

Audit of Accounts Report – Carmarthenshire County Council

Audit year: 2019-20

Date issued: September 2020

Document reference:

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We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

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We intend to issue an unqualified audit report on your Accounts. There are some issues to report to you prior to their approval.

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Audit of Accounts Report

Introduction

- 1 We summarise the main findings from our audit of your 2019-20 accounts in this report.
- 2 We have already discussed these issues with the Director of Corporate Services and his team.
- 3 Auditors can never give complete assurance that accounts are correctly stated. Instead, we work to a level of 'materiality'. This level of materiality is set to try to identify and correct misstatements that might otherwise cause a user of the accounts into being misled.
- 4 We set this level at £6.9 million for this year's audit.
- 5 There are some areas of the accounts that may be of more importance to the reader and we have set a lower materiality level for these, as follows:
 - Senior Officer pay £1,000
 - Related Parties £10,000
- 6 Although we have completed the majority of our audit work at the time of drafting this report, we have yet to complete:
 - the final review of our audit file; and
 - our final review of the revised 2019-20 financial statements;
- 7 We would also like to draw to the attention of the Council that local government electors may exercise their rights under sections 30 and 31 of the Public Audit (Wales) Act 2004 to question the Auditor General about or make objections to the accounts for the year ended 31 March 2020 any time after 1st September 2020 until we formally close the 2019-20 audit. At the time of drafting this report we have received an item of correspondence which we are currently reviewing. This may impact on our ability to certify and close the 2019-20 Council accounts as planned on 14th September. We will provide a further update to the Committee at its meeting on 11th September 2020.
- 8 In our professional view, we have complied with the ethical standards that apply to our work; remain independent of yourselves; and, our objectivity has not been compromised in any way. There are no relationships between ourselves and yourselves that we believe could undermine our objectivity and independence.

Impact of COVID-19 on this Year's Audit

- 9 The COVID-19 pandemic has had a significant impact on all aspects of our society and continues to do so. You were required by law to prepare accounts and it is of testament to the commitment of your accounts team that you have succeeded in doing so this year in the face of the challenges posed by this pandemic. We are extremely grateful for the professionalism of the team in supporting us to complete our audit in such difficult circumstances.

- 10 Due to the impact of the Covid 19 pandemic this year, the Council delivered the draft statement of accounts on 29 June 2020, which was after the original statutory deadline of 15 June 2020. For future years, the statutory deadline will be 31 May.
- 11 The Council is likely to face considerable challenges next year in meeting the earlier deadline for delivery of auditable accounts for:
- Carmarthenshire County Council
 - Wales Pension Partnership joint committee
 - Swansea Bay City Deal joint committee
 - Burry Port Harbour Authority
- 12 In addition, the Council may also need to prepare Group Account as the three companies formed in recent years continue to grow. We will work with officers to learn lessons from the 2019-20 accounts preparation and audit processes to help ensure that the Council delivers high quality financial statements in accordance with future statutory deadlines.
- 13 The pandemic has unsurprisingly affected our audit and we summarise in **Exhibit 1** the main impacts. Other than where we specifically make recommendations, the detail in **Exhibit 1** is provided for information purposes only to help you understand the impact of the COVID-19 pandemic on this year's audit process.

Exhibit 1 – impact of COVID-19 on this year’s audit

<p>Timetable</p>	<ul style="list-style-type: none"> • The deadline for the completion of the draft accounts was the 15th June. • We received the draft accounts on 29th June 2020. • Our deadline for completing our audit was 15th September 2020. • Subject to the satisfactory resolution of outstanding correspondence, we will certify your 2019-20 financial statements on 14th September 2020.
<p>Electronic signatures</p>	<p>The current plan is for the Audit Committee to approve the 2019-20 financial statements at its virtual meeting on 11 September 2020. The Section 151 officer will then arrange for manual signatures to be obtained prior to the audit opinion being issued.</p> <p>There are no current plans to use electronic signatures, however should the Council decide they should proceed on this basis then we can accept the use of electronic signatures and electronic transfer of files during the approval and signing process.</p>
<p>Audit evidence</p>	<p>As in previous years, we received the majority of audit evidence in electronic format. We have used various techniques to ensure its validity. Where we have been unable to obtain access to paper documents because of COVID-19 restrictions we have devised alternative audit methodologies to obtain sufficient audit evidence. Specifically:</p> <ul style="list-style-type: none"> • officers provided electronic working papers in accordance with our agreed Audit Deliverables Report; • officers provided audit evidence to the audit team via email or the shared folder accessible by auditors through the Council laptops; • officers were available by video conferencing for discussions, and for the sharing of on-screen information/evidence; and • Audit Wales also secured remote read only access to the Agresso ledger, CIPFA Asset Management System and Northgate system which enabled the audit team to run reports and view evidence and hence reduce the burden on officers to provide this information.
<p>Other</p>	<ul style="list-style-type: none"> • Video conferencing has enabled the audit team to correspond effectively with officers throughout the audit. • Video conference based Audit Committee meetings have enabled us to proficiently discharge our responsibility for reporting to those charged with governance.

