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Cllr Emlyn Dole  
Leader  
Carmarthenshire County Council  
County Hall  
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Dear Cllr Dole

### Annual Audit Letter – Carmarthenshire County Council 2014-15

This letter summarises the key messages arising from the Auditor General's statutory responsibilities under the Public Audit (Wales) Act 2004 and my reporting responsibilities under the Code of Audit Practice.

#### **The Council complied with its responsibilities relating to financial reporting and use of resources although there remains scope for improvement in some areas**

It is the Council's responsibility to:

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

The Public Audit (Wales) Act 2004 requires me to:

- provide an audit opinion on the accounting statements;
- review the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources; and
- issue a certificate confirming that I have completed the audit of the financial statements.

Local authorities in Wales prepare their financial statements in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. The Code is based on International Financial Reporting Standards. On 30 September 2015 I issued an unqualified audit opinion with an 'emphasis of matter' paragraph on the financial statements confirming that they present a true and fair view of the Council's and the Dyfed Pension Fund's financial position and transactions. A similar audit opinion was issued in 2012-13 and 2013-14.

The emphasis of matter related to the 2013-14 comparative information included in the Council's 2014-15 financial statements and not those of Dyfed Pension Fund. The emphasis of matter arose as there was a difference of opinion between the Council and us about two decisions the Council made which, in our view, resulted in unlawful expenditure being included in the 2013-14 financial statements.

The key matters arising from the audit of the financial statements were reported to the Audit Committee in my Audit of Financial Statements report on 30 September 2015. At this Audit Committee we reported that the quality of the financial statements was good. We reported that we did not identify any material weaknesses in your internal controls but we identified a number of issues, the key ones are set out below:

- We have identified some significant weaknesses in the Council's approach to asset valuations. Our testing identified a number of errors in the way assets were valued and this resulted in a £38.5 million reduction in the value of assets. The Council has agreed to improve its processes for asset valuations in 2015-16.
- The Council holds a range of earmarked reserves 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. The Council has agreed to follow up this issue in 2015-16.
- 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. The Council has agreed to follow up this issue in 2015-16.
- 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 work in progress and there have been improvements in some areas. We have however identified concerns regarding some of the WEFO European grant schemes, some of which WEFO have now reviewed and confirmed eligibility of those grants. Our findings from our grants work will be report to the Audit Committee early in 2016.

I issued a certificate confirming that the audit of the 2014-15 financial statements has been completed on 30 September 2015.

**I am satisfied that the Council has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources**

My consideration of the Council's arrangements to secure economy, efficiency and effectiveness has been based on the audit work undertaken on the financial statements as well as placing reliance on the work completed as part of the Improvement Assessment under the Local Government (Wales) Measure 2009.

My Annual Improvement Report published in June 2015 concluded that the Council has continued to make good progress in its priority areas and it is working to address a range of governance issues. We have recently undertaken a detailed Corporate Assessment on the Council's arrangements and this will be reported in early 2016.

Our work on financial resilience will be reported in December 2015. We have concluded that the Council has a track record of delivering a balanced budget but the Council now needs to sharpen its focus to ensure alignment of financial planning with corporate priorities and that to supplement the budget monitoring processes, performance is underpinned by a more robust framework for monitoring and reporting on the achievement of specific savings proposals.

In 2014-15 the Council had a positive final out-turn position with a small underspend of £0.6 million which reduced the planned draw on general reserves to £175,000. At departmental level there was a marginal overspend of £0.4 million. At the end of the financial year the Council's useable reserves decreased by £1.5 million to £82 million (this excludes 'ring-fenced' reserves including the Housing Revenue Account, Schools' reserves and capital receipts). At the end of the current 2015-16 financial year, the Council is currently forecasting a £0.2 million overspend against the budget.

Looking forward, the recent Welsh Government budget settlement, together with a range of other cost pressures, will mean that all local government bodies in Wales will face extremely challenging financial positions. The Medium Term Financial Plan approved by Council in February 2015 for the period 2015-16 to 2017-18 established challenging efficiency savings totalling some £41.5 million. It will be a challenge for the Council to deliver these savings and increasingly more difficult to identify these types of savings going forward.

At the planning stage the financial audit fee for 2014-15 was £183,995. We anticipate that the final financial audit fee will be some £187,000 as a result of our additional work on testing asset valuations, this is currently being discussed with the Director of Corporate Services.

Yours sincerely



**Richard Harries**  
**For and on behalf of the Auditor General for Wales**