



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Audit of Financial Statements Report – **Gwynedd Council**

Audit year: 2016-17

Date issued: September 2017



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infoofficer@audit.wales.

We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

The Deloitte team who delivered the work comprised Ian Howse – Engagement Partner, Clare Edge – Engagement Manager and Lauren Parsons – Team Leader.

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The Auditor General intends to issue an **unqualified audit report** on your financial statements. There are no issues to report to you prior to their approval.

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Introduction

- 1 The Auditor General is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of Gwynedd Council and the Gwynedd Pension Fund at 31 March 2017 and its income and expenditure for the year then ended. The Gwynedd Pension Fund has a separate audit outcomes report which details audit materiality and findings in respect of the 2016-17 audit.
- 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 £7,640,000. 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 2016-17, that require reporting under ISA 260.

Status of the audit

- 6 We received the draft financial statements for the year ended 31 March 2017 on 30 June 2017, and have now substantially completed the audit work and at the date of our presentation of this report the following were outstanding:
 - a. Finalisation of pension fund valuation assurances;
 - b. Finalisation of Partner and independent quality assurance review; and
 - c. Receipt of letter of representation.
- 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 Section 151 Officer and the Senior Finance Manager.

Proposed audit report

- 8 It is the Auditor General'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](#).

Audit outcomes

Uncorrected misstatements

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

Corrected misstatements

11 There is one misstatement that has been corrected by management, and we consider it should be drawn to your attention due to its relevance to your responsibilities over the financial reporting process. This is set out with explanations in [Appendix 3](#).

Significant Risks

12 In our Financial Audit Plan, we set out information regarding the significant audit risks that were identified during our planning process. The table below sets out the outcome of our audit procedures in respect of those risks. We have conducted our audit in line with the Financial Audit Plan.

Potential risks assessed	Testing completed in Gwynedd Council
<p>Management override of controls</p> <p>The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].</p>	<p>The audit team has completed the following procedures:</p> <ul style="list-style-type: none">• tested the appropriateness of journal entries and other adjustments made in preparing the financial statements using enhanced data analytics to analyse the whole journal population for characteristics of audit interest;• performed testing on the design and implementation of controls over journal entries to the financial ledger;• tested the appropriateness of accounting estimates for biases; and• evaluated the rationale for any significant transactions outside the normal course of business including those with related parties. <p>No issues were identified.</p>
<p>Completeness and recognition of grant income</p> <p>We have identified completeness and recognition of grant income as a significant risk as there is a need to apply management judgement on recognition of grant income, including determining whether a grant has conditions and whether they have been met to allow recognition.</p> <p>There are two types of grant income which we have considered to be relevant to this risk, these being, specific revenue grants and capital grants and contributions.</p>	<p>The audit team undertook the following procedures:</p> <ul style="list-style-type: none">• carried out detailed testing of grant income to check that recognition of income properly reflects the grant scheme rules, that entitlement is in agreement with the draft or final grant claim and that the grant control account balance has been properly reconciled;• reviewed and validated correspondence attached to specific grants and compared to the Council's accounting treatment; and

- tested the design and implementation of controls around recognition of grant income.

No issues were identified.

Pension liability

The Council currently holds a material net liability in respect of its pension obligations on the balance sheet, the calculation of which is based on a series of actuarial judgements.

The audit team undertook the following procedures:

- obtained the IAS19 valuation as at 31 March 2017, and engaged experts to assist with our review and testing of the appropriateness of the IAS19 valuation bases, assumptions and financial statement disclosures; and
- tested the design and implementation of controls around the recording of the pension valuations and related accounting entries and disclosures.

No issues were identified.

Summary report

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 no issues arising in these areas this year:

- **We have no concerns about the qualitative aspects of your accounting practices and financial reporting.** We found the information provided to be relevant, reliable, comparable, material and easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear.
- **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.**
- **We did not identify any material weaknesses in your internal controls.**
- **There are not any other matters specifically required by auditing standards to be communicated to those charged with governance.**

Recommendations arising from our 2016-17 financial audit work

- 14 The recommendations arising from our financial audit work are set out in [Appendix 4](#). Management has responded to them and we will follow up progress on them during next year's audit. Where any actions are outstanding, we will continue to monitor progress and report it to you in next year's report.

Recommendations arising from our 2015-16 financial audit work

- 15 The recommendations arising from our financial audit work are set out in [Appendix 5](#). Management has responded to them and we have followed up on progress during the 2016-17 audit. Where any actions are outstanding, we will continue to monitor progress and report it to you in next year's report.

