

Audit of Accounts Report – Gwynedd Council

Audit year: 2020-21

Date issued: October 2021

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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.

Mae'r ddogfen hon hefyd ar gael yn Gymraeg. This document is also available in Welsh.

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We intend to issue an unqualified audit report on your Accounts with an Emphasis of Matter paragraph drawing attention to a disclosure note in your accounts. There are some matters to report to you prior to their approval.

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Audit of Accounts Report

Introduction

- 1 We summarise the main findings from our audit of your 2020-21 accounts in this report.
- 2 We have already discussed these issues with the Head of Finance and his team.
- 3 Auditors can never give complete assurance that accounts are correctly stated. Instead, we work to a level of 'materiality'. This level of materiality is set to try to identify and correct misstatements that might otherwise cause a user of the accounts into being misled.
- 4 We set this level at £4.699 million for this year's audit.
- 5 There are some areas of the accounts that may be of more importance to the reader and we have set a lower materiality level for these, as follows:
 - Related Party Disclosures £100,000
 - Senior officer remuneration £1,000
- 6 We have now substantially completed this year's audit.
- 7 In our professional view, we have complied with the ethical standards that apply to our work; remain independent of yourselves; and our objectivity has not been compromised in any way. There are no relationships between ourselves and yourselves that we believe could undermine our objectivity and independence.

Impact of COVID-19 on this Year's Audit

- 8 The COVID-19 pandemic has had a significant impact on all aspects of our society and continues to do so. You are required by law to prepare accounts and it is of considerable testament to the commitment of your accounts team that you have succeeded in doing so this year in the face of the challenges posed by this pandemic. We are extremely grateful to the professionalism of the team in supporting us to complete our audit in such difficult circumstances.
- 9 The pandemic has unsurprisingly affected our audit and we summarise in **Exhibit 1** the main impacts. Other than where we specifically make recommendations, the detail in **Exhibit 1** is provided for information purposes only to help you understand the impact of the COVID-19 pandemic on this year's audit process.

Exhibit 1 – impact of COVID-19 on this year’s audit

Timetable	Officers provided us with the draft accounts on 28 May 2021 as planned. This complies with regulatory deadlines. We expect your audit report to be signed by the middle of October 2021.
Electronic signatures	Given current social distancing requirements, it will be difficult for signing and certification of the accounts in hard copy again this year. We will accept electronic signatures from you.
Conducting the audit approach and obtaining audit evidence	<p>Due to social distancing measures, Audit Wales and the majority of the Authority’s staff are currently working remotely from home. As a result, we adopted remote ways of working, building on our experience last year, by:</p> <ul style="list-style-type: none">• holding weekly Microsoft Teams meetings with officers throughout the audit to discuss progress and emerging issues; and• utilising our remote access to enable the audit team to access the Council’s financial records and systems.

- 10 We will continue to review what we have learned for our audit process from the COVID-19 pandemic and whether there are innovative practices that we might adopt in the future to enhance that process.

Proposed Audit Opinion

- 11 We intend to issue an unqualified audit opinion on this year’s accounts once you have provided us with a Letter of Representation based on that set out in **Appendix 1**.
- 12 We issue a ‘qualified’ audit opinion where we have material concerns about some aspects of your accounts; otherwise we issue an unqualified opinion.
- 13 Our proposed audit report is set out in **Appendix 2**. The audit report includes an Emphasis of Matter which draws attention to the impact of the COVID-19 pandemic on the valuation of land and buildings. As a result of COVID-19, and in accordance with specific guidance issued by their professional institute, the Council’s Valuer declared a ‘material valuation uncertainty’ in their valuation report for assets valued at 31 March 2020. As at 31 March 2021, this uncertainty clause remains extant for property assets in the accounts, as described in Note 6.

My opinion is not modified in respect of these matters.

- 14 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards along with confirmation of other specific information you have provided to us during our audit.

Significant Issues arising from the Audit

Uncorrected misstatements

- 15 We set out below a misstatement we identified in the accounts, which has been discussed with management but remains uncorrected. We request that this is corrected. If you decide not to correct this misstatement, we ask that you provide us with the reason in writing for not correcting it.
- our audit identified that although the Council has an earmarked insurance reserve to meet potential legal claims, it does not meet the requirements of the CIPFA Code in terms of recognising a provision when a claim is assessed as having a present obligation, and it is probable that the claim will lead to a settlement being made. The Claims Manager has assessed all the claims and identified that it is probable that £575,000 of those claims will lead to a settlement and would therefore require a provision to be raised to be in compliance with the CIPFA Code. We would expect that this would give rise to a corresponding reduction in the Insurance Reserve.

