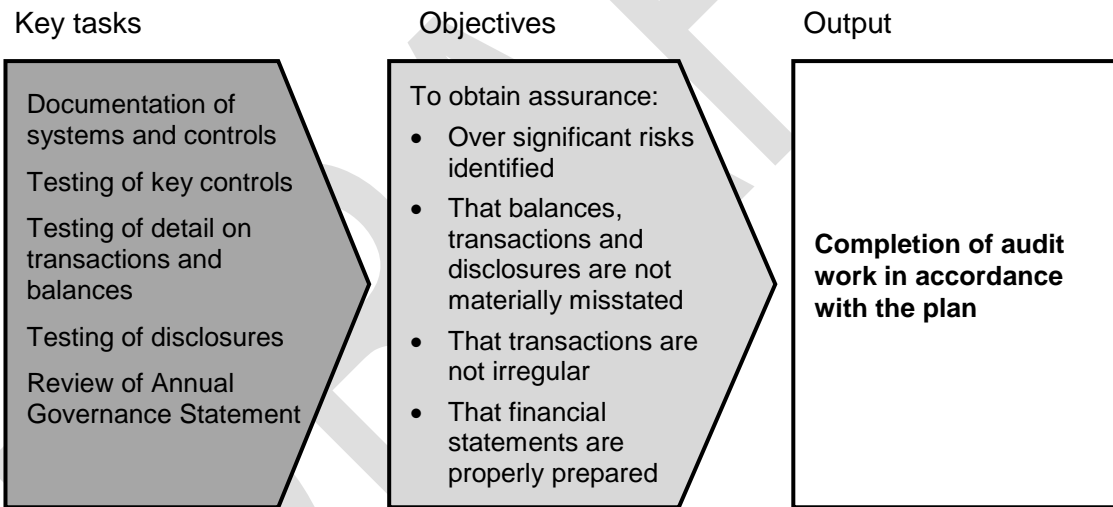
8. The work undertaken in each of these three areas is set out in more detail in [Exhibit 2](#).
9. I do not seek to obtain absolute assurance that the financial statements and related notes are true and fair, but adopt a concept of materiality. In planning and executing the audit, we aim to identify material misstatements in the financial statements and related notes, that is, those that might result in a reader of the accounts being misled. The levels at which I judge such misstatements to be material will be reported to the Audit Committee prior to completion of the audit.
10. For reporting purposes, we will treat any misstatements below a 'trivial' level (the lower of five per cent of materiality or £100,000) as not requiring consideration by those charged with governance and therefore will not report them.

Exhibit 2: Our audit approach

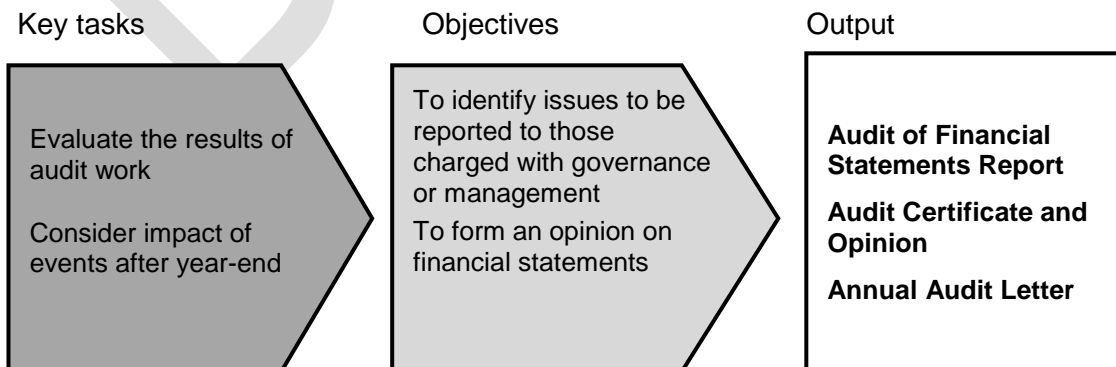
Planning and risk assessment



Obtaining assurance (execution)



Concluding and reporting



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11. In planning my work and obtaining an understanding of the Council, I consider the control environment including the activities of Internal Audit to determine the potential impact of its work on my planned procedures and to evaluate the extent to which I can rely on that work.
12. As part of the planning process, my staff considered the information which would be required to support the accounts submitted for audit. The fees, once agreed, will assume that this information will be provided by the timescales agreed and to the quality standards that we expect. My other main assumptions in setting the estimated fees will be that:
- appropriate accommodation and facilities are provided to enable my audit team to deliver our audit in an efficient manner;
 - the financial statements and supporting working papers have been subject to review and validation by management, to provide the Responsible Financial Officer with assurance that they are 'true and fair';
 - all appropriate officials will be available during the audit;
 - you have all the necessary controls and checks in place to enable the Responsible Financial Officer to provide all the assurances that I require in the Letter of Representation addressed to me; and
 - Internal Audit has completed its planned programme of work and that management has taken all necessary remedial action on issues that could have affected the financial statements.

