



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

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

Audit year: 2016-17

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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.

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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 2017 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 £4.185 million for income and expenditure items and working capital balances and other balances. 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 Senior Officers' Remuneration.
- 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 2016-17, that require reporting under ISA 260.

Status of the audit

- 6 We received the draft financial statements for the year ended 31 March 2017 on 30 June 2017, in line with the agreed deadline date. We have substantially completed our audit work with the exception of Note 18 Financial Instruments, Note 21 Cash and Bank Accounts and Note 36 Senior Officers Emoluments where our work is currently on going.
- 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 Interim Professional Finance Lead and the Financial Reporting and 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](#). The proposed audit report includes the audit opinion for both the Powys County Council financial statements

and the Powys Pension Fund financial statements. A separate '*Audit of Financial Statements Report*' has been prepared for the Powys Pension Fund.

Significant issues arising from the audit

Uncorrected misstatements

- 10 There are no misstatements identified in the financial statements, which remain uncorrected.

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 no concerns about the qualitative aspects of your accounting practices and financial reporting but further improvements can be made to the information contained within the supporting notes to financial statements and working papers.**

We found that the overall quality of the draft financial statements presented to us for audit had improved from previous years. 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. However, there are opportunities for further improvements to be made in respect of the preparation of some of the notes included within the draft financial statements (for example Note 36 Senior Officers Emoluments and Note 40 Related Parties), where our audit work identified that a significant number of amendments were required.

In addition, further improvements need to be made to the working papers provided to audit in support of the draft financial statements. This is particularly important with the onset of the Local Government early closure of accounts agenda. For example, we found in some instances, working papers provided did not agree to the balances or transactions disclosed in the financial statements or were updated by the Finance Department

following the commencement of our audit. This inevitably leads to unnecessary delays in the audit process (eg leases and creditors).

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

- **We did not encounter any significant difficulties during the audit.**

We are grateful for the help and assistance provided to us by the staff of the finance and other departments throughout the audit. We generally received information in a timely and helpful manner and were not restricted in our work. However, there were occasions where some significant delays in obtaining information in support of some aspects of the financial statements were experienced. For example, as part of our testing of grant income we requested information in March 2017 but this was still outstanding at the beginning of September. We also experienced a delay of over seven weeks in respect of information requested relating to Note 41 Leases and four months in respect of evidence to support the ownership of assets included within Note 12 Plant, Property and Equipment. On both of these occasions the information requested was from departments outside of the Finance Department. The timely receipt of information to support the audit process is critical if the earlier certification date set out in the early closure timetable for Local Government is to be achieved.

- **There were no significant matters discussed and corresponded upon with management which we need to report to you.**
- **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. As reported in our Audit Plan dated March 2017, 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

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

22 September 2017

Representations regarding the 2016-17 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 2017 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 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

- 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. There are no misstatements identified in the financial statements that remain uncorrected.

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 22 September 2017.

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:

Signed by:

Section 151 Officer

Chair of the Audit Committee

Date: 22 September 2017

Date: 22 September 2017

Appendix 2

Proposed audit report of the Auditor General 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 2017 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 Pension 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 2016-17 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 14, 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 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.

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 2017 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 2016-17.

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 2017 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 2016-17.

Opinion on other matters

In my opinion, the information contained in the Narrative Report and the Annual Governance Statement 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
28 September 2017

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 those charged with governance

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

Value of correction	Nature of correction	Reason for correction
Corrections Made – Overstatements and Understatements		
£445,000	<p>Note 10: Financing and Investment income and Expenditure</p> <p>Our testing of the balance of interest receivable and other income of £614,000 identified that £445,000 related to prudential borrowings costs being recharged to services and interest on school loans. The other side of the entry was charged as expenditure to the Cost of Services in the CIES.</p> <p>These amounts relate to internal recharges and should not be included within note 10 or the CIES.</p>	<p>To ensure that no internal income or expenditure is included within the CIES. This correction does not impact on the Council Fund.</p>
Various	<p>A number of casting, cross casting, and comparator errors were identified. In addition, a number of narrative and disclosure amendments were also identified within the Narrative Report, Annual Governance Statement and in the supporting notes to the financial statements.</p>	<p>In order to comply with the Code, and for completeness, accuracy and consistency throughout the financial statements.</p>

Value of correction	Nature of correction	Reason for correction
Corrections Made – Classification/Disclosure Amendments		
2016-17 £27,120,000 2015-16 £27,123,000	<p>Cash Flow and associated notes</p> <p>Testing of the cash flow and associated notes identified a number of errors. £27,120,000 had been incorrectly included within the Cash Received for Goods and Services line. This should have been included within the Revenue Support Grant (RSG) line to ensure that it represents the gross amount of RSG received. Changes were also required to the 2015-16 comparator figures as result of similar incorrect treatment.</p>	To ensure that the cash flow disclosures are in line with the code.
2016-17 - £17,335,000 2015-16 - £10,023,000	<p>£17,335,000 relating to the movement in cash equivalents year-on-year had been within Cash Received for Goods and Services. However, this should have been disclosed as part of Investing Activities. A similar adjustment of £10,023,000 was required for the 2015-16 comparator information.</p>	
£1,500,000	<p>£1,500,000 was incorrectly included within both 'Cash Received for Goods and Services' and 'Investing Activities'. This was as a result of a reserve debtor transaction being included within the cash flow statement.</p>	