Corrected misstatements

- 16 There were initially misstatements in the accounts that have now been corrected by management. However, we believe that these should be drawn to your attention and they are set out with explanations in **Appendix 3**.

Other Significant Issues arising from the Audit

- 17 In the course of the audit, we consider a number of matters relating to the accounts and report any significant issues arising to you. There was one matter arising in these areas this year.
- During our audit, we identified that the Council had systemic issues in the way in which the Asset Register was updated for the results of the schools' quinquennial valuation exercise, and other valuations undertaken for the year ended 31 March 2021. The impact of componentisation of assets was not fully considered, resulting in the misclassification of additions, revaluations and impairments charged to Services and the Revaluation Reserve. Although the net effect of the adjustments of £2.9 million was below materiality, the amendments required to correctly reflect the results of the valuation exercise on the Comprehensive Income and Expenditure

Statement was £20.7m for the Cost of Services and a £23.6 million impact on Other Comprehensive Income and Expenditure. The impact on the balance sheet was a reduction in the value of Property Plant & Equipment of £2.9 million (note 15). Further details of the corrections made is shown in **Exhibit 2**.

Recommendations

- 18 We intend to hold a post project learning exercise with key staff to further improve the accounts production and process for future years.

Appendix 1

Final Letter of Representation

Gwynedd Council letterhead

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

[Date]

Representations regarding the 2020-21 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 2021 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 2020-21; 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.
- 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.

The methods, the data and the significant assumptions used in making accounting estimates, and their related disclosures, are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework.

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 the uncorrected misstatement is set below:

- Although the Council has an earmarked insurance reserve to meet potential legal claims, it does not meet the requirements of the CIPFA Code in terms of recognising a provision when a claim is assessed as having a present obligation, and it is probable that the claim will lead to a settlement being made. The Claims Manager has assessed all the claims and identified that it is probable that £575,000 of those claims will lead to a settlement and would therefore require a provision to be raised to be in compliance with the CIPFA Code. We would expect that this would give rise to a corresponding reduction in the Insurance Reserve.

The Council has set aside adequate funding but in an insurance reserve rather than a provision. We consider this to be a technical issue and the treatment proposed by Audit Wales will be considered in future years.

Representations by the Audit and Governance 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 on 14 October 2021.

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

Date:

Signed by:

Councillor John Pughe Roberts
Chair of the Audit and Governance
Committee

Date:

Appendix 2

Proposed Audit Report

The independent auditor's report of the Auditor General for Wales to the members of Gwynedd Council

Opinion on financial statements

I have audited the financial statements of Gwynedd Council for the year ended 31 March 2021 under the Public Audit (Wales) Act 2004.

Gwynedd Council's statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21.

In my opinion the financial statements:

- give a true and fair view of the financial position of Gwynedd Council as at 31 March 2021 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with legislative requirements and international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the council in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter – effect of COVID-19 on the Council's assets valuations

I draw attention to Note 6 to the financial statements, which describes a material valuation uncertainty clause in the valuation reports in 2019-20 and 2020-21 on the Council's property arising from circumstances caused by the COVID-19 pandemic. My opinion is not modified in respect of this matter.

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the responsible financial officer with respect to going concern are described in the relevant sections of this report.

Other Information

The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. The Responsible Financial Officer is responsible for the other information contained within the annual report. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon. My responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Report on other requirements

Opinion on other matters

In my opinion, based on the work undertaken in the course of my audit:

- the information contained in the Narrative Report for the financial year for which the financial statements are prepared is consistent with the financial statements and the Narrative Report has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21;
- The information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and the Annual Governance Statement has been prepared in accordance with guidance.

Matters on which I report by exception

In the light of the knowledge and understanding of the council and its environment obtained in the course of the audit, I have not identified material misstatements in the Narrative Report or the Annual Governance Statement.

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, or returns adequate for my audit have not been received from branches not visited by my team;
- the financial 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.

Responsibilities

Responsibilities of the responsible financial officer for the financial statements

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 which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of statements of accounts that are free from material misstatement, whether due to fraud or error.

