

Archwilydd Cyffredinol Cymru
Auditor General for Wales



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Audit of Financial Statements Report

Carmarthenshire County Council

Audit year: 2014-15

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Status of report

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The team who delivered the work comprised Richard Harries, Geraint Norman, Jason Blewitt, Leanne Malough, Andrea Williams, Derek Jenkins, Ian Griffiths, Michelle Davies, Rhian Phipps, Jonathan Mather, Mandy Williams, Neall Hollis and Katie Queenan.

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The Auditor General is proposing to issue an unqualified audit report on your 2014-15 financial statements. As was the case last year, the audit report will highlight an emphasis of matter paragraph regarding what he considers to be unlawful expenditure in the 2013-14 expenditure. There are also some issues set out in this report to discuss with you prior to your approval of the financial statements.

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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 (the Council) at 31 March 2015 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 level at which we judge such misstatements to be material for the Council is £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 such as remuneration, termination benefits 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 the Council for 2014-15, 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 2015 on the agreed deadline of 30 June 2015 and we have now substantially completed our audit.
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 but this will include an 'emphasis of matter' paragraph in respect of the previous year's comparative figures.
9. As was the case for the last two years, the emphasis of matter has arisen as there is a difference of opinion, between the Council and ourselves, about two decisions the Council has made which, in our view, has resulted in unlawful expenditure being included in the financial statements. The first decision was to allow the senior officers to receive the equivalent of the employer's pension contribution where they have opted out of the Local Government Pension Scheme. The second decision was to grant an indemnity to the Chief Executive to proceed with a libel counter-claim against a claimant. For both decisions, payments made have been disclosed in the financial

statements (see Note 6.48). The Council does not agree with our view that these items of expenditure are unlawful but the Council has made sufficient disclosure in the financial statements for us to complete the audit.

10. Whilst the Council inform us that no payments have been made during 2014-15, the 2013-14 comparatives containing this expenditure are disclosed as a comparative in the remuneration note and so the emphasis of matter remains in our audit opinion.
11. The audit report can be issued once the financial statements have been approved and you have provided us with a Letter of Representation based on the suggested wording 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

12. There are no uncorrected misstatements included in the financial statements which remain uncorrected.

Corrected misstatements

13. There were a number of misstatements in the draft financial statements which have been corrected by officers. These range from narrative disclosures to material errors. The material changes were in respect of asset valuations. These have been corrected by officers but we consider these should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process. Further details are set out with explanations in [Appendix 3](#).
14. The overall impact of the amendments was to reduce net revenue expenditure by £0.38 million and to reduce the asset base by £38.5 million.

Other significant issues arising from the audit

15. In the course of our audit, we consider a number of matters, both qualitative and quantitative, relating to the financial statements 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.** These concerns are specifically related to the Council's approach to the valuation of some fixed assets as set out below. With the exception this issue the financial statements have been compiled on time and to a high standard.
 - **We did not encounter any significant difficulties during the audit.**
 - **Beyond those items listed in this report, there were no significant matters discussed and corresponded upon with management which we need to report to you.**

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- **There are no other matters significant to the oversight of the financial reporting process that we need to report to you.**
 - **We have identified some significant weaknesses in your internal controls:**
 - We have identified some significant weaknesses in the Council's approach to asset valuations. These weaknesses have resulted in material adjustments in the financial statements as set out in [Appendix 3](#). The overall effect of these was to reduce the value of assets by £38.5 million. We rely on the view of the Council's valuer as the expert in this area but this year we have questioned some of the assumptions used which have resulted in the changes. The Council has agreed to improve its processes for asset valuations in 2015-16 ensuring that the basis of valuations are documented and are correct. Our work next year will support this and may involve us obtaining independent valuations to support our audit opinion.
 - Our testing of asset ownership identified that the Council could not provide evidence of ownership for one asset - the Carmarthen Community Education Centre valued at £547,000. The Council is in the process of obtaining this evidence.
 - For a number of years we have reported to officers that there was no supporting evidence for the Deferred Capital Receipts Reserve balance of £348,000. This is again the case in 2014-15. This issue needs to be resolved in 2015-16.
 - The Council holds a range of earmarked reserves and which it reviews as part of the annual budget setting process. Given the current financial position, as part of its budget setting process, the Council needs to ensure it more fully reviews all reserves ensuring that they have a clear purpose and are still required. Reserves which are not required should be released and considered when setting future budgets.
 - Within earmarked reserves, the Council holds a £9.6 million Insurance Reserve. A proportion of this reserve should be disclosed as a provision (ie, a short-term liability in the balance sheet). The Council is currently unable to quantify this, although we are satisfied that it would not have a material impact on the financial statements. Officers have agreed to follow up this issue in 2015-16.
 - Our sample testing identified that the Council has paid a number of external IT support contractors in advance for contracts lasting four or five years. We have identified two contracts with a total value of some £70,000. Paying for this type of contract is not permitted under the Council's contract standing orders and presents a number of risks and is unlikely to provide good value for money. The Council should look into this issue further as a matter of urgency.