Audit risks and issues

Risks of material misstatement in the accounting statements

13. **Exhibit 3** provides information regarding the main operational and financial risks faced by the Council that could affect my audit. These are the main risks that I have identified during the initial audit planning process, based upon information currently available, and the actions proposed to address them. I may need to change the audit plan if any new risks emerge. I will not make any changes to the audit plan without first discussing them with officers and, where relevant, those charged with governance.

Exhibit 3: Summary of main audit risks and proposed responses

Risks	Action proposed
Control environment risks	
<p>The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk. In addition, the Council continues to face significant financial pressures, including funding cuts. The current financial pressures on the Council increase the risk that management judgements and estimates could be biased in an effort to meet its financial challenges.</p>	<p>We will:</p> <ul style="list-style-type: none"> • test the appropriateness of journal entries and other adjustments made in preparing the financial statements; • focus its testing on areas of the financial statements which could contain reporting bias; and • evaluate the rationale for any significant transactions outside the normal course of business.
<p>There is an inherent risk of material misstatement due to fraud in revenue recognition and, as such, it is viewed as a significant risk</p>	<p>We will review the design and test the operation of controls in the systems relating to:</p> <ul style="list-style-type: none"> • treasury management; • grant income; and • other income sources.
Financial systems risks	
<p>Risk that the Council's high-level financial controls are not designed or operating effectively to prevent and detect material misstatements in the financial statements.</p>	<p>We will review the design, and test the operation of high-level controls in the:</p> <ul style="list-style-type: none"> • main accounting system; • budgetary control system; and • the accounts preparation process.
Preparation of the accounts risks	
<p>Risk of material misstatement in the financial statements arising from the accounting for Non-current Assets. I have identified some specific risks for 2013-14:</p> <ul style="list-style-type: none"> • Transposition errors were identified in last year's Fixed Asset Register, which I reported to you in our Report to Those Charged with Governance in September 2013. 	<p>We will consider the accounting treatment and disclosure of non-current assets to ensure that issues identified previously have now been addressed and issues new to 2013-14 have been accounted for appropriately.</p>

Risks	Action proposed
<ul style="list-style-type: none"> The method of valuation of Council Houses has changed in 2013-14. Indications are that changing to the 'Beacon' methodology of valuation could result in a significant increase in valuations. The Council's Valuers have raised some questions over the validity of the carrying value of County Farms within the Fixed Asset Register. 	
<p>In my Report to Those Charged with Governance for 2012-13, I highlighted some areas for improvement in the quality of the draft financial statements, working papers and timeliness of responses to audit queries. Actions have been taken by management since, but we note that there have been a number of changes to personnel and responsibilities within Finance which could impact upon the accounts preparation and audit process.</p>	<p>We will consider the quality of the draft financial statements, and review the closedown plans produced by Finance. We will continue to meet and discuss potential issues with management. We will report any issues identified or progress made to the Audit Committee.</p>
<p>The Council has undergone a management restructuring and other staffing changes, and exit packages paid need to fully comply with the requirements of the Code and Council policy. Such payments are considered sensitive and material by nature.</p>	<p>We will consider the accounting treatment and disclosure of exit packages.</p>
<p>The Council have entered into an agreement with a private company (Section 106 agreement) which provides financial cover to restore land to its previous condition after the project has finished or if the project is not completed.</p>	<p>We will review the completeness and accuracy of the agreement and its disclosure within the financial statements.</p>
<p>Financial statements risks</p>	
<p>Risk of material misstatement in the financial statements arising from error or omission of transactions, balances and disclosure.</p>	<p>We will undertake a programme of audit testing to address risks identified as part of our planning work and review of the draft financial statements.</p>
<p>We have identified a number of disclosures as being material by nature. These include the disclosure of Related Parties and the Remuneration note.</p>	<p>We will design detailed testing to obtain the required assurance that disclosures identified as material by nature have not been misstated.</p>

Accounting and reporting issues

14. In addition to the significant audit risks set out above, I also need to consider any new financial accounting and reporting requirements which impact on my responsibilities. I summarise the more significant accounting and reporting changes that apply to 2013-14 in **Exhibit 4**.

Exhibit 4: Significant accounting and reporting changes for 2013-14

Accounting and reporting change

IAS 1 *Presentation of Financial Statements*

The Comprehensive Income and Expenditure Statement has been amended as a result of the June 2011 amendments to IAS 1 *Presentation of Financial Statements* (where relevant to an authority) and the June 2011 amendments to IAS 19. The requirement for Financing and Investment Income and Expenditure to include 'pensions interest cost and expected return on pensions assets' has been replaced by 'net interest on the net defined benefit liability (asset)'. Financing and Investment Income and Expenditure also now include 're-measurements of the net defined benefit liability (asset) for long-term employee benefits recognised in accordance with section 6.2'.

