



WALES AUDIT OFFICE
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Auditor General for Wales

Financial Audit Memorandum - **Carmarthenshire County Council**

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This document summarises the conclusions on the 2018-19 audit of the Carmarthenshire County Council's financial statements including our recommendations for the year.

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Summary report

Introduction

- 1 The financial statements are an essential means by which Carmarthenshire County Council (the Council) accounts for its stewardship of resources at its disposal and its financial performance in the use of resources. It is the Council's responsibility to:
 - put in place systems of internal control to ensure the lawfulness of transactions;
 - maintain proper accounting records; and
 - prepare financial statements in accordance with relevant requirements.
- 2 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 the Council at 31 March 2019 and its income and expenditure for the year then ended.
- 3 We completed our audit of the Council's financial statements and reported the key matters arising from our audit to the Council's Audit Committee (those charged with governance) on 13 September 2019. This report outlines our findings and conclusions in more detail.
- 4 We have identified scope for improving procedures to prepare future years' financial statements, particularly in terms of ownership and co-ordination of the closedown plan. In addition, significant improvement to the processes in place to prepare property asset valuations are required.
- 5 The recommendations arising from our work are set out in [Appendix 1](#). We will follow up progress on them during the 2019-20 audit.

Appendix 1

Recommendations arising from our 2018-19 audit work

We set out all the recommendations arising from our audit with management's response to them. We will follow up these next year and include any outstanding issues in next year's audit report:

Matter arising 1 – Asset valuations

Matter arising 1 – Asset valuation programme	
Findings	<p>Our review of the asset valuations undertaken by the Council's Estates team concluded that we could not rely on the work completed by the property valuation's team. This was mainly due to inaccuracies identified where properties were valued using floor areas. The quality assurance arrangements within the Estates team in place failed to identify the inaccuracies.</p> <p>Significant additional work was completed by both the Council and the audit team which resulted in material amendments to the 2018-19 financial statements.</p>
Priority	High
Recommendation	<p>The Council, as part of the review of valuation arrangements being undertaken, should ensure the following is considered:</p> <ul style="list-style-type: none">• introducing authorisation processes for the amendment of standing data within the Asset Management System (AMS).• review the significant number of assets held at 'nil value' on AMS. We understand that data can be held for other purposes, for example, tenancy arrangements for industrial properties, but where this is the case, this should be noted on the system.• reviewing assets, whose valuation is calculated using floor areas, that were not covered during 2018-19 to ensure that there are sufficient and appropriate floor plans or supporting information to support the valuations. Any amendments to valuations as a result of this exercise will need to be processed in the 2019-20 financial statements in accordance with accounting standards.• introducing a procedure to ensure that where assets have been refurbished or where there is additional capital expenditure, these are consistently revalued at the appropriate time. This is when the asset is next due for valuation in accordance with the Council's accounting policies, rather than when any additional expenditure is incurred.• clearly documenting what is expected of senior officers who are checking asset valuations as part of the internal quality assurance arrangements.• include timescales for completion and review of valuations to ensure that there is sufficient time for the Corporate Finance team to undertake sample checks of valuations and that our work on the 2019-20 valuations can be completed, as far as possible, in advance of the financial statements being prepared.

Matter arising 1 – Asset valuation programme	
Benefits of implementing the recommendation	This will improve the accuracy of the fixed asset valuations, reduce potential amendments which will enable the Council to meet earlier closure deadlines.
Accepted in full by management	Accepted
Management response	<ul style="list-style-type: none"> <p>• Introducing authorisation processes for the amendment of standing data within the Asset Management System (AMS). Records Officer and Senior Accountant have met with internal Audit. System already has authorisation process in place, however, following discussions with internal audit it has been agreed that system settings and users will be reviewed together with system security by the end of the financial year.</p> <p>• Review the significant number of assets held at ‘nil value’ on AMS. We understand that data can be held for other purposes, for example, tenancy arrangements for industrial properties, but where this is the case, this should be noted on the system. Assets with nil value to be part of programmed review following completion of Education 20% and Investment and Surplus review 2019 /20.</p> <p>• Reviewing assets, whose valuation is calculated using floor areas, that were not covered during 2018-19 to ensure that there are sufficient and appropriate floor plans or supporting information to support the valuations. Any amendments to valuations as a result of this exercise will need to be processed in the 2019-20 financial statements in accordance with accounting standards. Extent of properties with valuations using floor areas, ie Depreciated Replacement Cost, that were not covered during 2018-19, to be confirmed with the Wales Audit Office. Initial review has led to further survey work (in-house and external) to provide appropriate floor plans. Any subsequent amendments required will be processed in the 2019-20 financial statements in accordance with accounting standards.</p> <p>• Introducing a procedure to ensure that where assets have been refurbished or where there is additional capital expenditure, these are consistently revalued at the appropriate time. This is when the asset is next due for valuation in accordance with the Council’s accounting policies, rather than when any additional expenditure is incurred. Assets subject to additional expenditure will be revalued on the system when the subject properties are due for assessment as part of the five-year rolling programme of 20% per annum.</p>

