



WALES **AUDIT** OFFICE  

---

SWYDDFA **ARCHWILIO** CYMRU

# Audit of Financial Statements Report

## **Gwynedd Council**

**Audit year:** 2011-12

**Issued:** September 2012

**Document reference:** 489A2012

# Status of 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 his 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, his 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).

# Contents

---

The Appointed Auditor intends to issue an unqualified audit report on your financial statements. There are some issues to report to you prior to their approval.

---

## Summary report

Introduction	4
Proposed audit report	4
Significant issues arising from the audit	4

---

## Appendices

Final Letter of Representation	7
Proposed audit report of the Appointed Auditor to Gwynedd Council	10
Summary of corrections made to draft financial statements	12

---

# 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 2012 and its income and expenditure for the year then ended.
2. In line with prescribed timetable we received the draft financial statements for the year ended 31 March 2012 on 30 June 2012. We have now substantially completed our audit work and are reporting to you the more significant issues arising from the audit, which we believe you should consider prior to approval of the financial statements. The audit team has already discussed these issues with the Council's Head of Finance and other Finance staff as relevant.
3. We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt a 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. 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

4. **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](#).
5. The proposed audit report is set out in [Appendix 2](#).

## Significant issues arising from the audit

### Uncorrected misstatements

6. 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 capping and after care at its waste disposal sites

7. The Council has an obligation in relation to the capping and aftercare costs of the Cilgwyn waste disposal site and the cells that are full at the Ffridd Rasus and Llwyn Isaf sites. The initial cost of capping the sites is estimated by the Council to be £11.661 million. As at 31 March 2012, the Council had spent £8.384 million on work required to cap the sites, leaving a balance of £3.277 million.

- 
8. The Council has set aside £800,000 as a partial provision for these costs. However, in order to comply with accounting standard IAS37, the Council should have built up the provision to the full amount (of the initial estimated costs) in order to properly recognise the liability in the 2011-12 financial statements. We would then expect a further provision to be established over time to meet the additional commitments that arise as operational cells at the Ffridd Rasmus and Llwyn Isaf sites are filled.
  9. The Council has set aside resource within capital reserves and within its future capital budgets to meet these costs. The Council should make a provision of £2.477 million (£3.277 million less the £800,000 already provided), by transferring sums already set aside in the capital reserves.

### Corrected misstatements

10. 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](#).

### Other significant issues arising from the audit

11. 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.

### We identified one material weakness in your internal controls

12. The Council's income bank account reconciliation at 31 March 2012 contained an unidentified balancing item of £4,143, which was resolved late in the audit window. Reconciliations form a key element of the Council's system of internal financial control which is significantly undermined if reconciliations are not performed correctly and unexplained differences are not cleared.

### We have identified one area for improvement in the qualitative aspects of your accounting practices and financial reporting

13. Generally, we found the information provided to be relevant, reliable, comparable and easy to understand.
14. The Accounting Code of Practice requires that the creditors balance is classified according to the nature of the supplier, for example, central government bodies, other local authorities and other entities. Our testing identified that there was no detailed review of £15.5 million of the 'other' entities balance to ensure that the classification was appropriate. Following a review of the balance it was identified that £5.6 million had been mis-classified, which has now been corrected in the financial statements. The Council needs to ensure that the classification of creditor balances are reviewed and appropriately analysed as part of their closedown process in future years.

---

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

- 15.** The Accounting 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 elected members seeking details of related party interests by 11 May 2012. At the time the draft financial statements were prepared, 9 members had not submitted their return. On issue of this report, 8 replies remain outstanding.

We did not encounter any significant difficulties during the audit

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

# Appendix 1

---

## Final Letter of Representation

Appointed Auditor  
Wales Audit Office  
24 Cathedral Road  
Cardiff  
CF11 9LJ  
27 September 2012

Dear Mr Barrett,

### REPRESENTATIONS REGARDING THE 2011/12 FINANCIAL STATEMENTS

This letter is provided in connection with your audit of the financial statements of Gwynedd Council for the year ended 31 March 2012. 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:

Regarding part 12 of the Wales Audit Office's report, I can confirm that the Council's income bank account reconciliation as at 31 March 2012 has by now been resolved and balanced. We agree with the Wales Audit Office that such reconciliations form a key element of the Council's system of internal financial control. Hence, we are committed to ensure that such reconciliations are completed correctly and promptly during 2012/13.



---

## WASTE DISPOSAL SITES – IAS 37

The auditor considers that compliance with IAS 37 in relation to the Cilgwyn, Ffridd Rasmus and Llwyn Isaf waste disposal sites 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 stage which is now scheduled for 2027-28.

For the period 2006-07 to 2011-12, the Authority has approved a total budget of £11.164m towards work on the waste disposal sites, with a further £1.420m committed in the Asset Management Plan over the next three years, making a total investment of £12.584m over a nine year period.

£8.807m has been spent to 31 March 2012, with a further £2.357m retained within the Capital Reserve account at the year-end due to slippage in the actual work programme. A further £800k is retained as a provision, making an overall total of £11.964m.

Further work on the final capping stage at the Cilgwyn site is expected in 2027-28.

Given all the circumstances, 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 Gwynedd Council’s Audit Committee on 27 September 2012.

