



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

2009-10

September 2010

Author: Ceri Stradling

Ref: 476A2010

# Audit of the Accounting Statements – Report to the Audit Committee **Gwynedd Council**

It is my intention, as Appointed Auditor, to issue an unqualified audit opinion on the Council's accounts and related notes.

## Contents

|   |    |
|---|----|
| <b>Summary</b>  | 4  |
| <b>Detailed Report</b>  |    |
| The audit planning risks have been addressed satisfactorily   | 6  |
| The Council's accounting statements are free from material misstatement   | 7  |
| There is one uncorrected misstatement   | 8  |
| The Council's accounting practices relating to pension disclosures and the treatment of fixed assets could be improved        | 9  |
| <b>Appendices</b>   |    |
| Letter of Representation  | 11 |
| Summary of corrections to draft accounting statements which should be drawn to the attention of those charged with governance | 16 |

## **Status of this report**

This document has been prepared for the internal use of Gwynedd Council as part of work performed in accordance with statutory functions, the Code of Audit Practice and the Statement of Responsibilities issued by the Auditor General for Wales.

No responsibility is taken by the Wales Audit Office (the Auditor General and staff) and, where applicable, the appointed auditor in relation to any member, director, officer or other employee in their individual capacity, or to any third party.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 Code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales (and, where applicable, the appointed auditor) is a relevant third party. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at [infoofficer@wao.gov.uk](mailto:infoofficer@wao.gov.uk).

## Summary

1. Gwynedd Council (the Council) is responsible for the preparation of the accounting statements and related notes that show a true and fair view of its financial position as at 31 March 2010 and of its income and expenditure for the year then ended. I am required to give my opinion as to whether the accounting statements give a true and fair view.
2. The Council submitted a Statement of Accounts to me in June 2010 and I have now substantially completed the audit of the accounting statements and related notes. I am reporting to you the most significant issues arising which I believe you should consider prior to the approval of the Council's accounts. I have already discussed these issues with Dafydd Edwards, Head of Finance.
3. I do not seek to obtain absolute assurance that the accounting statements and related notes are true and fair, but adopt a concept of materiality. In planning and conducting the audit, I seek to identify material misstatements in the accounting statements and related notes, that is, those which might result in a reader of the accounts being misled.
4. The quantitative levels at which I judge such misstatements to be material for the Council are £3.497 million for income and expenditure items and working capital balances, and £5.517 million for other balances. 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.
5. As required by auditing standards I report to you any Council issues identified with regard to:
  - accounting practices and financial reporting;
  - material internal control weaknesses;
  - matters of significant governance interest; and
  - any other relevant matters arising from my audit.
6. I also set out in the detailed report any misstatements identified in the Council's accounts and which remain uncorrected and request that these are corrected. If you decide not to correct these misstatements, I ask that you provide me with the reasons for non-correction.
7. The main conclusions from my audit of the accounting statements are summarised below and are set out more fully in the detailed report:
  - the audit planning risks have been addressed satisfactorily;
  - the Council's accounting statements are free from material misstatement; but,
  - there is one uncorrected misstatement; and
  - the Council's accounting practices relating to pension disclosures and the treatment of fixed assets could be improved.

- 
8. It is my intention to issue an unqualified audit report on the accounting statements and related notes once the Council has provided me with the Letter of Representation set out in Appendix 1.

## The audit planning risks have been addressed satisfactorily

9. My audit strategy reported the risks identified at the audit planning stage. Exhibit 1 summarises these risks and the way in which these have been resolved, together with the significant risks identified from my review of the draft financial statements.

### Exhibit 1: Financial accounts risks

| Risks  | Findings   |
|--|--|
| <b>Control environment risks</b>   |  |
| Failure to achieve budgeted spend and secure planned savings could adversely impact on financial standing and deplete reserves.  | Effective budgetary control arrangements in place. The Council has made good progress in implementing its savings strategy.  |
| Internal Audit is a key element of the control environment but may not be fully effective.   | The Council has an effective Internal Audit Service which complies with the standards of the CIPFA Code of Practice for Internal Audit, except for the independence standard.  |
| The Council may not have robust financial management arrangements in place.  | Controls in significant financial systems operated satisfactorily during 2009-10.  |
| <b>Financial systems risks</b>   |  |
| Implementation of the new fixed asset register system may result in financial transactions that are misstated.   | Amendments to fixed assets and capital reserves were identified. Net assets were fairly stated.  |
| IT controls over significant financial systems may not be sufficiently robust.   | Our review of the IT controls of a number of financial systems identified some areas where the controls could be strengthened. However, they do not prevent us from placing reliance on the financial values generated by the systems. |
| In October 2009, the Office of Fair Trading identified widespread cover pricing in construction contracts in England. Processes at the Council may not be sufficiently robust to mitigate against this risk. | Contract expenditure controls in place.  |

