

Archwilydd Cyffredinol Cymru
Auditor General for Wales



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

Audit of Financial Statements Report

Gwynedd Council

Audit year: 2013-14

Issued: September 2014

Document reference: GC2014

Status of report

This document has been prepared for the internal use of Gwynedd Council as part of work performed in accordance with the statutory functions.

No responsibility is taken by the Auditor General, the staff of the Wales Audit Office or, 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, the Wales Audit Office and, where applicable, the appointed auditor are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at 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
Status of the audit	4
Proposed audit report	4
Significant issues arising from the audit	5
Independence and objectivity	7

Appendices

Final Letter of Representation	9
Proposed audit report of the Appointed Auditor to Gwynedd Council	12
Summary of corrections made to the draft financial statements which should be drawn to the attention of the Audit Committee of Gwynedd Council	14

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 2014 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 £3.920 million for income and expenditure items and working capital balances, and £3.862 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 2013-14, that require reporting under ISA 260.

Status of the audit

6. We received the draft financial statements for the year ended 31 March 2014 on 30 June 2014, the agreed 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 Dafydd Edwards, Head of Finance.

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. We set out below one misstatement we identified in the financial statements, which have been discussed with management but remain uncorrected, and request that this is corrected. If you decide not to correct this misstatement, we ask that you provide us with the reason for non-correction.

The Council's waste site provision is understated by £404,000

11. The Council's estimate of its long term outstanding obligations in respect of waste sites is £8.388 million. However, the waste site provision in the accounts is £7.884 million and is therefore understated by £404,000.

Corrected misstatements

12. 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

13. 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 some concerns about the qualitative aspects of your accounting practices and financial reporting.

14. We have the following concerns about the qualitative aspects of your accounting practices and financial reporting:

There are a number of issues relating to noncurrent assets that need to be addressed.

15. As part of our work on noncurrent assets we identified the following issues.
 - Within the Council's asset register are assets which have a net book value of £nil where the both the gross value and cumulative depreciation and impairment is £25.6 million. Whilst we have not identified any concerns over the ownership of these assets, it does raise the issue as to whether these

assets are still operational and if so whether the depreciation policies applied (to recognise the consumption of the asset) are appropriate.

- Also, historically the Council has not ensured that all assets are recorded in its asset register in sufficient detail to allow for the easy recognition of individual assets. This is particularly the case for infrastructure, vehicles, plant and equipment. There are potential implications, both in terms of ensuring that the assets are accounted for correctly in respect of depreciation and impairment, but also in allowing the Council to easily confirm that the assets are still in existence and use.
- In addition to the Council's asset register, which is primarily used for accounting purposes, a number of departments hold separate asset records e.g. vehicle and property records. These records are not reconciled regularly with the asset register to ensure that the register is complete.

- 16.** The Council should undertake a review of its asset register to strengthen the quality of the detailed records and to consider whether its depreciation policies and/or retention practices are appropriate.

In overall terms the quality of the accounts is reasonably good but there are some issues to address

- 17.** We have identified the following areas where further work is required:

- The Council adopts procedures, as part of the accounts closedown process, to ensure that transactions are recorded within the correct financial year. However, we identified a number of transactions which were recorded incorrectly. These all fell in batches of invoices processed immediately after the determined date for processing invoices in the previous year. Whilst we are satisfied that the accounts are not materially misstated as a result of this, the Council needs to ensure in future that it ensures that transactions are recorded correctly.
- In order to account for its pension costs in accordance with International Accounting Standard 19 (Employee Benefits), the Council receives information from the Gwynedd Pension Fund actuary (Hymans Robertson LLP). As set out below, the actuary bases his calculations, in part, on information received from the administering authority. Since producing the statements in July, it was necessary for the Actuary to re-issue Gwynedd's IAS19 report. The first re-issue was as a result of it being identified that the actuary had double counted some of the obligations relating to the former Gwynedd County Council. The second re-issue was because we identified that Gwynedd Council's contributions information provided to the Actuary included the contributions for the GwE Joint committee, which produces a separate report and accounts. Whilst the Council relies on both the administering authority and the actuary in respect of these disclosures, we would expect the Council to undertake a review to satisfy themselves of the reasonableness of the figures.

