



WALES **AUDIT** OFFICE
SWYDDFA **ARCHWILIO** CYMRU

Audit of Financial Statements Report

Gwynedd Council

Audit year: 2010-11

Issued: September 2011

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Summary report

Introduction

1. The Appointed Auditor is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of Gwynedd Council (the Council) at 31 March 2011 and its income and expenditure for the year then ended.
2. We received the draft financial statements for the year ended 31 March 2011 on 30 June 2011, and have now substantially completed the audit work. 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 Dafydd Edwards, Head of Finance.
3. 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.
4. The quantitative levels at which we judge such misstatements to be material for the Council are £8.312 million for income and expenditure items and working capital balances, and £3.570 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.

Proposed audit report

5. **It is the Appointed Auditor's intention to issue an unqualified audit report on the financial statements** once you have provided us with a Letter of Representation based on that set out in [Appendix 1](#).
6. The proposed audit report is set out in [Appendix 2](#).

Significant issues arising from the audit

Uncorrected misstatements

7. We set out below the misstatements we identified in the financial statements, which have been discussed with management but remain uncorrected, and request that these are corrected. If you decide not to correct these misstatements, we ask that you provide us with the reasons for non-correction.

The Council has not recognised a liability for pension contributions on the back pay element of its equal pay settlement.

8. The Council settled the back pay element of its equal pay liabilities, with the majority of relevant staff, with two tranches of payments, £2.383 million in 2007-08 and £464,000 in 2008-09. In addition, the 2010-11 accounts include a provision of £1.935 million in respect of the potential remaining liability.
9. In our view, a change to the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007, effective from 30 September 2010, but which applied retrospectively from 1 April 2008, clarified that the back pay element of equal pay settlements is pensionable. The Council did not provide for pension contributions on the payments made after the 1 April 2008, nor has it included this liability in its provision.
10. In our opinion therefore, the Council should recognise a liability £528,000 in respect of the pension contributions on these element of the equal pay settlement in the 2010-11 accounts. This assumes that all affected staff are in the Pension Fund. Where this is not the case, the liability will reduce. It may also be the case that on reassessing the provision, that the sums already set aside are sufficient to cover this liability, but that has not yet been established.

The Council has not recognised a liability for capping and after care at the Cilgwyn waste disposal site.

11. 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 2011, the Council had spent £804,000 on work required to cap the site, leaving a balance of £2.310 million. Further to these costs, it is estimated that the final capping (estimated for 2024-25) will cost a further £985,000.
12. 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 2010-11 financial statements. I would then expect a further provision to be established over time to meet the further commitment in 2024-25.
13. The Council has not done so but has set aside resource in its 2011-12 capital budgets of £2.310 million. It is worth noting that of the sum set aside in the capital programme £2.120 million is cumulative slippage over the period 2006-07 to 2010-11.
14. The Council should make a provision of £1.510 million (£2.310 million less the £800,000 already provided), by transferring sums already set aside in the capital reserves.

Corrected misstatements

15. There are 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. They are set out with explanations in [Appendix 3](#).

Significant issues arising from the audit

16. In the course of the audit we consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you. There were some issues arising in these areas this year:

We have two concerns about the qualitative aspects of your accounting practices and financial reporting.

17. We set out below two concerns about the qualitative aspect of your accounting practices and financial reporting:
- The 2010-11 financial statements are the first to be prepared under International Financial Reporting Standards (IFRS) which resulted in major changes to the accounts. We recognise that a significant amount of work was undertaken by officers to prepare them on an IFRS basis for the first time. The Council largely complied with the requirements, but over relied on an example set of statements (prepared by CIPFA), which did not fully comply with the Code of Practice on Local Authority Accounting. The revised accounts now mainly meet disclosure requirements, but minor departures still exist. In future, we recommend that the Council uses the Code's disclosure checklist to ensure that the accounts fully comply with disclosure requirements.
 - We have previously reported that the accounts contain a number of suspense and holding account balances on which there has been little or no movement for a number of years. We recognise that the Council has made good progress to address these, but the remaining balances still need urgent attention to ensure that they are correctly disclosed.

We did not encounter any significant difficulties during the audit.

18. We were not restricted in our work and we received the vast majority of the information that we required for our audit in a timely and helpful manner.

There were no significant matters discussed and corresponded upon with management, which we need to report to you.

19. We did not need to discuss any significant matters with the Council's management, which we need to report to you.

There is one other matter significant to the oversight of the financial reporting process that we need to report to you.