- 14 We will be reviewing what we have learned for our audit process from the COVID-19 pandemic and whether there are innovative practices that we might adopt in the future to enhance that process.

Proposed Audit Opinion

- 15 We intend to issue an unqualified audit opinion on this year's accounts once you have provided us with a Letter of Representation based on that set out in **Appendix 1**.
- 16 We issue a 'qualified' audit opinion where we have material concerns about some aspects of your accounts; otherwise we issue an unqualified opinion.
- 17 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards.
- 18 Our proposed audit report is set out in **Appendix 2**. This audit report includes two emphasis of matter paragraphs. The aim of these paragraphs is to draw the attention of the reader of the accounts to Notes 6.9 and 6.44 in the financial statements.
- 19 Note 6.9 includes reference to the inclusion of a materiality uncertainty clause in the Council valuer's year-end certificate relating to surplus assets and investment properties.
- 20 Note 6.44 includes reference to a material uncertainty clause disclosed in a year-end valuation report for the Dyfed Pension Fund UK property asset fund. The total value of this fund as at 31st March 2020 is £296m and the Council's share of this fund amounts to £128m (43%).
- 21 The audit opinion is not modified in respect of either of these matters.

Significant Issues arising from the Audit

Uncorrected misstatements

- 22 There are no misstatements identified in the financial statements which remain uncorrected.

Corrected misstatements

- 23 There were initially some misstatements in the accounts that have now been corrected by management. The most significant of these amendments are drawn to your attention in **Appendix 3**.

Other Significant matters encountered and resolved during the Audit

- 24 In the course of the audit, we considered a number of matters relating to the accounts. **Exhibit 2** includes commentary on the more significant matters we encountered and worked with management to resolve.

Exhibit 2 – Significant matters encountered and resolved during the 2019-20 audit

<p>Material uncertainty in relation to pension property assets</p>	<p>We have requested that the Council sets out in Note 6.46 additional narrative to disclose the material uncertainty in relation to pension property assets.</p>	<p>The Council has included the additional narrative disclosure.</p> <p>We have also drawn the reader's attention to this disclosure in an emphasis of matter paragraph in my audit report.</p> <p>The audit opinion is not modified in respect of this matter.</p>
<p>Estimated returns for the 31 March 2020 pension asset valuations</p>	<p>The Council typically uses estimated asset returns to inform the year end pension asset valuations,</p> <p>Given the impact of COVID 19 and the potential of significant market volatility around the year end, we compared the estimated rate of return on Pension Fund investments to the actual rate of return. This allowed us to confirm that the estimate included in the 2019-20 financial statements was reasonable.</p>	<p>No adjustments were required to be made to the 2019-20 financial statements.</p>
<p>Impact of McCloud Pension remedy</p>	<p>Our audit plan highlighted the impact of the McCloud judgement as a potential audit risk for this year's</p>	<p>We corresponded with management and their actuary to assess whether the estimate for this potential</p>

