



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Audit of Financial Statements Report – Carmarthenshire County Council

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

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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 2019 and its income and expenditure for the year then ended.
- 2 We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might result in a reader of the accounts being misled.
- 3 The quantitative levels at which we judge such misstatements to be material for Carmarthenshire County Council are £6.2 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.
- 4 International Standard on Auditing (ISA) 260 and (ISA) 265 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 2018-19, that require reporting under ISA 260 and ISA 265.

Status of the audit

- 6 We received the draft financial statements for the year ended 31 March 2019 on 14 June 2019 as agreed and have now substantially completed our 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 current intention to issue an unqualified report audit report on the financial statements once you have provided us with a Letter of Representation based on that set out in [Appendix 1](#).
- 9 The proposed audit report is set out in [Appendix 2](#).

Significant issues arising from the audit

Uncorrected misstatements

- 10 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.**

With the exception of how assets have historically been valued which is referred to below, 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.

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

With the exception of the information relating to asset valuations which is referred to below, we received other information in a timely and helpful manner and were not restricted in our work.

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

Additional pension liability

In December 2018, the Court of Appeal ruled against the Government, holding that certain changes made to pension schemes discriminated against a group of public officers on the grounds of age. The changes surrounded a move from a final salary to a career average basis. On 27 June 2019, the Supreme Court denied the Government's application for leave to appeal the decision. This series of events is referred to as the McCloud judgement.

This judgement impacts on many public sector pension schemes including the Dyfed Pension scheme of which Carmarthenshire County Council is a

Member, and all of these schemes have had to consider the impact of this judgement on their 2018-19 financial statement disclosures. Where the impact has been considered to be material in value, amendments to the financial statements have been made.

The cost of providing a remedy to affected employees is likely to be significant. We have concluded that the McCloud judgement gives rise to a past service cost and liability within the scope of accounting for pensions within local authorities which should be accounted for as an increased liability where a reasonable estimate can be made.

The Council's actuary assessed the financial impact of this legal judgement as £25 million. The impact on the financial statements is an increase in gross expenditure in the Comprehensive Income and Expenditure Statement and an increase in long-term liabilities in the Balance Sheet. This also impacts on a number of other notes in the financial statements but has no impact on usable reserves.

The Council has made the necessary adjustments set out in [Appendix 3](#) of this report.

- **There is one other matter significant to the oversight of the financial reporting process that we need to report to you.**

Provision of Working papers

For 2018-19, the statutory deadline for producing the financial statements was 15 June 2019. By 2020-21 this deadline will be revised to 31 May. We received the 2018-19 draft financial statements in line with the current deadline.

In advance of this year's audit, we had worked with Council officers to produce a detailed audit deliverables document which included agreements as to when information and documentation would be provided for audit.

To meet earlier closure deadlines management prioritised the completion of the financial statements which were provided for audit as agreed. However, as a result, the Council unfortunately did not deliver a number of supporting working papers in line with the agreed deadline included in the audit deliverables document.

In order to meet the earlier accounts delivery deadlines in future years the Council faces some significant challenges. One of these key challenges is likely to be the need to develop Group Accounts once the three companies recently formed by the Council expand in size.

We will work with officers during the Autumn to learn lessons from the 2018-19 accounts preparation and audit processes. This exercise will help ensure that the Council continues to deliver a high-quality set of financial statements and a full set of supporting working papers next year in line with its account's closedown deadlines.

- **We did identify one material weakness in your internal controls**

Asset Valuation

During our audit, we noted that there had been significant changes to the valuations of three properties as at 31st March 2019. Unfortunately, when asked, the Council's property department were unable to provide us with satisfactory evidence or explanation to support the changes made. This process identified weaknesses in the property department's own internal quality assurance checks. As a result, we concluded that we were unable to rely on asset measurements provided by the Council's internal valuation team.

The consequence of us reaching this conclusion was that Council staff had to recheck the measurements recorded for all of their properties where asset measurement was the driver to its valuation. Whilst the majority of the checks were undertaken by internal staff, the Council procured the services of an external valuer to revalue some of its larger properties.

Once the area measurements for these assets had been checked we undertook audit testing on a sample of asset valuations. In completing this work, we found 3 errors relating to non-education assets. As a result, an additional sample of non-education assets were rechecked by Finance department staff and we reviewed a sample of their work and identified no further errors.

With such a large number of assets to consider, we agreed with the Director of Corporate Services that it was not possible to review all non-education based Council assets. In total, 105 low value assets amounting to approximately £5.1m were not checked. As the total value of these assets is below our materiality level it does not impact on our audit opinion. However, going forward the measurements for these unchecked assets will need to be reviewed.