| Risks   | Findings  |
|---|---|
| <b>Preparation of the accounts risks</b>  |   |
| Preparations for the full implementation of the International Financial Reporting Standards (IFRS) in 2010-11 may be insufficient.                              | Significant progress being made in preparation for the 2010-11 changes. |
| Changes to the financial statements to comply with the 2009 Statement of Recommended Practice (SoRP) may be incorrectly completed.                              | Financial statements prepared in accordance with the SoRP.              |
| The Council's Whole of Government Accounts (WGA) consolidation return which the Government intends to publish for 2009-10 may be incorrectly completed or late. | Submission deadlines achieved, audit testing not yet completed.         |
| <b>Financial statements risks</b>   |   |
| Risk of material misstatements in the financial statements.   | Accounting transactions and disclosures tested and agreed.              |

## The Council's accounting statements are free from material misstatement

10. Auditing standards require me to report any matters that might result in a material misstatement in the financial statements, specifically if I identify:
  - material weaknesses in your internal controls;
  - other matters of governance interest;
  - suspected or detected fraud; and
  - inconsistencies in financial information;
11. In the course of the accounting statements audit I also consider the qualitative aspects of the financial reporting process as well as the accuracy of the statements.
12. I report to you any uncorrected misstatements, other than those of a clearly trivial nature, and prepare an auditor's report that comments on whether:
  - the accounting statements and related notes give a true and fair view of the Council's financial position as at 31 March 2010 and of its income and expenditure for the year then ended; and
  - the Statement on Internal Control is compliant with applicable guidance and is consistent with our knowledge and understanding of the Council's arrangements.

13. Exhibit 2 summarises my findings.

### Exhibit 2: Accounting statements audit

| Auditing standards areas                         | Findings  |
|--|---|
| Internal controls                                | I did not identify any material weaknesses in your internal controls.   |
| Governance                                       | There are no significant matters to report.   |
| Other matters                                    | There are no other matters that I am required to report.  |
| Accounting statements audit                      | Findings  |
| Qualitative aspects of your accounting practices | <p>The accounting statements preparation processes are sound. Draft accounts are prepared in accordance with deadlines and are supported by adequate working papers.</p> <p>There are two areas where I have some concerns about your accounting practices, which are set out in more detail below.</p> <p>The draft accounts contain a reasonable number of minor errors and could be improved with a quality review prior to issue.</p>   |
| Misstatements                                    | <p>There is one uncorrected misstatement.</p> <p>The Council's accounting statements have been prepared in accordance with the amended Accounts and Audit Regulations, although there have been some inconsistencies in the interpretation of the revised guidance across Wales. These will be resolved to ensure consistency during 2010-11.</p> <p>The amendments to the financial statements are summarised in Appendix 2. The impact of the adjustments on the net position of the Income and Expenditure Account and Balance Sheet is £53,000.</p> |
| Auditor's report                                 | I intend to issue an unqualified audit opinion.   |

## There is one uncorrected misstatement

14. I report to you all uncorrected misstatements other than those of a clearly trivial nature (trivial is defined as entirely inconsequential, whether taken individually or in aggregate, either quantitatively and/or qualitatively). On the basis of my standard methodology, the financial limit for what I consider trivial has been calculated at £100,000.
15. Financial Reporting Standard 12 – Provisions, Contingent Liabilities and Contingent Assets, requires that a provision should be recognised when an entity has a present obligation as a result of a past event and where it is probable that a transfer of economic benefit will be required to settle the obligation.
16. The Council has an obligation in relation to the capping and aftercare costs of the Cilgwyn waste disposal site. The initial cost of capping the site is estimated by the Council to be £3.114 million. As at 31 March, the Council had spent £766,000 on work required to cap the site, leaving a balance of £2.348 million. Further to these



---

costs, it is estimated that the final capping (estimated for 2024-25) will cost a further £985,000.