We have identified one material weakness in your internal controls

18. 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.
19. 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.
20. As was the case in 2012/13, 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.
21. 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.
22. 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 2013/14 accounts we are satisfied that it does not have a material impact.
23. As we reported last year, it remains 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 and annual IAS19 disclosures based on robust membership data.

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

24. There are no other matters to report to you. In particular:
 - 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.
 - 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

25. As part of the finalisation process, we are required to provide you with representations concerning our independence.

-
- 26.** 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

[Audited body's letterhead]

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

25 September 2014

Dear Mr Barrett,

REPRESENTATIONS REGARDING THE 2013/14 FINANCIAL STATEMENTS

This letter is provided in connection with your audit of the financial statements (including that part of the Remuneration Report that is subject to audit) of Gwynedd Council for the year ended 31 March 2014 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;

-
- 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.

The understatement of the waste sites provision (paragraph 11) is covered by a balance within a reserve, therefore the Council is not exposed to risk. With hindsight, we acknowledge that the accounting entries should be amended to increase the provision, but unfortunately, the issue was escalated too late in the audit window.

Some issues regarding recording of the Council's assets were raised during the 2013/14 audit (paragraph 15), and we intend to address these during 2014/15.

We are aware of the issues regarding aspects of our pension disclosure IAS19 reports for our financial statements (paragraphs 17-23). Arrangements have been made during 2014/15 to avoid any repetition in future. This includes securing improved arrangements between the administering authority and the Fund actuary, as well as allocating additional resource to update relevant data.

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 25 September 2014.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Yours sincerely,

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

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 2014 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 2013-14 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, 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 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

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 2014 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 2013-14.

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 2014 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 2013-14.

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

30 September 2014

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
Narrative amendment to the Explanatory Foreword	Explanatory Foreword Updated figures and narrative in foreword to reflect changes in the financial statements	To ensure consistency
£212,000	Note 15 – Property, Plant & Equipment correction to classification of impairment Impairment Sales +£212,000 Impairment Revaluation -£212,000	To correct classification error and comply with Code of Practice
£72,000	Note 18 and Note 20 Debtors correction to classification Long term debtors +£72,000 Short term debtors -£72,000	To correct classification error and comply with Code of Practice
£111,000	Note 20 – Short Term Debtors correction to classification of short term debtors Other Central Govt Bodies +£84,000 Other Local Authorities +£27,000 Other entities -£111,000	To correct error and comply with Code of Practice
£815,000	Note 23 – Short term creditors correction to classification of creditors Welsh Government +£815,000 Other entities -£815,000	To correct classification error and comply with Code of Practice

Value of correction	Nature of correction	Reason for correction
Various amendments	<p>Note 36 – Related Parties External charitable or voluntary bodies: Members - Amounts owed by the authority -£2,216,380 Members- Amounts owed to the authority -£2,418,524</p> <p>Officers - Amounts owed by the authority -£273,795 Officers- Amounts owed to the authority -£89,922</p>	To correct for formula errors in working papers
Various amendments	<p>Note 36 – Related Parties Companies or businesses: Members - Amounts owed by the authority -£13,797 Members- Amounts owed to the authority -£12,949</p> <p>Other Public Bodies (WJEC)– Payments Made +£194,633 Other Public Bodies (WJEC) - Amounts owed by the authority - £97,316</p>	To correctly disclose the amounts in the underlying financial records
£501,000	<p>Note 38 – Leases Correction to operating lease figures following transfer of properties to CCG</p> <p>Operating Leases Within one year -£69,000 Between one & five years -£178,000 Later than five years -£254,000</p>	To correct error in amounts stated
Additional narrative	<p>Note 38 – Leases Additional information provided in respect of the funding of the Gwyriad asset</p>	To inform the reader
£19.317 million	<p>Note 42 – Pensions Costs Decrease in net liability at 31/3/14 following revised IAS19 report from the Actuary This impacts on a number of entries within the financial statements</p>	To correctly reflect pension costs in the financial statements.

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

Website: www.wao.gov.uk

Swyddfa Archwilio Cymru
24 Heol y Gadeirlan
Caerdydd CF11 9LJ

Ffôn: 029 2032 0500

Ffacs: 029 2032 0600

Ffôn Testun: 029 2032 0660

E-bost: info@wao.gov.uk

Gwefan: www.wao.gov.uk