Matter arising 1 – Asset valuation programme	
	<ul style="list-style-type: none"> • Clearly documenting what is expected of senior officers who are checking asset valuations as part of the internal quality assurance arrangements. Quality Assurance process and documentation introduced following discussions with the Wales Audit Office. • Include timescales for completion and review of valuations to ensure that there is sufficient time for the Corporate Finance team to undertake sample checks of valuations and that our work on the 2019-20 valuations can be completed, as far as possible, in advance of the financial statements being prepared. Revised programme will allow earlier completion of 2019/20 valuations to allow Corporate Finance Team to undertake sample checks. Education 20% to be concluded before end of December 2019.
Implementation date	March 2020

Matter arising 2 – Closedown plan

Matter arising 2 – Closure plan	
Findings	<p>We agreed our audit deliverables document with the Council in January 2019. Despite this, some of the working papers, particularly those required to support our interim audit work, were not provided by the agreed dates. Whilst the 2018-19 accounts were delivered by the statutory deadline of 15 June 2019, some of the supporting working papers were not ready at this time.</p> <p>The Council has committed to delivering the 2019-20 financial statements by 31 May 2020 and this will be a significant challenge for the Finance team. In 2019-20, as well as delivering the Council financial statements two weeks earlier than in previous years, they will also, for the first time, have to complete full financial statements for the Swansea Bay City Deal region and Wales Pension Partnership joint committees. There is also a possibility that the Council will need to complete group accounts for the first time.</p> <p>Taking into account these additional challenges, it is hugely important that a robust detailed closedown plan is developed allocating roles and responsibilities for all tasks. It will also be important to have strong monitoring procedures to ensure that any remedial action needed is taken at the earliest possible time.</p>
Priority	High

Matter arising 2 – Closure plan	
Recommendation	<p>The Council's closedown plan and arrangements should be reviewed and updated to include the following:</p> <ul style="list-style-type: none"> • agreed dates that working papers will be provided to the Wales Audit Office per the audit deliverables document for all elements of the audit, including interim audit testing undertaken before we receive the financial statements. • coverage of all elements of the closure and audit process. The Corporate Finance team should liaise with other departments to ensure that they are aware of the information that is required for accounts preparation and audit working papers and commit to provide these by the agreed dates. • co-ordination/review arrangements to ensure that information/working papers required by both Corporate Finance and the audit team have been provided by agreed dates, along with escalation procedures where required.
Benefits of implementing the recommendation	This will improve the efficiency and effectiveness of the closure and audit process and help the Council in ensuring all financial statements are delivered by the agreed deadlines.
Accepted in full by management	Accepted
Management response	<p>Detailed closedown plan/timetable with allocated responsibilities is in the final stages of being completed. This follows discussion with all accounting groups. The document will be shared first with the Wales Audit Office to ensure their experience is considered before the plan will be disseminated/communicated with all relevant departmental parties and accountancy groups.</p> <p>E-mail communication has been made with all relevant officers in relation to WAO interim audit work. In addition, meetings have taken place to help address some of the issues from last year. It is acknowledged that there was some weakness in the communication process as part of last year's interim audit work that we have sought to address this year. The Corporate Finance Manager will act as a link between the Wales Audit Office and the departments within the Authority. The aim is to help ensure that working papers are provided in a timely manner and if any issues exist that they can be escalated to the Corporate Finance Manager to aid in resolution.</p> <p>The timetable, particularly in relation to the interim audit work (from the deliverables document), will be closely monitored and regular updates sought as to the progress from the Wales Audit Office.</p>
Implementation date	January 2020

Matter arising 3 – Accounts review

Matter arising 3 – Accounts review	
Findings	The Council's statement of accounts contains some non-material disclosures which could be removed from the accounts in accordance with CIPFA's streamlining agenda.
Priority	Medium
Recommendation	The statement of accounts should be reviewed to ensure that only material disclosures are included.
Benefits of implementing the recommendation	This will improve the readability of the financial statements and reduce the closure and audit burden of preparing and testing non-material disclosures.
Accepted in full by management	Accepted
Management response	The 2018/19 SOA has been reviewed and consideration given to what information no longer needs to be disclosed, can be presented in an alternative format, or moved within the statement to make the flow work more effectively for the reader of the accounts. As mentioned in the Wales Audit Office findings, this process should help aid not only the development of the statement, but also reduce the need to test non-material disclosures.
Implementation date	Statement reviewed December 2019, although work remains ongoing.