17. The Council has set aside £800,000 as a partial provision for these costs. In order to comply with FRS12, the Council should have built up the provision to the full amount (of the initial costs) in order to properly recognise the liability in the 2009-10 financial statements. I would then expect a further provision to be established over time to meet the further commitment in 2024-25.
18. The Council has not done so but has set aside resource in its earmarked capital reserves (£1.241 million) and 2010/11 and 2011/12 capital budgets (£1.107 million).
19. You are requested to make a correction for the misstatement and provide an additional £1.548 million (£2.348 million less the £800,000 already provided). £1.241 million of this can be funded from the earmarked capital reserves held in the balance sheet. Currently, management have declined to correct for this misstatement. If you are not willing to correct this misstatement, you are requested to write to me outlining the reasons for not making this correction.

## **The Council's accounting practices relating to pension disclosures and the treatment of fixed assets could be improved**

20. I have two concerns about the qualitative aspects of your accounting practices.
21. The first matter relates to the Council's pension disclosures.
  - The Council has recognised, in its balance sheet, the liability related to defined benefit pension schemes. It recognises the net future liabilities arising from its participation in the Gwynedd Pension Fund, based on the benefit structure of the Local Government Pension Scheme.
  - However, the amounts recognised in the balance sheet do not agree with the actuarial valuation at the balance sheet date. A reconciliation has been prepared and disclosed in Note 27 to the accounts. The difference is £2.151 million and represents the cumulative effect of annual variances in the financial information provided to the actuary between the estimated data provided (in January of any year) and the actual data at the year-end.
  - Whilst it is reasonable for a small difference to exist in relation to the financial year in question, I would expect the Council to inform the actuary of these differences so that he can take account of them in preparing his annual actuarial valuation for FRS17 purposes.
  - Officers have agreed that they will discuss this issue with the actuary in the coming year.

- 
22. The second matter relates to the accounting treatment of fixed assets.
- In-year additions to infrastructure assets are recorded on the balance sheet as infrastructure without formal consideration as to whether the asset is operational at the balance sheet date. If the asset is not operational at the balance sheet date it should be classified as an asset under construction and only transferred to the infrastructure category once in use.
  - The Council should establish a mechanism to formally review when infrastructure is brought into use. This will ensure that the asset is appropriately classified at the balance sheet date and correctly treated for depreciation purposes in the following financial year.

## Appendix 1

**Letter of Representation**

Anthony Barrett  
Wales Audit Office  
24 Cathedral Road  
Cardiff  
CF11 9LJ

27 September 2010

Dear Mr Barrett,

**2009/10 Statement of Accounts of Gwynedd Council**

This letter is provided in connection with the audit of the accounting statements and related notes of Gwynedd Council (the Council) for the year ended 31 March 2010 for the purpose of expressing an opinion as to whether they give a true and fair view, in all material respects, of the financial position of the Council as at 31 March 2010 and of the result of its operations and its cash flows for the year then ended in accordance with the Accounts and Audit (Wales) Regulations 2005 (as amended) and the Code of Practice on Local Authority Accounting in the United Kingdom – a Statement of Recommended Practice 2009 (the SoRP).

**Overall representations**

All the transactions undertaken by the Council have been properly reflected and recorded in the accounting records.

There are no pooled budget projects arising from any partnership agreements entered into under section 33 of the National Health Service (Wales) Act 2006, associates, joint ventures or joint arrangements other than those disclosed in the accounting statements and associated notes.

The Council has complied with all conditions imposed by relevant grant paying organisations and can reasonably expect to receive the amounts of grant included within the accounts.

The Council has complied with all aspects of contractual agreements that would require adjustment to, or disclosure in, the accounting statements and related notes.

The accounting statements and related notes are free of material misstatements, including omissions.

All books of account and supporting documentation and all minutes of meetings of the Council have been made available to you.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the accounting statements and related notes.

The measurement methods, including the related assumptions, used in determining fair values are appropriate and have been applied consistently. Disclosures relating to fair values are complete and appropriate.

The effects of uncorrected misstatements identified during the audit are immaterial, both individually and in the aggregate, to the accounting statements taken as a whole.

All the amendments in the SoRP requirements, particularly those relating to accounting for Public Finance Initiative and similar schemes, have been considered and the appropriate entries made in the 2009-2010 Statement of Accounts.

## **Assets**

### **General**

All assets included in the balance sheet were in existence at the balance sheet date and owned by the Council, and free from any lien, encumbrance or charge, except as disclosed in the accounts. The balance sheet includes all tangible assets owned by the Council.

### **Fixed assets**

All assets over the de minimis level are capitalised. They are revalued every five years via a rolling programme. Also, this year, asset values have been reviewed for impairment in light of the current economic climate and are reflected in the financial statements accordingly. Depreciation is calculated to reduce the net book amount of each asset to its estimated residual value by the end of its estimated useful life in the Council's operations.