Independence and objectivity

- 16 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 17 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

Draft Letter of Representation

Auditor General for Wales
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

28 September 2017

Representations regarding the 2016-17 financial statements

This letter is provided in connection with your audit of the financial statements of Gwynedd Council for the year ended 31 March 2017 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 CIPFA Code of Practice on Local Authority Accounting; in particular the financial statements give a true and fair view in accordance therewith.
- 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.

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- 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.

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 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 and Governance Committee on 28 September 2017.

Appendix 1

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.

Signed by:

Dafydd L Edwards
Head of Finance
Gwynedd Council

Date:

Signed by:

Councillor R. Medwyn Hughes
Audit & Governance Committee
Chairman
Gwynedd Council

Date:

Appendix 2

Proposed audit report of the Auditor General to Gwynedd Council

Auditor General for Wales' 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 2017 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 2016-17 based on International Financial Reporting Standards (IFRSs).

Respective responsibilities of the responsible financial officer and the Auditor General for Wales

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 and 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 Financial Reporting Council'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 Narrative Report 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.

Appendix 2

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 2017 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 2016-17.

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 2017 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 2016-17.

Opinion on other matters

In my opinion, the information contained in the Narrative Report 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 following matters, which I report to you, if, in my opinion:

- adequate accounting records have not been kept;
- the accounting statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit;
- the Annual Governance Statement does not reflect compliance with guidance.

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 Auditor General for Wales' Code of Audit Practice.

For and on behalf of
Huw Vaughan Thomas
Auditor General for Wales
29 September 2017

Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

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 misstatement that has been corrected by management, but which we consider should be drawn to your attention due to its relevance to your responsibilities over the financial reporting process.

	Nature of correction	CIES Dr	CIES Cr	BS Dr	BS Cr
		£'000	£'000	£'000	£'000
1	Note 33 – Related Parties We identified that one individual's declaration of interest return for 2016/17 misstated "Grŵp Cynefin" as "Cynefin". As a result the Related Parties note had been understated by £941,000.	n/a	n/a	n/a	n/a

Appendix 4

Recommendations arising from our 2016-17 financial audit work

We set out all the recommendations arising from our audit with management's response to them. We will follow up these next year and include any outstanding issues in next year's audit report:

Matter arising 1 – Trust Funds	
Findings	<p>We identified that a central record of bequests is maintained, which populates Note 40. These bequests are deducted from the Council's bank balance as they are not Council assets and are highly immaterial as the total recorded bequests for 2016-17 are £678k. We note that each individual bequest has its own ledger code so expenditure made against the code can be monitored to be in accordance with the bequestor's wishes. To determine the accuracy of these records we selected a sample of bequests and from a sample of two we could not be provided with the original bequest documentation for one of the bequests.</p> <p>Note, we have not performed detailed testing on the nature of the expenditure against the bequest as this is not an asset of the Council and therefore outside the scope of our testing.</p>
Recommendation	It is recommended that all bequest documentation is retained to ensure the bequest amount and restrictions have been recorded accurately.
Priority	Low
Benefit of Implementing Recommendation	If accurate records are not maintained in respect of bequest balances held, there is a risk that bequested funds may be incorrectly accounted for.
Accepted in full by management	Yes
Management response	Following Local Government Reorganisation reorganisation in 1996, many of the original bequest documents have been archived. Most of the information is held on file in the Finance Department and currently the Legal Department is assisting in order to obtain information for the remaining few.
Implementation date	Ongoing and in advance of 2017/18 closure.

Appendix 4

Matter arising 2 – IT findings	
Finding	As part of our financial audit we engaged IT specialists to assist the audit team with testing the appropriateness of the Council's IT systems which have a direct impact on the production of the financial statements. The IT specialists identified a number of recommendations which have been communicated to management.
Recommendation	It is recommended that management work with the IT Manager to ensure these recommendations are implemented in a timely manner.
Priority	Low
Benefit of Implementing Recommendation	To improve the quality and robustness of the IT systems.
Accepted in full by management	Yes
Management response	Agreed
Implementation date	Two of the recommendations have already been implemented, with the third to be implemented in October 2017.

Appendix 5

Recommendations arising from our 2015-16 financial audit work

We set out all the recommendations arising from our 2015-16 audit with management's response to them. We have followed these up during the 2016-17 audit and have recorded the results below.