Matter arising 4 – Group accounts

Matter arising 4 – Group accounts	
Findings	The Council has three 100% owned companies, along with a number of joint working arrangements, including the Swansea Bay City Deal region and Wales Pension Partnership joint committees. For 2018-19, the transactions and balances of the companies and joint arrangements were not, individually or collectively, material to the financial statements. However, this position may change for 2019-20 depending on the progress of the companies and joint arrangements.
Priority	Medium
Recommendation	The Council should review the anticipated transactions and balances relating to its subsidiaries and joint arrangements and document, well before the year-end, whether group accounts are likely to be required.
Benefits of implementing the recommendation	This will allow time to be built into closure and audit timetables and closure deadlines to be met.
Accepted in full by management	Accepted
Management response	Initial information has already been gathered which indicates no requirement for group accounts.

Matter arising 4 – Group accounts

Implementation date	January 2020
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Matter arising 5 – IT Controls**Matter arising 5 – IT controls**

Findings	<p>Our IT audit work found that:</p> <ul style="list-style-type: none">• the area surrounding the Spilman Street data centre is becoming an agile working area and this increases the risk of inappropriate access to the data centre.• due to the fact that the IT department rotate roles, there are over 30 officers who could work on the IT helpdesk and therefore have access to add and amend network user access. The higher the number of officers with elevated network privileges, the more vulnerable the network becomes.• there are eight people with administrator access to the Northgate 'iWorld' system which may be higher than necessary and increases the risk of inappropriate access.• for the Agresso ledger system, there are no specific security checks in place to confirm that users who request password resets are who they say they are.
Priority	Medium
Recommendation	<p>The Council's IT and Finance departments, should:</p> <ul style="list-style-type: none">• consider whether working arrangements in Spilman Street are making the data centre more vulnerable and, if so, whether additional security arrangements are required;• review the number of officers with elevated network privileges and iWorld administrator access and document whether this is number is reasonable and any safeguards in place or required; and• consider emailing password reset requests for the ledger system back to users rather than providing these verbally.
Benefits of implementing the recommendation	This will strengthen the Council's data management and security arrangements
Accepted in full by management	Accepted

Matter arising 5 – IT controls	
Management response	<p>The area adjacent to the data centre has been leased to Delta Wellbeing – whilst an arms-length company it is wholly owned by the Council. Whilst not ideal, the arrangement was accepted due to operational needs. Some remediation work was undertaken following a risk assessment done by ICT Services which included installing an alarm system and changing the keycode entry to the Data Centre. This now means that someone would have to disable the alarm and enter the correct key code before gaining access to the Data Centre. Agreement has been made with Delta Wellbeing that 24/7 access is to be provided to ICT Staff at all times.</p> <p>A review will be undertaken of ICT Officers with elevated network access/ iWorld. We will be looking to set up ICT staff who have domain admin access with separate ‘administrative’ accounts.</p> <p>Password reset process will be reviewed.</p>
Implementation date	<p>Data Centre – already complete</p> <p>Other items – March 2020</p>

Matter arising 6 – Leases

Matter arising 6 – Leases	
Findings	Our work identified one lease which expired in 2013, although it remains an active arrangement, is included on the schedule of leases ‘out’ and rental income is being collected on previously agreed rates.
Priority	Medium
Recommendation	<p>The Council should review arrangements for monitoring the expiry dates on leases and where required, ensure that new leases are negotiated and agreed.</p> <p>This should link with the Council’s preparations for the adoption of IFRS 16 which will introduce potentially significant changes to the accounting for lease arrangements.</p>
Benefits of implementing the recommendation	This will ensure that leases registers are kept up to date, appropriate information is available to account for lease arrangements and that the Council is maximising rental income.
Accepted in full by management	Not Accepted
Management response	<p>Lease expiry dates are already captured through Asset Manager. The system automatically flags up appropriate dates for rent review or expiry.</p> <p>As part of dealing with the expiration of a lease it is not uncommon to find that the actual rent receivable exceeds the present market rent. In such instances it may not be in the Council’s interest as Landlord to renew and receive a lower rental. This process known as holding over, is one of the options available in the management of the portfolio. The process and rationale will be highlighted on the system.</p>
Implementation date	N/A

Matter arising 7 – Related party disclosures

Matter arising 7 – Related party disclosures	
Findings	<p>Arrangements for identifying potential related party disclosures for any interests declared by the Council's senior officers improved for 2018-19. However, there is scope to further improve the clarity of requirements going forward.</p> <p>In addition, interest disclosures should be obtained for all senior officers, including where officers leave during or shortly after the financial year.</p>
Priority	Medium
Recommendation	<p>The Council should consider:</p> <ul style="list-style-type: none"> • introducing a questionnaire type arrangement, similar to that provided by members, to record officers interests. The outputs could then be reviewed by the Corporate Finance team to consider whether any disclosures are required in the financial statements in accordance with accounting standards; and • introducing a requirement as part of exit arrangements/interviews that the questionnaire or declarations are received before officers leave the Council.
Benefits of implementing the recommendation	This will ensure that the relevant accounting standards are complied with and that disclosures in the financial statements are clear and transparent.
Accepted in full by management	Not Accepted
Management response	As acknowledged by WAO, improvements have already been made, which it is believed are satisfactory
Implementation date	N/A

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