### **Investments**

All investments included in the balance sheet were in existence at the balance sheet date and owned by the Council, and free from any lien, encumbrance or charge, except as disclosed in the accounts. The balance sheet includes all investments owned by the Council. The Council's investments, including those in the Heritable Bank (Icelandic), have been reviewed for impairment or change in value, and the amendment (an improvement between 31/03/2009 and 31/03/2010 in the case of Heritable Bank) is reflected in the financial statements accordingly.

### **Current assets**

On realisation in the ordinary course of the Council's operations, the other current assets in the balance sheet are expected to produce at least the amounts at which they are stated. Adequate provision has been made against all amounts owing to the Council which are known, or may be expected, to be irrecoverable.

There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

## Liabilities

### General

All liabilities, both actual and contingent, have been recorded and disclosed as appropriate as well as all guarantees that we have given to third parties.

There is no pending litigation which may result in significant loss to the Council, and which has not been disclosed in the accounting statements and related notes, either as current or contingent liabilities.

All obligations under finance leases or hire purchase contracts have been disclosed in the accounts.

All unfunded benefits have been considered in the compilation of the FRS 17 figures included in the accounting statements and related notes.

### Cilgwyn – FRS 12

The auditor considers that compliance with FRS 12 in relation to the Cilgwyn waste disposal site has not been met, and that this has therefore resulted in a “misstatement” and for which I am required to explain.

The Cilgwyn site, which was previously operated by Cwmni Gwastraff Môn Arfon, ceased activities in December 2008 and necessitated capping and restoration work which is in two main stages, being the interim stage which is currently in progress, and the final capping which is now scheduled for 2026-27.

Gwynedd Council has provided budgetary resources in their capital expenditure programme to finance the interim stage, as follows:

|             |                   |
|-------------|-------------------|
| 2006/07 - £ | 100,000           |
| 2007/08 - £ | 450,000           |
| 2008/09 - £ | 958,000           |
| 2009/10 - £ | 500,000           |
| 2010/11 - £ | 917,000           |
| 2011/12 - £ | <u>190,000</u>    |
| Total       | <u>£3,115,000</u> |

It is possible that work on the interim capping stage may not be completed until 2012-13.

Work on the final capping is now not scheduled until 2026/27 at a cost, currently estimated to be in the region of £985,000. The Council has already set aside a provision of £800,000 towards the final capping work required at the Cilgwyn site, and considers this to be a reasonable position at this particular stage.

## Results

Except as disclosed in the accounting statements and related notes, the results for the year were not materially affected by transactions of a sort not usually undertaken by the Council, or circumstances of an exceptional or non-recurring nature.

## Internal control

I acknowledge my responsibility for the design and implementation of internal control to prevent and detect error. There have been no:

- irregularities involving management who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; and
- communications from regulatory agencies concerning non-compliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements.

## Post balance sheet events

Except as disclosed in the accounting statements and related notes, there have been no material changes since the date of the balance sheet affecting liabilities and commitments, and no events or transactions have occurred which, though properly excluded from the accounting statements and related notes, are of such importance that they should have been brought to the notice of the auditor.

## 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 fair presentation of the accounting statements and related notes in accordance with the applicable financial reporting framework.

We acknowledge our collective responsibility for the preparation of the Statement of Accounts, which has been approved by Gwynedd Council's Audit Committee on 27/09/10.

We have disclosed to you all known or possible non-compliance with laws and regulations whose effects should have been considered when preparing the accounting statements and related notes.

There are no other material transactions with related parties (as defined by FRS 8 and the SoRP), other than those recorded and disclosed in the accounting statements and related notes.

We acknowledge our responsibility for the design and implementation of internal control to prevent and detect fraud and have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's accounting statements and related notes communicated to the Council by employees, former employees, regulators or others.

We have disclosed to you our knowledge of fraud or suspected fraud affecting the Council involving:

- those charged with governance;
- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the accounting statements and related notes.