In preparing the statement of accounts, the responsible financial officer is responsible for assessing the council's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

My procedures included the following:

- Enquiring of management and those charged with governance, including obtaining and reviewing supporting documentation relating to Gwynedd Council's policies and procedures concerned with:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- Considering as an audit team how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the following areas: revenue recognition, posting of unusual journals reviewing accounting estimates for biases and evaluated the rationale for any significant transactions outside the normal course of business.
- Obtaining an understanding of Gwynedd Council's framework of authority as well as other legal and regulatory frameworks that Gwynedd Council operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of Gwynedd Council.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit and Governance Committee and legal advisors about actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the Council amend as appropriate;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

I also communicated relevant identified laws and regulations and potential fraud risks to all audit teams and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the Audit and Governance's controls, and the nature, timing and extent of the audit procedures performed.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

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.

Adrian Crompton
Auditor General for Wales
Date- to be confirmed

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Appendix 3

Summary of Corrections Made

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.

Exhibit 2: summary of corrections made

Value of correction	Nature of correction	Reason for correction
Narrative disclosure only, self-contained to note 11.	Note 11 – Other Operating Expenditure To amend the disclosure of the payment to North Wales Police & Crime Commissioner of £15,088,000 million from a 'Levy' to a 'Precept'.	To correctly reflect the nature of the payment to North Wales Police & Crime Commissioner.
£2,925,000 decrease in the value of Land and Buildings	Note 15 – Property, Plant & Equipment The amounts for Revaluation and Impairments charged to Services has been reduced by £20,696,000. The amounts for Revaluation and Impairments credited to the Revaluation Reserve has been reduced by £23,621,000. The net impact of the misstatements is a £2,925,000 reduction in the value of Land & Buildings. This amendment has also impacted on the: <ul style="list-style-type: none">• Expenditure and Funding Analysis,	To correct the impact of the revaluation of Land & Buildings in the year and to ensure that the total values agreed to the results of the valuation exercise for all relevant assets.

	<ul style="list-style-type: none"> • Comprehensive Income and Expenditure Statement, • Movement in Reserves Statement (and related notes), • Balance Sheet, • Cash Flow Statement (and Related notes), and • Note 7 – Material items of Income and Expenditure. 	
£4,363,000 increase in the balance of Capital Commitments	<p>Note 15 – Property, Plant & Equipment</p> <p>The contract sum amount within Capital Commitments has been increased by £7,032,000 with an increase in Payments to Date of £2,669,000 leaving a balance increase of £4,363,000</p>	To update the figures to include all significant capital contractual commitments at the year end.
£393,000 increase in fair value of Financial Liabilities.	<p>Note 17a – Financial Instruments</p> <p>The fair value of Lease Payables has been increased by £355,000</p>	To ensure that the fair value of financial liabilities agrees to the figures supplied by the Council's Treasury Advisor.
£5,959,000 increase in Cash and Cash Equivalents. With a corresponding increase in Short-Term Creditors	<p>Note 19 – Cash & Cash Equivalents & Note 21 – Short Term Creditors</p> <p>The Bank Overdraft has been reduced by £5,959,000 with a corresponding increase in Other Payables within Short Term Creditors.</p> <p>This amendment has also impacted on the Balance Sheet, the Cash Flow Statement (and associated</p>	To correctly account for the bank balances for GwE held by Gwynedd Council in line with the accounting requirements for Joint Committees.

	notes) and Note 17 – Financial Instruments.	
£53,500,000 increase in Agency Services disclosures. Self-contained to Note 28.	Note 28 – Agency Services Additional disclosures have been included for Education Grants totalling £53,500,000 for which the Council acts an Agent for the Welsh Government.	To ensure that all Agency arrangements have been included within the note.
£290,000 increase in the teacher's pension costs. Self-contained to Note 37.	Note 37 – Pension Schemes Accounted for as Defined Contribution Schemes The amount of teacher's pension costs paid in 2020/21 has been increased by £290,000. The prior year comparative figure has also increased by £210,000.	To ensure that the figures disclosed agree to figures supplied to the Teachers' Pensions.
£450,000 increase in Contingent Liabilities. Self-contained to note 39	Note 39 – Contingent Liabilities The amount disclosed as the maximum potential Municipal Mutual Insurance has been increased by £450,000.	To ensure that the potential liability agrees to the latest information provided.
There have also been a number of minor amendments and disclosure updates as a result of our work.		



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We welcome correspondence and telephone calls in Welsh and English.
Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.