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- **There is one other matter that we want to communicate to those charged with governance.**
 - For a number of years we have reported weaknesses within the Council's grants management processes. Internal Audit has already issued a critical report on the Council's management of the Welsh Government's Supporting People grant to the July 2015 Audit Committee. Our 2014-15 grants work is in its early stages but we have again identified concerns regarding some of the WEFO European grant schemes. We are currently in discussion with WEFO and officers to resolve these issues. These issues will be reported to a future Audit Committee meeting, but WEFO have confirmed that currently there will be no clawback of grant.

Independence and objectivity

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

30 September 2015

Representations regarding the 2014-15 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 (the Council) for the year ended 31 March 2015 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 2014-15; 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;

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- 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 the 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 correctly valued and 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.

In 2012-13 and 2013-14 there was a difference of opinion between the Council and the Auditor General about the lawfulness of two decisions made by the Council. Details are set out in Note 6.48 of the financial statements. The Council confirms that no similar payments are included in the 2014-15 financial statements.

Subject to the matters identified above, 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.

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 2015.

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

Auditor General for Wales' report 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 2015 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 2014-15 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 6, 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 Carmarthenshire County Council and Dyfed Pension Fund 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 Explanatory Foreword 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 2015 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 2014-15.

Emphasis of matter – unlawful transactions

I draw attention to the matters disclosed in the 2013-14 comparative figures in Note 6.48 to the financial statements in relation to (i) remuneration totalling £13,775 in 2013-14 paid to the Chief Executive in lieu of employer pension contributions; and (ii) £3,601 of expenditure in 2013-14 incurred in granting an indemnity to the Chief Executive to bring a libel counter-claim against a claimant. I consider these transactions to be unlawful. My opinion is not qualified in respect of these matters.

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 2015 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 2014-15.

Opinion on other matters

In my opinion, the information contained in the Explanatory Foreword 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 contains material misstatements of fact or is inconsistent with other information I am aware of from 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.

For and on behalf of Huw Vaughan Thomas

Auditor General for Wales

24 Cathedral Road

Cardiff

CF11 9LJ

30 September 2015

Appendix 3

Summary of corrections made to the draft financial statements which should be drawn to the attention of those charged with governance

Nature and value of correction

Comprehensive Income and Expenditure Statement

- £125,000 of capital expenditure was incorrectly included in revenue. The error was amended which meant revenue expenditure was reduced by £125,000 and capital expenditure was increased by £125,000.
- Revenue expenditure was reduced by £255,000 as a result of the error identified under Note 6.19 below.

Note 6.8 Property, Plant & Equipment (PPE)

The following amendments were made to PPE as a result of incorrect valuations:

- Three sports pitches were incorrectly valued in the year resulting in an overstatement of some £19 million.
- Some of the assets valued by the Council incorrectly included a 'finance charge' resulting in an overstatement of some £19 million.
- The infants' block of Trimsaran Primary School was incorrectly valued in previous years and this was corrected in 2014-15. A note was added to the draft financial statements to disclose this £12 million correction.

Note 6.16 – Short Term Debtors

Council Tax Payers and Housing Tenants arrears were transposed in error. Council Tax Payers were amended from £1.5 million to £3.9 million, Housing Tenants were amended from £3.9 million to £1.5 million. Total arrears were unchanged at £5.4 million.

Note 6.19 Short Term Creditors

We sample tested accruals from the IT department and identified a number of errors. We expanded our sample testing and concluded that around half of the IT accruals should be excluded as they relate to future accounting periods. Short-term creditors and revenue expenditure were reduced by £255,000.

Note 6.35 Employee Emoluments

This year there was a new requirement to include the remuneration ratio of the Chief Executive's pay compared to the median pay of all Council employees. The remuneration ratio disclosure was added to the note.

Various other minor additions and disclosures were also made to this note.

Note 6.45 - Defined benefit pension schemes

The Actuarial gains and losses arising on changes in demographic assumptions and the Actuarial gains and losses arising on changes in financial assumptions are included in the Note 6.45, but the 2014-15 balance for financial assumptions has been incorrectly included on the demographic assumptions line.

The financial statements were amended as follows:

- The Actuarial gains and losses arising on changes in demographic assumptions amended from £156.9 million to £0.

Nature and value of correction

- The Actuarial gains and losses arising on changes in financial assumptions amended from £0 to £156.9 million.

Annual Governance Statement (AGS)

Various minor amendments were made to the AGS to ensure that it was up to date.

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.

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