We confirm, to the best of our knowledge and belief, that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

**DAFYDD L EDWARDS**  
**HEAD OF FINANCE**

Date

**COUNCILLOR JOHN PUGHE ROBERTS**  
**AUDIT COMMITTEE CHAIRMAN**

Date

## Appendix 2

## Summary of corrections to the draft accounting statements and related notes which should be drawn to the attention of those charged with governance

| Nature of correction  | Reason for correction  |
|---|--|
| Accounting Policy 5 – Capital Receipts<br>Insert narrative to explain the change in accounting policy.  | To comply with SoRP disclosure requirements  |
| Note 6 – Payments to Employees<br>Additional narrative and descriptions added to clarify the disclosures.   | To ensure clarity for the reader.  |
| Note 13 – Building Control Account<br>Increase expenditure from £445,770 to £529,902<br>Reduce surplus of £50,144 to a loss of £33,988.             | To correctly reflect the actual financial position on the building control account.                              |
| Note 14 – Audit Fees<br>Reduce Fees for grant claims from £109,935 to £99,700.  | To correct miscoded expenditure.   |
| Note 15 – Fixed Assets<br>Restate Council Dwelling and Land and Buildings analysis to correctly reflect movements in year arising from revaluation. | To correct misstated transactions.   |
| Note 17 – Net Assets Employed<br>Decrease Council Fund from £24,514,000 to -£142,500,000.<br>Increase HRA from £1,964,000 to £169,031,000.          | To correctly reflect the net assets employed by the Council Fund and Housing Revenue Account (HRA) respectively. |
| Note 19 – Investments<br>Reduce Long Term - Financial Markets by £17,000<br>Increase Short Term – Financial Markets by £17,000.                     | To correct the classification between long and short-term investments.   |
| Note 21 – Debtors<br>Due within one year:<br>Decrease Other miscellaneous debtors £1,135,000<br>Due after one year:<br>Increase Others £1,135,000.  | To reclassify debtors where a legal charge exists against property to debtors falling due after one year.        |
| Note 21 – Debtors due within one year:<br>Decrease Mortgagors £132,000<br>Note 22 – Creditors<br>Other receipts in advance £132,000.                | To correct for amounts in respect of mortgages that had been incorrectly grossed up.                             |



| Nature of correction   | Reason for correction   |
|--|---|
| <p>Note 22 – Creditors<br/>Decrease other miscellaneous creditors £53,000<br/>Income and Expenditure account<br/>Increase Interest and Investment Income £53,000.</p>  | <p>To correct for an incorrect allocation of the improvement in the impairment (Heritable) between the Council Fund and the Pension Fund.</p> |
| <p>Note 23 – Capital Grants Unapplied<br/>Table added to show the analysis of the movement on the capital grants unapplied account during the year.</p>  | <p>To provide detailed information to the reader.</p>   |
| <p>Note 24 – Loans<br/>The fair value of the Barclays Bank Loan was added to the table.</p>  | <p>Figure omitted in the draft accounts.</p>  |
| <p>Note 27 – Pension Costs<br/>Table added to show the reconciliation between the actuarial deficit and the pension liability in the balance sheet.</p>  | <p>To comply with SoRP disclosure requirements</p>  |
| <p>Note 30 – Capital Adjustment Account<br/>Increase depreciation and impairment £7.097 million<br/>Note 33 – Revaluation Reserve<br/>Decrease impairment £6.750 million<br/>Decrease Sales £0.347 million</p> | <p>To correct misstated transactions.</p>   |
| <p>Note 38 – Contingent Liabilities<br/>Additional narrative was added to the note to further explain the nature of the contingent liabilities.</p>  | <p>To comply with SoRP disclosure requirements.</p>   |
| <p>Note 42 – Post Balance Sheet Events<br/>The note was added to inform the reader of three events after the balance sheet date that will impact on the Council.</p>   | <p>To provide detailed information to the reader.</p>   |
| <p>Housing Revenue Account<br/>Amendments were made to the HRA statement to ensure that it agreed to the Income and Expenditure Account</p>  | <p>To ensure that the HRA agreed to the primary statements</p>  |
| <p>Housing Revenue Account<br/>Increase Interest on Investments £29,000<br/>Note 5 – Impairment of Investment<br/>narrative amended to reflect the correction.</p>   | <p>Impairment had been incorrectly charged to the HRA.</p>  |
| <p>HRA Note 7 – Depreciation<br/>Decrease Dwellings from £6,608,000 to £6,307,000<br/>Increase Other from £49,000 to £350,000.</p>   | <p>To ensure that the HRA note agreed to Note 15 on Fixed assets.</p>   |
| <p>Various amendments to wording and correction of rounding errors.</p>  | <p>To correct for minor errors.</p>   |



---

Wales Audit Office  
24 Cathedral Road  
Cardiff CF11 9LJ  
Tel: 029 2032 0500  
Fax: 029 2032 0600  
Textphone: 029 2032 0660  
E-mail: [info@wao.gov.uk](mailto:info@wao.gov.uk)  
Website: [www.wao.gov.uk](http://www.wao.gov.uk)