20. The Code of Practice requires the Council to disclose details of related party transactions within its accounts. In order to gather the relevant information, the Council wrote to its members seeking details of related party interests by 21 April 2011. At the time the draft financial statements were prepared, 32 members had not submitted their return. On issue of this report, 13 replies remain outstanding.

We did not identify any material weakness in your internal controls.

21. As part of our audit work, we did not identify any significant weaknesses in your internal controls.

Appendix 1

Final Letter of Representation

Mr Anthony Barrett
Appointed Auditor
Wales Audit Office
24 Cathedral Road
CARDIFF
CF11 9LJ

29 September 2011

Dear Mr Barrett,

REPRESENTATIONS REGARDING THE 2010/11 FINANCIAL STATEMENTS

This letter is provided in connection with your audit of the financial statements of Gwynedd Council for the year ended 31 March 2011. 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 the Code of Practice on Local Authority Accounting, in particular the financial statements give a true and fair view in accordance therewith.

We acknowledge our responsibility for 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 Gwynedd 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. A summary of these items is set out below:

Several local authority employers have interpreted that settlements paid to their employees for the loss of the right to bring an equal pay claim are "compensation" as defined under LGPS Regulation 4(2)(g), and are therefore excluded from the definition of "pensionable pay" in Regulation 4(1). The WAO circulated guidance for their local auditors late in the current audit period which argues that such settlements paid after 31/03/2008 are not "true" compensation, and therefore the WAO are not persuaded that they're exempt from being "pensionable pay".

Gwynedd Council settled most claims prior to 31/03/2008 and there is no doubt that such compensation payments could be exempt from "pensionable pay". The Council's rationale to pay the compensation in 2008 was that authorities believed there was no case to answer, but were willing to pay a lesser sum in order to avoid litigating to prove that. Whether such settlements are treated as "pensionable pay" or (exempt) "compensation", the employer's actual pension liabilities will remain unchanged, as these are determined by ongoing pay which was assessed by the actuary in the valuation as at 31/03/2010 (after the compensation was paid in 2008).

We understand that the view that compensation payments for equal pay after 31/03/2008 are non-pensionable was supported by one Counsel, but contradicted by another, and some tax advisors have suggested that local authorities should treat them as non-pensionable. The legal interpretation might depend how the compensation payments are constructed.

In order to finally resolve this matter prior to closure of the 2011/12 accounts, it may be necessary for Gwynedd Council to seek specific legal advice. In the interim, the settlements paid to date have not been treated as "pensionable pay" in the Council's financial statements from 2007/08 to 2010/11, and no provision has been set aside for retrospective pension contributions. As such, it is accepted that WAO's appointed auditor will comment accordingly.

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 2027-28.

Gwynedd Council has provided full budgetary resources in their capital expenditure programme to finance completion of 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>

There is slippage in the current work programme and 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 2027-28 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, which means that a further £185,000 will need to be provided by 2027-28. Overall, this is considered to be a very reasonable position for the Council at this particular stage.

REPRESENTATIONS BY GWYNEDD COUNCIL AUDIT COMMITTEE

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 29 September 2011.

Yours sincerely,

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DAFYDD L EDWARDS
HEAD OF FINANCE

COUNCILLOR JOHN PUGHE ROBERTS
AUDIT COMMITTEE CHAIRMAN

Date

Date

Appendix 2

Proposed audit report of the Appointed Auditor to Gwynedd Council

I have audited the accounting statements and related notes of:

- Gwynedd Council; and
- Gwynedd Pension Fund

for the year ended 31 March 2011 under the Public Audit (Wales) Act 2004.

Gwynedd 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.

Gwynedd 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 2010/11 based on International Financial Reporting Standards (IFRSs).

Respective responsibilities of the responsible financial officer and the independent auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on pages ... to ..., the responsible financial officer is responsible for the preparation of the statement of accounts, including group and pension fund accounts, 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 Auditing Practices Board'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 the Gwynedd Council's and Gwynedd Pension Fund's circumstances 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. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Opinion on the accounting statements of Gwynedd Council

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Gwynedd Council as at 31 March 2011 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 2010/11.

Opinion on the accounting statements of Gwynedd Pension Fund

In my opinion, the pension fund accounts and related notes:

- give a true and fair view of the financial transactions of Gwynedd Pension Fund during the year ended 31 March 2011 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 2010/11.