Value of correction	Nature of correction	Reason for correction
£72,423,000	<p>HRA Note 3: Housing Revenue Account Capital Expenditure</p> <p>Our testing of this note identified that the Non-operational Enhancing Costs totalling £72,423,000 had been incorrectly included within this note. This amount related to the HRA subsidy buy-out which was accounted for in 2015-16 and therefore should not have been included within the 2016-17 HRA Capital Expenditure note.</p>	<p>To ensure that the disclosure relates only to capital expenditure incurred on HRA in the financial year.</p>
<p>2016-17 £70,396,000 2015-16 £45,398,000</p> <p>£5,239,000 £492,000</p>	<p>Note 48: Nature and Extent of Risks Arising from Financial Instruments</p> <p>Our review of the maturity analysis of the financial liabilities within Note 48 identified that the analysis only included borrowings from PWLB and excluded all other borrowings (for example LOBOs and Local Authority Loans).</p> <p>Additionally, our testing of this note identified that the table highlighting the Authority's potential maximum exposure to credit risk did not agree to Note 20 'Short Term Debtors'. An adjustment of £5,239,000 and £492,000 to the debtor and Actual Provision for bad debts balances disclosed within Note 48.</p>	<p>To ensure that the disclosure is correct and complete.</p>

Value of correction	Nature of correction	Reason for correction
£67,050,000	<p>Note 44: Defined Benefit Pension Scheme</p> <p>The cumulative amount of actuarial gains and losses recognised in the comprehensive income and expenditure statement had been incorrectly disclosed as a gain of £19,820,000. The correct figure as per the actuarial report is a loss of £47,230,000. Therefore there was an overall movement of £67,050,000.</p>	To ensure that the disclosure is correct and agrees to the actuarial report.
£4,009,000	<p>Note 23: Creditors</p> <p>Our analytical procedures identified that creditors relating to Welsh Government had been understated by £4,009,000 as these had been incorrectly classified as Payments Received in Advance.</p>	To ensure that the creditors' figures are correctly disclosed and appropriately classified. These corrections do not impact on the Council Fund.
£2,237,000	<p>Further testing identified that the holiday pay accrual had not been updated from the prior year and was therefore understated by £2,237,000. The accrual has therefore been increased from £1,405,000 to £3,642,000.</p>	
£1,020,000	<p>Note 18: Financial Instruments</p> <p>On reviewing the calculation of the fair value of loans and receivables we identified that fair value of the Local Authority Mortgage Scheme transactions had been omitted in error from the total disclosed.</p>	To ensure that disclosures are accurate and complete and are in line with the Code.

Value of correction	Nature of correction	Reason for correction
£269,338	<p>Note 12: Property, Plant and Equipment</p> <p>Testing identified that capital commitments figure in Note 12 had been overstated by £269,338. This error related to Talerddig Works where a late adjustment to the value of the commitments had not been included within the amount calculated.</p>	<p>To ensure that the correct value for capital commitments is disclosed. There is no impact on the Council Fund.</p>
£234,000	<p>Note 18: Financial Instruments</p> <p>Our testing of financial instruments identified that the Current Financial Assets Carried at Contract Amount' within debtors had been understated by £234,000.</p>	<p>To ensure that the figures within Not 18 are disclosed accurately.</p>
Various	<p>Note 33: Pooled Budgets and Joint Arrangements</p> <p>Our testing of this note identified a number of issues with the disclosures for ICT Service Section 33 agreement when compared to the audited return:</p> <ul style="list-style-type: none"> • 2015-16 total funding had been overstated by £73,000; • 2015-16 total expenditure had been overstated by £520,000; • 2016-17 net position for Powys County Council had been overstated by £272,000; and • 2016-17 net position for Powys Teaching health Board had been understated by £344,000. 	<p>To ensure that disclosures agreed to the audited Section 33 returns.</p>

Value of correction	Nature of correction	Reason for correction
Various	<p>Note 27: Expenditure and Income Analysed by Nature</p> <p>Our audit work identified that numerous amendments were required to Note 27 'Expenditure and Income Analysed by Nature'. This was as a result of internal recharge transactions being incorrectly included within a number of lines within this note as follows:</p> <p>Expenditure</p> <ul style="list-style-type: none"> • Support Services & other internal recharges reduced by £63,666,000 • Insurance reduced by £1,604,000 • Supplies & services reduced by £1,902,000 <p>Income</p> <ul style="list-style-type: none"> • Internal Recharges reduced by £65,896,000 • Customer & client reduced by £1,276,000. <p>The above matters also required the figures relating to 2015-16 to be re-stated.</p>	<p>To ensure that the amounts disclosed within the note are accurate and consistent with the CIES.</p>

Value of correction	Nature of correction	Reason for correction
Various	<p>Note 36: Senior Officer Emoluments</p> <p>Our audit work identified that numerous narrative and numerical amendments were required to Note 36 Senior Officer Emoluments. Some of the amendments were required as a result of wrong reports/information being obtained when the note was initially prepared. Others were required as a result of senior staff movements that had not been correctly reflected within the remuneration note or had resulted in the disclosures for senior members of staff being omitted in error.</p>	To ensure that the amounts disclosed within the note are complete and accurate.
Various	<p>Note 40: Related Parties</p> <p>A number of errors and omissions were identified during our audit testing. These included:</p> <ul style="list-style-type: none"> • where information was available which demonstrated that members were in a position as being able to exert control over bodies but where these relationships had not been disclosed; and • incorrect amounts had been disclosed for both income and expenditure transactions and balances with related parties. 	To ensure that the disclosure complies with the requirements of the Code.

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