Signed by:

DAFYDD L EDWARDS

HEAD OF FINANCE

Date: 27 September 2012

Signed by:

COUNCILLOR TREFOR O EDWARDS

AUDIT COMMITTEE CHAIRMAN

Date: 27 September 2012

# Appendix 2

---

## Proposed audit report of the Appointed Auditor to Gwynedd Council

### Independent auditor's report to the Members of Gwynedd Council

I have audited the accounting statements and related notes of:

- Gwynedd Council; and
- Gwynedd Pension Fund

for the year ended 31 March 2012 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 2011-12 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 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 Gwynedd Council 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 2012 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 2011-12.

### **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 2012 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 2011-12.

### **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**

**28 September 2012**

## Appendix 3

---

### Summary of corrections made to the draft financial statements

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 disclosure added and minor changes made to existing disclosures.	To comply with the Code of Practice and to ensure that disclosures in the Forward agree to those in the financial statements.
£161,000	Comprehensive Income and Expenditure Statement – non distributed costs should be shown as a debit to expenditure rather than as income.	To comply with the Code of Practice.
Narrative amendment	Accounting policies – additional disclosures were added to: 1.4 Contingent Assets 1.35 Landfill Allowances Scheme  Further disclosures were added: 1.36 To confirm that the Council is not party to any PFI schemes 1.37 Jointly Controlled Operations and Assets 1.38 Recognition of Revenue from Non-exchange Transactions	To comply with the Code of Practice.
Narrative amendment	Accounting policy 1.13 and Note 16 Heritage Assets – some disclosures in the Accounting policy were transferred to the note to the accounts.	To comply with the Code of Practice and to inform the reader.
Narrative amendment	Note 3 Prior Period Adjustment, Note 5 Critical Judgements in Applying Accounting Polices and Note 7 Material Items of Income and Expenditure – additional disclosures added to each note.	To inform the reader.

Value of correction	Nature of correction	Reason for correction
Figures amended and Narrative amendment	Note 9 Adjustments between Accounting Basis and Funding Basis Under Regulations – amendment to figures relating to the capital receipt reserve to reflect the actual situation. No impact to the bottom line figures Amendments to narrative descriptions.	To comply with the Code of Practice.
Narrative amendment	Note 10 Earmarked Reserves – additional disclosures added to confirm that the Improving the Council Fund reserve was transferred to the Invest to Save Fund.	To inform the reader.
Narrative amendment	Note 12 Financing and Investments Income and Expenditure – additional narrative to support the material movements in interest payable.	To inform the reader.
Narrative amendment	Note 15 Property, Plant and Equipment – additional disclosure added to confirm the current status of Cae Top school.	To inform the reader.
£25,000  £8,000 Narrative amendment	Note 18 Financial Instruments – £20,000 - Short Term Trade payables figure amended, including restating 2010-11 figures to account for deferred liabilities relating to finance leases (2010-11-£88,000). £5,000 - Gains and Losses Interest income – figure amended by £5,000. Fair value of short term loans and receivables – figure amended by £8,000 Percentages for Heritable Repayment Table – amendment to January percentage. Narratives amended to take account of the changes.	To comply with the Code of Practice.
Narrative amendment	Note 19 Inventories – the reference to Assets Held for Sale was removed as this balance is disclosed in note 22.	To comply with the Code of Practice.

Value of correction	Nature of correction	Reason for correction
Total amendment -£2,501,000.	Note 20 Short Term Debtors – Correction and reclassification of debtors (short term investments & short term creditors)	To correct miscoding and classifications to comply with the Code of Practice.
Total amendment -£2,493,000	Note 23 Short Term Creditors – Correction and reclassification of creditors (short term debtors)	To correct a miscoding and to comply with the Code of Practice.
Figures amended to correctly reflect changes re Trading Units	Note 30 – Segmental Reporting Revised disclosures relating to Social Services correction and Trading Operations adjustment.	To comply with the Code of Practice.
£9,336,000	Note 36 – Grant Income Double counting of grant income -several grants listed by the Environmental section within "Credited to Services: Other Grants" were also listed as "Capital Grants".	To correct entries that had been double counted in the note.
Narrative amendment	Note 37 – Related Parties Narrative added to note that a number of Elected members had not completed a return. WJEC information amended to table format as per other disclosures. Creditor balance of £1,611 had not been disclosed.	
Figures amended	Note 41 – Exit Packages Amendment to banding - two entries were included for an individual.	To correct miscoding.
Narrative Amended	Note 44 – Contingent Liabilities Additional disclosure in respect of Municipal Mutual Insurance.	To inform the reader.
Narrative amendment	Note 45 – Trusts Change to presentation of the note.	To comply with the Code of Practice.





WALES AUDIT OFFICE  

---

SWYDDFA ARCHWILIO CYMRU

Wales Audit Office  
24 Cathedral Road  
Cardiff CF11 9LJ

Swyddfa Archwilio Cymru  
24 Heol y Gadeirlan  
Caerdydd CF11 9LJ

Tel: 029 2032 0500

Ffôn: 029 2032 0500

Fax: 029 2032 0600

Ffacs: 029 2032 0600

Textphone: 029 2032 0660

Ffôn Testun: 029 2032 0660

E-mail: [info@wao.gov.uk](mailto:info@wao.gov.uk)

E-bost: [info@wao.gov.uk](mailto:info@wao.gov.uk)

Website: [www.wao.gov.uk](http://www.wao.gov.uk)

Gwefan: [www.wao.gov.uk](http://www.wao.gov.uk)