IAS 19 *Employee Benefits*

Chapter 6 of the code includes revisions as a result of the June 2011 amendments to IAS 19 *Employee Benefits*:

- amendments to the definitions in section 6.1;
- updated terminology, amendments to the recognition requirements and clarifications of the disclosure requirements in section 6.2;
- amendments to the recognition requirements of section 6.3 Termination Benefits and clarification of the disclosure requirements; and
- amendments to the classification, recognition, measurement and disclosure requirements in section 6.4 Post-employment Benefits.

Use of resources audit

15. To discharge my responsibilities regarding the arrangements that the Council has established to secure economy, efficiency and effectiveness in its use of resources, I shall place reliance upon:
- the results of the audit work undertaken on the financial statements;
 - the Council's system of internal control, as reported in the Annual Governance Statement and my report thereon;
 - the results of work carried out by the Auditor General, including work carried out under the Local Government (Wales) Measure 2009 (the Measure), certification of claims and returns, and data-matching exercises;
 - the results of the work of other external review bodies where relevant to my responsibilities; and

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- any other work that addresses matters not covered by the above, and which I consider necessary to discharge my responsibilities.

Certification of grant claims and returns

16. The Appointed Auditor, acting as an agent of the Auditor General, undertakes certification work on the Council's grant claims and returns in accordance with instructions issued by the Auditor General.

Overall issues identified

17. **Exhibit 5** summarises the more significant and/or recurring issues I identified when undertaking grant certification work in 2012-13.

Exhibit 5: Overall issues relating to grant claim and return certification

Qualified grant claims and returns in 2012-13

My team certified 21 claims and returns for 2012-13, and five of these were qualified. I note that two of these qualified returns relate to the required information not having been received from a third party partnered by the Council in delivering the scheme. This continues to be a high risk area for the Council, and has been an issue in previous years. This has reduced expenditure eligible for grant funding in previous year and highlights the continuing risk associated with grants to third parties.

Effectiveness of grant coordination arrangements

I note the Council makes good use of the certification checklist accompanying claims and returns for submission the auditor, and the shared network folder provides easy access for my team to the supporting working papers prepared by the claim accountants.

My main concern remains with arrangements to ensure that information required from third parties is received in a timely manner, and provides sufficient information to support the claim entries.

Issues related to specific grant claims and returns

18. In addition to the overall issues identified above, I summarise the more significant issues I have identified relating to individual grant claims and returns in **Exhibit 6**.

Exhibit 6: Significant issues relating to specific grant claims and returns

Flying Start and Families First Schemes

My certificate was qualified for both these schemes in respect of the required information not having been received from third parties.

Substance Misuse.

My certification of the Substance Misuse claim was delayed by the required information from third party confirmations not having been received in a timely fashion. A number of third parties did not provide the required information in a prompt manner and were only received at the last minute to avert a further qualification letter. In 2010-11 eligible expenditure was reduced by £47,034 due to third parties not providing the required information to support claim entries.

Other work undertaken

19. In addition to my responsibilities in respect of the audit of the statutory financial statements set out above, I am also responsible for the audit of Powys Welsh Church Act and Rhayader Leisure Centre. My team will undertake the audit of these accounts on my behalf in accordance with the timescales agreed with the Council and the Charity Commission.
20. In addition to my responsibilities in respect of the audit of the body's statutory financial statements set out above, I am also required to certify a return to the Welsh Government which provides information about Powys County Council to support preparation of Whole of Government Accounts.

Auditor General's Regulatory Programme

21. A separate document, the Auditor General's Regulatory Programme for Performance Audit, will be issued setting out the work to be delivered by the Auditor General under the Measure.

Fee, audit team and timetable

Fee

22. We are currently unable to provide you with an estimate of our fee for our 2013-14 audit work.
23. Owing to the requirements of the Public Audit (Wales) Act 2013, we have needed to revise our approach to fee setting. This act introduces a slightly revised fee-setting requirement on the new Wales Audit Office for all our audit work once its provisions come into effect from 1 April 2014. In anticipation of this new requirement, we have needed to take legal advice to clarify a number of its provisions. In the light of that advice, we have reviewed our cost allocation and apportionment processes to ensure that going forward our fee setting will fully comply with these new statutory requirements. This unfortunately has been a time-consuming process. The exercise has now been completed and the Auditor General is currently consulting on his fee scales, which take account of revisions made in anticipation of the new legislation. That consultation provides further information about the new legislative requirements.