<p>proposals on IAS 19 figures</p>	<p>audit. An estimate for this potential liability was compiled prior to the proposed remedy being known and is included in the 2019-20 financial statements.</p> <p>On the 16th July 2020 the UK government proposed its remedy, and this had the potential to significantly impact this estimate.</p>	<p>liability was in line with the proposed remedy. We have received confirmation from the actuary that their assumptions were similar to the subsequently proposed remedy. Therefore, we were able to conclude that the estimate included in the 2019-20 financial statements was reasonable.</p>
<p>Council property valuations – material uncertainty</p>	<p>The Council have disclosed the material uncertainty clause relating to surplus assets and investment properties as identified in the valuer's year-end certificate. This has been included in Note 6.9 in the final statements.</p>	<p>The Council will move the narrative disclosure to the Property, Plant & Equipment note.</p> <p>We have also drawn the reader's attention to this disclosure in an emphasis of matter paragraph in my audit report.</p> <p>The audit opinion is not modified in respect of this matter.</p>
<p>Council property valuations – procedures</p>	<p>We reported in our 2018-19 audit of accounts report that we could not rely upon the work of the internal property valuer as a management expert. This was due to a significant number of errors being identified in property valuations and weaknesses in quality assurance procedures.</p> <p>Officers have undertaken considerable work to address these weaknesses and as a result we have been able to conclude that</p>	<p>Our valuations testing did not identify any issues.</p> <p>Officers will need to ensure that the procedural improvements are maintained in future years.</p>

	we could rely on the valuer's work for the 2019-20 financial statements.	

Appendix 1

Final letter of representation

[Audited body's letterhead]

Auditor General for Wales
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

[Date]

Representations regarding the 2019-20 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 2020 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 UK 2019-20; 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
- 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 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.

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 11 September 2020.

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

Date:

Signed by:

Chair of the Audit Committee

Date:

Appendix 2

Proposed Audit Report

The independent auditor's report of the Auditor General for Wales 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 31st March 2020 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 2019-20 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 2020 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 2019-20.

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 Carmarthenshire County 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.

Emphasis of matter - effects of the Covid-19 pandemic on the valuation of surplus assets and investment properties

I draw attention to Note 6.9 of the financial statements, which describes a material uncertainty clause in the valuation report on surplus assets and investment properties arising from circumstances caused by the COVID-19 pandemic.

My opinion is not modified in respect of this matter.

Emphasis of matter - effects of the Covid-19 pandemic on the valuation of property fund assets in the pension fund liability

I draw attention to Note 6.44 of the financial statements, which describes the impact of a material uncertainty disclosed in a pension fund manager's year-end valuation report for the UK property fund they manage on behalf of the Dyfed Pension Fund. The Council has disclosed this material uncertainty and my audit opinion is not modified in respect of this matter.

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 Narrative Report and Annual Governance Statement. 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 2019-20;
- 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 the group 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, 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 and group'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
14 September 2020

24 Cathedral Road
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Appendix 3

Summary of Corrections Made

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.

Exhibit 3: summary of corrections made

Value of correction	Nature of correction	Reason for correction
£4.25 million	Debtor and creditor balances relating to COVID19 Business Grants Based on technical advice, Central Government Debtors were reduced along with Sundry Creditors to ensure that the statement of accounts only reflected the impact of COVID19 business grants that had been physically paid to businesses on or before 31 March 2020. This adjustment had no impact on the Council's net assets balance as at 31 st March 2020.	To ensure the statements excluded the impact of COVID19 business grants that had not been physically paid in 2019-20.
Various (nil net effect on the carrying value of assets)	Note 6.9 Property, Plant and Equipment Note 6.9 splits revaluations into four different categories – revaluation increases recognised in the revaluation reserve, revaluation decreases recognised in the revaluation reserve, revaluation increases recognised in the provision of services and revaluation decreases recognised in the provision of services. The total of these categories gives the net movement on valuation for each year. For 2019-20, the net revaluation loss was £9.22million. However, this was not split out across each of the 4 above categories correctly.	To ensure that the split of gains and losses on asset valuations are accurately classified in the note.

<p>Various</p>	<p>Note 6.38 Related parties note Llesiant Delta Wellbeing The income and expenditure values and year-end debtor and creditor balances were updated</p>	<p>To ensure that the transactions and balances with the company are accurately stated</p>
<p>Various presentational amendments</p>	<p>Various other minor presentational amendments were made to the narrative report and draft statement of accounts. There was no overall impact on the net expenditure or net reserves of the Council.</p>	<p>To ensure accuracy and completeness of the financial statements.</p>



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Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.