

Archwilydd Cyffredinol Cymru
Auditor General for Wales



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

Audit of Financial Statements Report

Gwynedd Council

Audit year: 2014-15

Issued: September 2015

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Status of report

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

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Summary report

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 at 31 March 2015 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 level at which we judge such misstatements to be material for Gwynedd Council is £3.837 million. 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 2014-15, that require reporting under ISA 260.

Status of the audit

6. We received the draft financial statements for the year ended 31 March 2015 on the statutory deadline of 30 June 2015, 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 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. However there will be a modification to the audit report as a member of the public has recently raised an objection to the accounts in relation to Trunk Road Agency expenditure. Therefore whilst we can give the opinion on the financial statement, we cannot formally conclude our other audit responsibilities and issue the certificate of audit closure.
10. The proposed audit report is set out in [Appendix 2](#).

Significant issues arising from the audit

Uncorrected misstatements

11. We set out below two misstatements 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 these misstatements, we ask that you provide us with the reason for non-correction.

The Council's provisions are overstated by £825,000

12. The Council has made accounting provisions for costs relating to council tax property transfers and pension liabilities.
13. International Accounting Standard 37 – Provisions, Contingent Liabilities and Contingent Assets (IAS37) sets out that an entity must recognise a provision if, and only if:
- a present obligation has arisen as a result of a past event (the obligating event);
 - payment is probable; and
 - the amount can be estimated reliably
14. The Council has provided £490,000 to cover the future loss of Council tax as a result of householders with properties that are not fully occupied throughout the year transferring over to NNDR. However this does not comply with the definition of a provision as the obligating event (the point at which the transfers from CT to NNDR are approved) has not yet taken place.
15. The Council has also provided £335,000 to contribute towards the existing pension deficit. Whilst there is a past obligation in relation to these costs, it is not appropriate to have a provision in the accounts as the liability is already reflected in the accounts through the International Accounting Standard 19 – Employee Benefits (IAS19) entries.
16. Whilst I appreciate that it is prudent to set aside these funds in budgetary terms, from a technical accounting perspective they do not comply. It would be more appropriate for these sums to be set aside in earmarked reserves.

Corrected misstatements

17. 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

- 18.** 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 are no issues arising in these areas this year:

There are no matters that we need to report to you

- 19.** There are no other matters to report to you. In particular:
- We have no concerns about the qualitative aspects of your accounting practices and financial reporting;
 - 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; and
 - there are no other matters specifically required by auditing standards to be communicated to those charged with governance.

Recommendations arising from our 2014-15 financial audit work

- 20.** There is one recommendation arising from our financial audit work which is set out in [Appendix 4](#).

Independence and objectivity

- 21.** As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 22.** 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

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

24 September 2015

Dear Sir,

Representations regarding the 2014-15 financial statements

This letter is provided in connection with your audit of the financial statements of Gwynedd Council for the year ended 31 March 2015 for the purpose of expressing an opinion on their truth and fairness.

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.
- The design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

Information provided

We have provided you with:

- Full access to:
 - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;
 - additional information that you have requested from us for the purpose of the audit; and
 - unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
- The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- Our knowledge of fraud, or suspected fraud, that we are aware of and that affects Gwynedd Council and involves:
 - management;

-
- employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements.
 - Our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others.
 - Our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
 - The identity of all related parties and all the related party relationships and transactions of which we are aware.

Financial statement representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

The financial statements are free of material misstatements, including omissions. The effects of uncorrected misstatements identified during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of these items is set out below:

Paragraphs 12-17 of the auditor's report refer to two technical accounting matters. The auditor suggests that two funds prudently set aside should not be recognised as a provision. There are grounds to consider these funds as either provisions or reserves, but they will be transferred in 2015/16.

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 24 September 2015.

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

Date

.....

COUNCILLOR JOHN PUGHE ROBERTS
AUDIT COMMITTEE CHAIRMAN

Date

Appendix 2

Proposed audit report of the Auditor General 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 2015 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 2014-15 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, 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 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 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 2015 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 2014-15.

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 2015 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 2014-15.

Opinion on other matters

In my opinion, the information contained in the Explanatory Foreword 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 Governance Statement contains material misstatements of fact or is inconsistent with other information I am aware of from my audit.

Certificate of completion of audit

I have carried out the audit of accounts 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. The audit cannot be formally concluded and an audit certificate issued until enquiries arising from an objection raised by a member of the public has been formally completed. I am satisfied that the amount which is the subject of the objection will not have a material effect on the statement of accounts.

**For and on behalf of
Huw Vaughan Thomas
Auditor General for Wales
Wales Audit Office
24 Cathedral Road
Cardiff CF11 9LJ
30 September 2015**

Appendix 3

Summary of corrections made to the draft financial statements which should be drawn to the attention 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
£898,000	Note 15 – Property Plant & Equipment Revaluations relating to two buildings had been incorrectly entered into the fixed asset register Land & Buildings -£898,000 Revaluation Reserve +£898,000	To correctly reflect the valuations on land and buildings
£153,000	Note 17 – Financial Instruments (c) To include the Gwyrriad finance lease loan which had been omitted Interest Expense £153,000	To accurately reflect the financial liabilities disclosure
£670,000	Note 13b – National Non Domestic Rates To gross up for a number of NNDR schemes Receipts from the National Pool +£670,000 Sums paid to the National Pool +£670,000	To correctly show the gross movements with the National Pool
£2,670,000	Note 22 Provisions Reclassification of Equal Pay provision from long term provisions to short term provisions	To reflect the expected timing of the financial outlay
Additional narrative	Note 4 – critical judgements Note 5 – assumptions made about estimation uncertainty To provide additional detail	To inform the reader
Various amendments	Note 31 – Remuneration report A number of minor amendments were made to correctly reflect the information	To ensure accurate disclosure

Appendix 4

Recommendations arising from our 2014-15 financial audit work

We set out one recommendation arising from our audit with management's response to them.

Matter arising 1 – Accounting for Provisions	
Findings	The Council has made provisions that do not comply with the requirements of IAS37
Priority	High
Recommendation	The Council should ensure that provisions are established only where the conditions meet the requirements of IAS37
Benefits of implementing the recommendation	To comply with the Code of Practice on Local Government Accounting and IAS37
Accepted in full by management	Yes, accepted in respect of the provision towards the employer's pension contribution, and partly accepted in respect of the provision to cover loss of Council Tax on transfer to NNDR.
Management response	The Auditor's report acknowledges that it is prudent to set aside these funds, and that the matter is a technical accounting issue. We will address this in 2015/16. Further, the provision to cover loss of Council Tax did have obligating past events, namely properties referred to the VOA during and in respect of 2014/15, but not resolved as at 31/03/2015.
Implementation date	2015-16 accounts

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