The work completed by both internal staff and the external valuer identified a significant number of properties where the valuation needed to be changed. The Council has made both prior period and in year adjustments to correct these errors in the 2018-19 financial statements.

From our work carried out, we have concluded that the record keeping in the asset management system and the quality of evidence being retained by the property department is poor. We will work with officers following the completion of the audit to provide detailed feedback of the areas for improvement and we will review the progress made as part of next year's audit.

- **There are no 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 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 2018-19 financial statements

This letter is provided in connection with your audit of the financial statements of Carmarthenshire County Council for the year ended 31 March 2019 for the purpose of expressing an opinion on their truth and fairness and their proper preparation.

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

Management representations

Responsibilities

We have fulfilled our responsibilities for:

- the preparation of the financial statements in accordance with legislative requirements and CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2018-19; in particular the financial statements give a true and fair view in accordance therewith; and
- the design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

Information provided

We have provided you with:

- Full access to:
 - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;
 - additional information that you have requested from us for the purpose of the audit; and
 - unrestricted access to staff from whom you determined it necessary to obtain audit evidence.

- The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- Our knowledge of fraud or suspected fraud that we are aware of and that affects Carmarthenshire 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.

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 13 September 2019.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Signed by:

Director of Corporate Services - signed on behalf of management

Date:

Signed by:

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

Date:

Appendix 2

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

Report on the audit of the financial statements

Opinion

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

Carmarthenshire County Council's financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Movement on the Housing Revenue Account Statement and the Housing Revenue Account Income and Expenditure Statement and the related notes, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2018-19 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

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

Basis for opinion

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

Conclusions relating to going concern

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

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

Other information

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

In connection with my audit of the financial statements, my responsibility is to read the other information to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Report on other requirements

Opinion on other matters

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

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

Matters on which I report by exception

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

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

- proper accounting records have not been kept;
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit.

Certificate of completion of audit

I certify that I have completed the audit of the accounts of 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.

Responsibilities

Responsibilities of the responsible financial officer for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 6, the responsible financial officer is responsible for the preparation of the statement of accounts, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of statements of accounts that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Anthony J Barrett
For and on behalf of the Auditor General for Wales
Date:

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
£25,520,000	<p>Pension Fund liability</p> <p>The pension fund liability was increased by £25.52 million on the advice of the Council's Actuary to reflect the estimated impact of the McCloud judgement on pension fund age discrimination.</p> <p>There was no impact on the Council's Usable Reserves.</p> <p>See note 6.45 in the financial statements for a fuller explanation.</p>
£10,192,000	<p>Property Plant and Equipment</p> <p>The net carrying value of Property, Plant and Equipment assets at 31 March 2019 has increased by £10.2million (£28.0million prior period gain offset by a £17.8million current-year loss) due to corrections made to the value of certain assets. This is in addition to the increase in carrying value of assets totalling £18.3million which was previously identified and disclosed in the draft financial statements.</p> <p>There have been corresponding adjustments in the capital reserves and the comprehensive income and expenditure account.</p>
£9,230,000	<p>Prior Period Adjustment</p> <p>The impact of the prior period adjustment of £18.3million was incorrectly disclosed in the draft financial statements. As a result, the movement on the Revaluation Reserve was decreased by £9.2million with a corresponding increase in the Capital Adjustment Account.</p> <p>In addition, expenditure in the 2018-19 Comprehensive Income and Expenditure Account increased by £9.2million as the impact of the adjustment should only have been shown in 2017-18 reserves.</p> <p>There was no overall impact to the Council's usable reserves.</p>
£11,044,000	<p>Property Plant and Equipment</p> <p>As a result of the revaluation exercise undertaken by the Council, several assets were misclassified in the Property, Plant and Equipment note. The net position is that £11.0million of assets were reclassified from surplus assets to land and buildings as these continue to be in operational use.</p> <p>There was no overall impact on the carrying value of assets.</p>

Value of correction	Nature of correction
Various	<p>Cashflow Statement</p> <p>The Cashflow Statement has been updated to remove the impact of duplicating some movements in non-cash items - £1,497,000 relating to the accumulated absences creditor and £299,000 relating to the creditor owed to Dyfed Pension Fund were included twice within the cashflow statement.</p> <p>The other non-cash movement figure of (£336,000) has been amended to (£22,000) and the other payments for financing activities figure of £299,000 has been amended to nil.</p> <p>There was no overall impact on the value of cash held by the Council.</p>

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