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24. After the end of the consultation process (28 February 2014), and after considering the consultation responses, we will be able to provide you with an estimate of your fee for 2013-14, which we anticipate being able to do in April 2014.
 25. Planning will be ongoing, and changes to my programme of audit work and therefore my fee may be required if any key new risks emerge. I shall make no changes without first discussing them with the Director of Finance. Further information on the new Wales Audit Office fee scales and fee setting will be provided once finalised.
 26. In previous years, there have been no formal objections to the Council's financial statements. However, I do receive a growing number of queries and items of correspondence from members of the public and other interested parties. A small amount of time will be included within the fee to deal with minor queries, as part of the overall management of the audit. In previous years more time has been required in responding and dealing with such matters, attracting an additional fee. Any such additional fee will be charged at daily rates based on the specific grade or skill mix required for the work.
 27. The Auditor General is required to recover, in respect of each grant or return, an amount that covers the full cost of the relevant work undertaken. Grant and return certification work is charged on a daily basis in line with the skill-related fee scales set out in the Auditor General's local government fees letter. The fees will reflect the size, complexity and particular issues relating to the specific grants.
 28. Further information on the Auditor General's fee scales and fee setting can be found on our website at: www.wao.gov.uk/aboutus/4240.asp.

Audit team

Exhibit 7: My team

Name	Role	Contact number	E-mail address
John Herniman	Engagement Lead – Financial Audit	02920 320500	John.herniman@wao.gov.uk
Mike Jones	Financial Audit Manager	02920 320500	Mike.jones@wao.gov.uk
Helen Pugh	Financial Audit Team Leader	20920 320500	Helen.pugh@wao.gov.uk
Gareth Rees	Grants Team Leader	02920 320500	Gareth.Rees@wao.gov.uk

29. I can confirm that my team members are all independent of the Council, its officers and any joint committees. In addition, I am not aware of any potential conflicts of interest that I need to bring to your attention.

Timetable

30. I will provide reports, or other outputs as agreed, to the Audit Committee in general but may report to other areas of the Council as appropriate. My key milestones are set out in [Exhibit 8](#).

Exhibit 8: Timetable

Planned output	Work undertaken	Report finalised
Annual Financial Audit Outline for 2014	December 2013 – March 2014	April 2014
Financial accounts work: <ul style="list-style-type: none">• Audit of Financial Statements Report• Opinion on Financial Statements• Financial Accounts Memorandum• Whole of Government Accounts	Summer 2014 Summer 2014 October 2014 Summer 2014	September 2014 September 2014 November 2014 n/a
Annual Audit Letter 2014	December 2013 to October 2014	December 2014
Outline of Audit Work for 2015	December 2014 – February 2015	March 2015

Appendix 1

Roles and responsibilities

This Annual Financial Audit Outline has been prepared to meet the requirements of auditing standards and proper audit practices. It provides Powys County Council (the Council) with an outline of the financial audit work required for the 2013-14 financial statements.

The Public Audit (Wales) Act 2013 (the 2013 Act) sets out that the Auditor General is to be the auditor of local government bodies in Wales. The 2013 Act does, however, provide transitional arrangements where the appointment of a person as an auditor under section 13 of the Public Audit (Wales) Act 2004 continues to have effect until the end of the period for which the appointment was made (subject to any earlier termination). The Auditor General has appointed me as the auditor of the Council's accounts for the year ending 31 March 2014.

As Appointed Auditor, I am required by the Public Audit (Wales) Act 2004 to examine and certify the accounts of the Council. In accordance with professional standards that apply by virtue of the Code of Audit Practice set under the act, this involves giving an opinion on whether the accounts give a true and fair view of the Council's financial position and of its income and expenditure for the year. The act also requires me to satisfy myself of these things:

- that the accounts are prepared in accordance with regulations under section 39 of the act (the Accounts and Audit (Wales) Regulations 2005);
- that the accounts comply with the requirements of all other statutory provisions applicable to them;
- that proper practices have been observed in the compilation of the accounts; and
- that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

I am also required to certify that the audit has been completed in accordance with the Public Audit (Wales) Act 2004.

The audit does not relieve the Council of its responsibility to:

- establish systems of internal control to ensure the regularity and lawfulness of transactions and to ensure that its assets are secure;
- maintain proper accounting records;
- prepare a Statement of Accounts in accordance with relevant requirements; and
- establish and keep under review appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Public Audit (Wales) Act 2004 sets out the rights of the public and electors to inspect the Council's financial statements and related documents, to ask me, as the Appointed Auditor questions about the accounts and, where appropriate, to challenge items in the accounts.

A separate Annual Financial Audit Outline for the audit of the 2013-14 accounts of the Powys Pension Fund has been issued.

The Auditor General is required to certify certain grant claims and returns. The Appointed Auditor, acting as an agent of the Auditor General, undertakes the audit work relating to those claims and returns.

DRAFT

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