Matter arising 1 – Estates	
Findings	As part of our financial audit we engaged a valuation expert to assist the audit team with testing the appropriateness of the IAS 19 disclosure. The expert valuer has raised a number of areas for improvement which largely relate to procedures and processes around the valuations performed by the Estates Manager in line with the instructions provided by finance. These recommendations have been communicated to management.
Recommendation	It is recommended that management work with the Estates Manager to ensure these recommendations are implemented in a timely manner.
Priority	Medium
Benefit of Implementing Recommendation	To improve the quality and robustness of valuation process.
Accepted in full by management	Yes
Management response	Agreed and some aspects already actioned.
Implementation date	Ongoing and in advance of 2016/17 closure
2016-17 findings	Our experts identified that appropriate procedures are in place whereby the Council's Finance Team instructs their in-house estates team/valuer, to undertake the necessary valuations each year. The instructions cover reference to the five year rolling programme of valuations and the appropriate requirements to undertake revaluations of selected assets each year together with schedules of the specific categories to be valued each year as part of the five year rolling programme. In terms of the valuations undertaken by the Council's internal valuer, our experts are satisfied that the correct RICS, IFRS, IAS and CIPFA guidance has been followed, and the correct valuation bases/methodology have been adopted. However, the experts have identified a number of areas for

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	improvement which largely relate to procedures and processes around the valuations and the related reports including timeliness of delivery of the valuation reports performed by the Estates Manager in line with the instructions provided by finance.
Status	Recommendation re-raised.
Management response	Improvements have been implemented based on last year's recommendations. The Council will strive to continue to improve in this area within the resources available.

Matter arising 2 – Bad debt provision	
Findings	<p>The total bad debt provision in the year to 31 December 2016 is £4,106,000 which is not material.</p> <p>The Council currently has a mix of bad debt provision categories, the largest being the Sundry Debtors and Council Tax provisions amounting to £2,044,000 and £1,300,000 respectively. The Council has a different approach to calculating the provision for the Sundry debts to all other debts.</p> <p>The provision for Council Tax Debtors is based on sliding scale % per ageing category of debt, which is not in accordance with IAS 39 Financial Instruments: Recognition and Measurement. Paragraphs AG89 and AG90 of IAS 39 state that a provision should be based on historical experience of losses and that the methodology and assumptions for estimating future cashflows should be regularly reviewed.</p> <p>The provision in relation to the Sundry Debtors system however, is based on an assessment as to how likely management believe individual debts over £10k are recoverable, a different provision percentage is then applied to these debts based on the assessment. We performed a test of detail on this area of provision and from a sample of five items we identified that Council applied judgements which appear reasonable and in line with the Sundry Debtors bad debt policy</p>
Recommendation	It is recommended that management perform a review of their approach to calculating the bad debt provision and that this approach should be an informed approach, which could include reviewing debtor dates and payment terms, particularly those less than a year old and then standardise across the Council as far as possible.
Priority	Medium

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Benefit of Implementing Recommendation	A more informed bad debt provision in accordance with the requirements of IAS 39. This will also ensure a more accurate financial reporting and that the bad debt provision is less likely to be misstated.
Accepted in full by management	Yes
Management response	Agreed.
Implementation date	In advance of 2016/17 closure.
2016-17 findings	<p>We identified that the sundry debt provision is calculated by applying set percentages to all individual debtor balances below £10k and applying the percentages to all debtor balances above £10k, where appropriate, following a specific review.</p> <p>We note that the percentages applied to the sundry debtor balances were determined in 2002/03 and are as follows:</p> <p>2016/17 – 10% 2015/16 – 10% 2014/15 – 20% 2013/14 – 50% 2012/13 onwards -100%</p> <p>The methodology as to how these percentages have been determined could not be provided, however, management have confirmed that an annual assessment as to the reasonableness of the provision for debts less than £10k is undertaken.</p>
Status	Revised recommendation: It is recommended that the percentages used to generate the sundry debts provision are formally reviewed on an annual basis and that an analysis of collection rates is used to inform the percentages determined.
Management response	Agreed.

Appendix 5

Matter arising 3 – Journals	
Findings	Our testing of income and expenditure selected a number of journal postings and that upon request the accountants were able to provide a rationale as to why the journal was posted, however, the journal posting itself did not include such narrative.
Recommendation	It is recommended that all journals prepared and posted are supported by a clear narrative as to its reason and rationale.
Priority	Medium
Benefit of Implementing Recommendation	That a full rationale is provided which gives transparency over an area which is deemed an area where management override of controls is deemed to be a specific risk.
Accepted in full by management	Yes
Management response	We will endeavour to provide explanatory information as far as possible within the restrictions of the ledger system, as we are limited to the number of characters allowed in the description field. Further information will continue to be made available outside of the ledger system.
Implementation date	In advance of 2016/17 closure.
2016-17 findings	We identified that improvements have been made regarding the journal rationale and from our sample testing detailed rationales for all journals sample selected journals were provided.
Revised recommendation	N/a - Recommendation implemented.

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