

Archwilydd Cyffredinol Cymru
Auditor General for Wales



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Audit of Financial Statements Report

Carmarthenshire County Council

Audit year: 2015-16

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Status of report

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.

The team who delivered the work comprised Richard Harries, Jason Garcia, Julie Owens, Ian Griffiths, Rhian Phipps, Lucy Herman, Aneesa Ali, Michelle Davies and Mandy Williams.

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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 Carmarthenshire 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 Carmarthenshire County Council are £8.1 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. Disclosures which are affected by these factors in the Council's 2015-16 financial statements are in relation to senior officer 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 Carmarthenshire County Council, for 2015-16, that require reporting under ISA 260. A separate report has been issued for the Dyfed Pension Fund.

Status of the audit

6. We received the draft financial statements for the year ended 31 March 2016 on 30 June 2016 being the agreed deadline for submission to audit, 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 Director of Corporate 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](#). The proposed audit report for the Council and Dyfed Pension Fund is set out in [Appendix 2](#).

Significant issues arising from the audit

Uncorrected misstatements

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

Corrected misstatements

10. There is one misstatement to the core financial statements and several amendments to disclosure notes which have been corrected by management. We consider these 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

11. 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 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, we have some concerns in relation to the Council's evidencing of how it has valued certain types of assets. Our detailed findings in this regard are outlined in the internal controls section of this report.
 - **We did not encounter any significant difficulties during the audit**

We received information in a timely and helpful manner and were not restricted in our work.
 - **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 identified a material weaknesses in your internal controls**

In 2014-15 we reported some significant weaknesses in the Council's approach to asset valuations. This had resulted in a reduction in the value of assets of £38.5 million in 2014-15. As a result of the weaknesses identified, the Council agreed to review its asset valuation processes and internal quality assurance arrangements in 2015-16.

In carrying out our detailed audit testing on specific assets we identified several issues that are highlighted below:

– **Rates used in valuing specific assets**

Some of the issues identified in 2014-15 related to the rates per square metre being used to calculate individual gross asset values. To avoid a re-occurrence of this issue, in April 2016, we met with the valuer and agreed the rates per square metre to be used on specific types of assets.

However, in auditing a leisure centre, it was evident that a different rate to what had been agreed in April 2016 had been used in calculating the asset value. Our further work on this identified that this incorrect rate had been used on three leisure centres. As a result of this error, the value of leisure centre assets was understated by £7.9 million. This understatement equates to 0.6 per cent of the property, plant and equipment figure in the balance sheet. The Council has made an amendment to the 2015-16 financial statements to correct this issue.

– **Evidencing of judgements**

We rely on the view of the Council's internal valuer as the expert in this area and we consider the reasonableness of the judgements made in carrying out our work. In reviewing these valuations we requested evidence to support the judgements made. Unfortunately, there was little documentary evidence available to support the judgements made in 2015-16.

This resulted in the valuer having to recreate file notes to explain the reasons for decisions made. Some examples of areas where we encountered a lack of evidence were:

- the valuations of Council owned theatres; and
- the assessment of the obsolescence factors being used to reduce the calculated gross cost of the asset to its actual value.

– **Internal quality assurance arrangements**

As a response to the issues raised in 2014-15, it was agreed with the Council that it would introduce improved internal quality assurance checks in its valuation processes for 2015-16. However, the lack of appropriate evidence to support judgements made clearly shows weaknesses in the internal quality assurance arrangements within the department.

We are of the view that a robust quality assurance process would have identified the issues found in completing our audit work and avoided the need to make the adjustments to the 2015-16 financial statements. It is somewhat disappointing that these revised quality assurance arrangements had not been introduced. Discussions with management have indicated that revised procedures are in the process of being implemented for 2016-17 and we will review these revised processes as part of our 2016-17 audit.

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

Independence and objectivity

12. As part of the finalisation process, we are required to provide you with representations concerning our independence.
13. We have complied with ethical standards and in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between the Wales Audit Office and Carmarthenshire 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

[Date]

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 Carmarthenshire County Council for the year ended 31 March 2016 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 CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2015-16; 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 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. A summary of these items is set out below:

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 the Audit Committee 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:

Signed by:

Director of Corporate Services – signed on behalf of management

Chair of the Audit Committee – signed on behalf of those charged with governance

Date:

Date:

Appendix 2

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

I have audited the accounting statements and related notes of:

- Carmarthenshire County Council; and
- Dyfed Pension Fund;

for the year ended 31 March 2016 under the Public Audit (Wales) Act 2004.

Carmarthenshire 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.

Dyfed 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 7, the responsible financial officer is responsible for the preparation of the statement of accounts, including the Dyfed 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 Carmarthenshire County Council and Dyfed 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 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 Carmarthenshire County Council

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Carmarthenshire 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 Dyfed Pension Fund

In my opinion, the Pension Fund accounts and related notes:

- give a true and fair view of the financial transactions of Dyfed 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; and
- the 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 Carmarthenshire 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

24 Cathedral Road

Cardiff

CF11 9LJ

30 September 2016

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.

Value of correction	Nature of correction	Reason for correction
Core Financial Statements amendments		
£7.903 million	Property Plant and Equipment Increase in the value of operational land and buildings. Corresponding increases also made to the revaluation reserve (£4.656 million), the CIES (£3.362 million), along with an increase to accumulated depreciation written-off £0.115 million.	To correct an understatement of the depreciated replacement cost valuation.
Disclosure note amendments		
£38.658 million	Property Plant and Equipment/ Revaluation Reserve Upward revaluations decreased by £38.658 million, with a corresponding decrease on downward revaluations of the same amount.	To correct an error in the categorisation between upward and downward revaluations. No overall effect on the closing balance for this amendment.
£0.042 million	Employee emoluments – Note 6.34 Salary disclosure for the Director of Environment amended from £86,558 to £44,283.	To correct an over-statement in the disclosure for the Director of Environment.
£0.064 million	Audit costs – Note 6.36 The amount disclosed for certification of grant claims and returns decreased by £0.064 million.	To allow for a realignment between the audit fee disclosed and the estimated fee in the annual audit plan. No overall effect on gross expenditure within CIES however.
£0.010 million	Related party transactions – Note 6.39 The amount disclosed for grants paid to organisations in which	To correct an over statement of the amount disclosed for members' interests.

Value of correction	Nature of correction	Reason for correction
	members had an interest decreased by £0.010 million.	
£0.125 million	Leases – Note 6.41 The amount disclosed for lease income decreased by £0.125 million.	To correct a misclassification of lease income. No overall effect on gross income within CIES however.
N/A	Annual Governance Statement Various minor amendments were made to the Annual Governance Statement.	To ensure the statement takes account of the latest available information.
Various	Other amendments A number of other less significant amendments were made to the financial statements. We have not listed all of these items as they relate to either revisions in disclosures of information, reclassifications between headings, or the amounts involved are trivial. These amendments had no impact on net expenditure.	To ensure consistency between the statement of accounts and the supporting notes and to ensure presentational accuracy in line with International Financial Reporting Standards.

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