



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

Audit of Financial Statements Report

Gwynedd Council

Audit year: 2012-13

Issued: September 2013

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Status of report

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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 at 31 March 2013 and its income and expenditure for the year then ended.
2. 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.
3. The quantitative levels at which we judge such misstatements to be material for Gwynedd Council are £3.775 million for income and expenditure items and working capital balances, and £3.750 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.
4. International Standard on Auditing (ISA) 260 requires us to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
5. This report sets out for consideration the matters arising from the audit of the financial statements of Gwynedd Council, for 2012-13, that require reporting under ISA 260.

Status of the audit

6. We received the draft financial statements for the year ended 31 March 2013 on 28 June 2013, ahead of the 30 June statutory deadline and have now substantially completed the audit work.
7. 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 the responsible finance officer for the Council (Dafydd Edwards).

Proposed audit report

8. 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](#).
9. The proposed audit report is set out in [Appendix 2](#).

Significant issues arising from the audit

Uncorrected misstatements

10. There are no misstatements identified in the financial statements, which remain uncorrected.

Corrected misstatements

11. 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

12. 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 one concern about the qualitative aspects of your accounting practices and financial reporting.

13. The Code of Practice on Local Authority Accounting (the Code) requires that a reporting authority includes its share of the activities of a joint committee in its financial statements. The Council participates in five joint committee arrangements but does not account for them in accordance with the Code. This is disclosed in the accounts.
14. Note that this issue does not relate to the payment of the Council's contribution to the Joint Committee but is an accounting issue.

We identified one material weaknesses in your internal controls

15. International Accounting Standard 19 (Employee Benefits) requires bodies to disclose in their accounts the assets, liabilities and transactions, together with certain information regarding underlying assumptions, in respect of retirement benefits.
16. The actuary prepares both a triennial funding valuation and an annual valuation of the pension fund liabilities, on an IAS 19 basis, which provides both revenue and balance sheet disclosures for inclusion in the financial statements. This is prepared using a range of data, provided by the administering authority, and actuarial assumptions.
17. It was identified that the data provided to the actuary in respect of membership data had been subject to restatement and is still subject to further revision.
18. The primary reason for the changes results from the need to reflect multiple posts held by the same individual separately in the pension system. In addition there may be

instances where termination details have not been provided and members are misclassified as active rather than deferred.

19. This could have a significant effect on both the triennial funding valuation and the annual IAS 19 valuations provided by the actuary. However for the 2012-13 accounts we are satisfied that it does not have a material impact.
20. It is critical that the Council ensures that its payroll and pensions systems are fully reconciled and that details are maintained accurately, in both systems, on an ongoing basis to ensure that the actuary can prepare the actuarial valuation based on robust membership data.

We encounter some difficulties during the audit.

21. The issue referred to in paragraphs 15 to 20 resulted in delay to the audit and the need to perform additional work.

There are no other matters that we need to report to you

22. There are no other matters to report to you. In particular:
 - There were no significant matters discussed and corresponded upon with management which we need to report to you.
 - There are no other matters significant to the oversight of the financial reporting process that we need to report to you.
 - There are not any other matters specifically required by auditing standards to be communicated to those charged with governance.

Independence and objectivity

23. As part of the finalisation process, we are required to provide you with representations concerning our independence.
24. We have complied with ethical standards and in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between the Wales Audit Office and Gwynedd Council that we consider to bear on our objectivity and independence.

Appendix 1

Final Letter of Representation

Mr Anthony Barrett
Appointed Auditor
Wales Audit Office
24 Cathedral Road
CARDIFF
CF11 9LJ
26 September 2013

Dear Mr Barrett,

REPRESENTATIONS REGARDING THE 2012/13 FINANCIAL STATEMENTS

This letter is provided in connection with your audit of the financial statements of Gwynedd Council for the year ended 31 March 2013 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 the Code of Practice on Local Authority Accounting in the United Kingdom; 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;

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- 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; and
 - 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.

One concern regarding financial reporting: Joint Committees

The situation regarding prior years' financial statements for 2 joint committees, which Gwynedd Council leads, was noted in the 2012/13 (pre-audit) accounts and dealt with at the meetings of the relevant joint committees in June / July 2013.

Regarding Gwynedd Council's own accounts, the related CIPFA Code of Practice requires that the respective authorities' proportion of gross and net expenditure and income transactions are reflected subjectively in our accounts. However, in order to improve consistency in reporting standards between authorities in this region, the reporting practice agreed between the eight local authorities in North and Mid Wales is that the lead authority reflected the full gross and net position in its accounts, with the other participating authorities reflecting the net position only. Although perhaps not strictly in accordance with the Code, each of the local authorities' accounts reflects their true net contribution position.

One weakness in internal controls: Pension Liabilities (IAS19)

While the figures produced for future pension payments are unavoidably broad estimates, we agree with the auditor that these should be based on the best available data regarding staff employed, pay, etc.

Further to a pro-active exercise to improve such data for the 2013 triennial valuation, it became apparent by the summer that the employee data previously submitted in January (for the IAS19 pension disclosures in the 2012/13 financial statements) could be improved.

Due to an historical restriction within the computer systems, some instances of employees with multiple employments with the Authority have not had their additional posts recognised properly during the annual reporting process. Work is ongoing to address these anomalies so that future annual pension contribution returns match between the payroll and pensions systems.

REPRESENTATIONS BY GWYNEDD COUNCIL'S 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 26 September 2013.

Yours sincerely,

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DAFYDD L EDWARDS
HEAD OF FINANCE

COUNCILLOR TREFOR O EDWARDS
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 2013 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, and the Cash Flow 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 2012-13 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 the responsible financial officer is responsible for the preparation of the statement of accounts, including Gwynedd Pension Fund's accounting statements, 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 2013 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 2012-13.

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 2013 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 2012-13.

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 Annual 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

27 September 2013

Appendix 3

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

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
Not applicable	To include Balance sheet as at 01.04.11 in respect of prior period adjustment	To comply with the Code of Practice
Not applicable	Change in presentation of Note 3 in respect of prior period adjustment	To improve readability
£1,978,000	To remove the Revenue Expenditure Funded from Capital Under Statute (i.e. the rail element relating to Network Rail) of the Pont Briwet scheme to reflect accounting treatment of the joint enterprise	To ensure the financial statements only reflect the road element relating to Gwynedd Council's share of the assets of the joint enterprise
£2,383,000	To correctly show the waste provision split between short term and long term provisions (2011/12)	To comply with the Code of Practice
£1,160,000	To correctly show the waste provision split between short term and long term provisions (2012/13)	To comply with the Code of Practice



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