Opinion on other matters

In my opinion, the information contained in the Explanatory Foreword for the financial year for which the accounting statements and related notes are prepared 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 Governance Statement on which I report to you if, in my opinion, it does not reflect compliance with *Delivering Good Governance in Local Government: Framework* published by CIPFA/SOLACE in June 2007, or if the statement is misleading or 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 Gwynedd Council in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Code of Audit Practice issued by the Auditor General for Wales.

Anthony Barrett
Appointed Auditor
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ
29 September 2011

Appendix 3

Summary of corrections made to the draft financial statements which should be drawn to the attention of the Audit Committee

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.

Value of correction	Nature of correction	Reason for correction
Narrative amendment	Explanatory Foreword - Additional narrative explanation provided	To comply with the Code of Practice disclosure requirements.
Additional disclosure	Comprehensive Income and Expenditure Statement Add disclosure: Non distributed costs exceptional item £50.757 million	To correctly disclose the exceptional item relating to the change in the basis of pension benefit increases (from RPI to CPI).
£6.194 million	Comprehensive Income and Expenditure Statement Reduce cost of services £6.194 million Increase surplus on revaluation of property plant and equipment assets £6.194 million	To comply with the Code of Practice requirement to offset impairment against the revaluation reserve in the first instance.
Narrative amendment	The following accounting policies were added: 1.6 Corporate and democratic core 1.19 Non distributed costs The following accounting policies were expanded: 1.7 Employee benefits 1.18 Long term assets	To provide additional disclosure and additional explanation of the accounting policies used in preparing the accounts.
Narrative amendment	Note 7 Events after the balance sheet date Additional disclosure relating to an ongoing judicial review in respect of pension benefit increase changes	To inform the reader.

Value of correction	Nature of correction	Reason for correction
£825,000	Note 10 Other operating expenditure Increase North Wales Police Authority Note 12 Taxation and non specific grant income Decrease Council Tax income	To correct a miscoding.
Additional note	Note 12a Council Tax added	To comply with Code of Practice disclosure requirements.
Additional note	Note 12b National Non Domestic Rates added	To comply with Code of Practice disclosure requirements.
£141,000 as at 31/3/11 £319,000 as at 31/3/10 £283,000 as at 1/4/09	Notes 16 and 18 To correctly classify debtors between long and short term	To comply with disclosure requirements to classify debtors between those collectable within one year and after one year.
£251,000 as at 31/3/11 £297,000 as at 31/3/10 £342,000 as at 1/4/09	Notes 16 and 21 To correctly classify creditors between long and short term	To comply with disclosure requirements to classify creditors between those payable within one year and after one year.
£111,000	Note 21 Audit Fees To decrease the accrual for external audit fees	Audit fees relating to 2011-12 had been accrued for in 2010-11.
Additional notes	Notes to the Cash Flow – notes 25a and 25b added to provide analysis to support the cash flow	To comply with Code of Practice disclosure requirements.
£309,982	Note 35 Related parties Increase the value of payments to public, charitable and voluntary bodies where members have declared an interest	To correct for understatement as a result of late submissions by members.
£111,472	Note 35 Related parties Increase the value of payments to companies or business where members have declared an interest	To correct for understatement as a result of late submissions by members.
£145,000 as at 31/3/11 £145,000 as at 31/3/10	Note 37 Leases Increase the outstanding balances on operating leases	To correctly reflect the outstanding commitments on operating leases.

Value of correction	Nature of correction	Reason for correction
Additional table and narrative	Note 37 Leases Additional table added to disclose the expenditure relating to operating leases that was charged to services within the comprehensive income and expenditure statement. Additional narrative to disclose the value of minimum lease payments receivable by the Authority	To comply with Code of Practice disclosure requirements.
Narrative amendment	Note 42 contingent Liabilities Narrative reworded	To provide additional clarity to the reader.
£217.374 million	Housing Revenue Account Note 1 Exceptional Item To reflect the notional contribution towards the costs of the VAT shelter capital expenditure	To correctly account for the VAT shelter arrangement.
£6.704 million	Housing Revenue Account Note 1 Exceptional Item To decrease the level of impairment to reflect the need to offset impairment against the revaluation reserve in the first instance	To comply with the Code of Practice requirements.
Additional table in note	Housing Revenue Account Note 6 Additional table added to analyse depreciation and impairment in both 2009-10 and 2010-11	To comply with Code of Practice disclosure requirements.



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