

Archwilydd Cyffredinol Cymru
Auditor General for Wales



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

Audit of Financial Statements Report

GwE Joint Committee

Audit year: 2014-15

Issued: September 2015

Document reference: GwE2015

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 GwE Joint Committee 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 GwE Joint Committee is £88,000. 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 GwE Joint Committee, 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. The proposed audit report is set out in [Appendix 2](#).

Significant issues arising from the audit

Uncorrected misstatements

10. We set out below the misstatement we identified in the financial statements, which has been discussed with management but remains uncorrected, and request that this is

corrected. If you decide not to correct this misstatement, we ask that you provide us with the reasons for non-correction.

Expenditure on capital equipment has not been capitalised

- IT equipment costing £35,700 was purchased during the year which should have been capitalised and treated in accordance with proper capital accounting practices.

Corrected misstatements

11. There are misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process. They are set out with explanations in [Appendix 3](#)

Other significant issues arising from the audit

12. In the course of the audit, we consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you. There were some issues arising in these areas this year:

We have two concerns about the qualitative aspects of your accounting practices and financial reporting

13. We have the following concerns about the qualitative aspects of your accounting practices and financial reporting:
 - GwE's accounting policy 1.2 *Accruals of Income and Expenditure* confirms that activity is accounted for in the year it takes place, not simply when cash payments are made or received. We identified several transactions which related in full or in part to the 2015-16 financial year, resulting in an adjustment of £120,000. A number of these were for costs relating to the academic year which had been fully accounted for in the 2014-15 financial year, despite the fact that the academic year straddles two financial years and needs to be apportioned accordingly.
 - Our audit work identified a number of disclosure requirements that had not been fully met. The Code of Practice on Local Authority Accounting includes a disclosure checklist for use by bodies to ensure that the accounts fully comply with the disclosure requirements which had not been used in the preparation of GwE's accounts. We recommend its use in future.

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

14. 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;
 - 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

15. The recommendations arising from our financial audit work are set out in [Appendix 4](#).

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 GwE Joint Committee 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

23 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 the GwE Joint Committee 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 the GwE Joint Committee 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:

The auditor's report refers, in paragraph 13, to concerns about accruals in respect of grant income and expenditure. As it related to the academic year, part of the income and expenditure (relating to the summer term) should have been recorded against 2015/16.

The accrued expenditure is negated by the equal amounts of related grant income, and therefore has no effect on the actual net expenditure (i.e. no change to "the bottom line").

In order to address this in subsequent financial years' accounts, we will consult with the funding bodies (primarily the Welsh Government) to achieve greater clarity in the conditions of grant, etc.

The auditor's report, in a bullet point under paragraph 10, states that expenditure on IT equipment should have been capitalised. In accordance with the Joint Committee's revised Accounting Policy (section 1.1), this £35,700 may be treated as revenue. The auditor's

comments are noted and such items will receive due consideration in subsequent years' accounts.

The auditor's report also refers to use of the appropriate disclosure checklist, which is a technical accounting matter.

Representations by the GwE Joint 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 the GwE Joint Committee on 23 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
GWYNEDD COUNCIL

Date

.....

COUNCILLOR ERYL WILLIAMS
CHAIRMAN
GwE JOINT COMMITTEE

Date

Appendix 2

Proposed audit report of the Auditor General to GwE Joint Committee

Auditor General for Wales' report to the Members of GwE Joint Committee

I have audited the accounting statements and related notes of GwE Joint Committee for the year ended 31 March 2015 under the Public Audit (Wales) Act 2004.

GwE Joint Committee's accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet and the Cash Flow 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 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 GwE Joint Committee'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 GwE Joint Committee

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of GwE Joint Committee 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 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 certify that I have completed the audit of the accounts of GwE Joint Committee 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
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 GwE Joint Committee

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
£120,000	Correct expenditure recorded in the wrong period and corresponding income Supplies and Services -£99,000 Third Party Expenditure -£21,000 Income +£120,000	To account for expenditure in the correct period
£7,700	To correct classification in Note 13 Other Local Authorities +£7,700 Other Entities and Individuals -£7,700	To comply with disclosure requirements
£92,000	Correct overstated grant income and corresponding expenditure - School Challenge Cymru Income +£92,000 Third Party Expenditure -£90,000 Supplies and Services -£ 2,000	To correct for overstated income and expenditure
£20,000	Correct overstated grant income and corresponding third party expenditure - GCSE, PISA and science literacy Income +£20,000 Third Party Expenditure -£20,000	To correct for overstated income and third party expenditure
Additional narrative	Note 4 – Critical Judgements Note 5 – Assumptions about estimation uncertainties Additional information to provide further explanation relevant to the accounts	To inform the reader
Additional narrative	Explanatory Foreword Additional information relating to material items of income and expenditure	To comply with disclosure requirements
Additional narrative	Annual Governance Statement	To inform the reader

	Additional information relating to the findings of the Joint Service Review carried out by Estyn and Wales Audit Office	
Additional disclosure	Add disclosure note on segmental reporting	To comply with disclosure requirements

Appendix 4

Recommendations arising from our 2014-15 financial audit work

We set out the recommendations arising from our audit with management's response to them:

Matter arising 1 – Accruals and Prepayments

Findings	A number of expenditure transactions had been accounted for, either in part or in full, in the wrong financial year
Priority	High
Recommendation	Ensure that financial transactions are accounted for in the correct financial year in accordance with accounting policies
Benefits of implementing the recommendation	Correctly reflect income and expenditure for the financial year
Accepted in full by management	Yes
Management response	<p>In respect of some specific grants, both the relevant expenditure and the grant income had been fully accounted for in 2014/15. As it related to the academic year, it follows that part of this income and expenditure should have been recorded against 2015/16.</p> <p>In order to address this in subsequent years' accounts, we will consult with the funding bodies to achieve greater clarity in the conditions of grant, etc.</p>
Implementation date	With immediate effect

Matter arising 2 – Capital Accounting

Findings	Non- current assets were not capitalised
Priority	Medium
Recommendation	Ensure that the purchase of non-current assets are accounted for appropriately
Benefits of implementing the recommendation	To correctly recognise non-current assets within the financial statements
Accepted in full by management	Recommendation above accepted (in the context of our related accounting policy).

Matter arising 2 – Capital Accounting

Management response	<p>The Joint Committee's Accounting Policy (section 1.1) includes that all items of expenditure are treated as revenue in the first instance.</p> <p>Any items of a capital nature would be considered as to whether materially significant on the true and fair presentation of the financial position.</p> <p>The £35,700 in 2014/15 relates to a single transaction and in the context, is not considered significantly material.</p>
Implementation date	Immediate (in accordance with the related accounting policy).

Matter arising 3 – Disclosure Checklist

Findings	There were a number of disclosure amendments required to the draft accounts
Priority	Medium
Recommendation	In future use the Code disclosure checklist to ensure that all disclosure requirements are met.
Benefits of implementing the recommendation	To ensure that the accounts comply with the Code of Practice on Local Government Accounting
Accepted in full by management	Yes
Management response	The required and necessary information was already incorporated within the Statement of Accounts, however we will comply with the above recommendation in the future
Implementation date	2015-16 accounts.

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