



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

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

Audit year: 2017-18

Date issued: September 2018



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

The team who delivered the work comprised Ian Howse (Engagement Partner), Lauren Parsons (Engagement Manager) and Alex Watts (Team Leader).

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The Auditor General intends to issue an **unqualified audit report** on your financial statements.

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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 2018 and its income and expenditure for the year then ended.
- 2 We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might result in a reader of the accounts being misled.
- 3 The quantitative levels at which we judge such misstatements to be material for Gwynedd Council are £7,975,000. 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 2017-18, that require reporting under ISA 260.

Status of the audit

- 6 We received the draft financial statements for the year ended 31 March 2018 on 18 June 2018, and have now substantially completed the audit work and at the date of our presentation of this report the following were outstanding:
 - Finalisation post balance sheet events testing;
 - Reconciliation of Fixed Asset Register and Note 15 query;
 - Completeness of bad debt provision testing;
 - Finalisation of note 30 testing;
 - Clearance of review notes;
 - Finalisation of independent quality assurance review;
 - Review of second version of accounts; and
 - 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 management.

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 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 in the letter of representation.

- In 2017/18 a payment of £8.627m was made by the Council to Gwynedd Pension Fund to cover the fixed element of the employer contributions for the period 2017/18 to 2019/20. The Council accounted for this by including the full amount in expenditure and funded 2/3 of the amount (£5.640m) from the Earmarked Reserves (Liabilities related to the Pension Fund). After taking into account the balance on the Earmarked Reserve this has resulted in a negative reserve of £4.256m.

The £5.640m charged to the Earmarked Reserves should be funded from another reserve with sufficient funding, thus avoiding a negative reserve. As this is a classification error within the detail of the usable reserves (Note 10), management have chosen not to adjust the accounts for this misstatement.

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 the relevance to your responsibilities over the financial reporting process. This is set out with an explanation 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 and management judgements and estimates;• reviewed accounting estimates for biases including a detailed review of provisions; and

	<ul style="list-style-type: none"> evaluated the rationale for any significant transactions outside the normal course of business. <p>No issues were identified.</p>
<p>Completeness and cut-off of expenditure</p> <p>We have identified completeness of expenditure as a significant risk as there may be an incentive not to record all expenditure in order for the Council to report a more favourable year end position.</p>	<p>The audit has completed the following procedures:</p> <ul style="list-style-type: none"> performed design and implementation testing over the controls in place to ensure completeness of expenditure; performed focussed audit testing in relation to the completeness and cut-off of expenditure; and completed detailed testing in relation to management estimates and judgements as set out in the management override risk detailed above. <p>We note that during the final audit fieldwork the risk in relation to completeness of expenditure was pinpointed to the year-end accruals and provisions balances, with the procedures completed above tailored accordingly.</p> <p>No issues were identified, although recommendations have been raised in relation to controls in this area.</p>
<p>Property Valuations</p> <p>The Council completes a cyclical full valuation process whereby classes of assets undergo a full valuation on a five-yearly basis, with the valuations being completed by internal valuers.</p> <p>Property valuations by their nature include judgements and estimates and with land and buildings valuations as at March 2017 being £288m, changes in judgements and estimates can have a material impact on the carrying value.</p>	<p>The audit team has completed the following procedures:</p> <ul style="list-style-type: none"> performed design and implementation testing in relation to the property valuation process including identification of impairments outside of the valuation process. engaged with internal valuation specialists to assess the reasonableness of assumptions underpinning the valuation; and traced all valuation movements through the financial statements to ensure they are fairly stated. <p>No issues were identified.</p>

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 2017-18 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.

Independence and objectivity

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

27 September 2018

Representations regarding the 2017-18 financial statements

This letter is provided in connection with your audit of the financial statements of Gwynedd Council for the year ended 31 March 2018 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 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

Appendix 1 (continued)

- 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:

- £5.640m classification misstatement within Earmarked Reserves

Appendix 1 (continued)

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 27 September 2018.

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.

We will not be correcting the misstatement relating to the payment to the Pension Fund as this only affects the classification within the earmarked reserves and does not affect the total earmarked reserves.

Signed by:

Dafydd L Edwards
Head of Finance
Gwynedd Council

Date:

Signed by:

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

Date:

Appendix 2

Proposed audit report of the Auditor General to Gwynedd Council

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

Report on the audit of the financial statements

Opinion

I have audited the financial statements of Gwynedd Council for the year ended 31 March 2018 under the Public Audit (Wales) Act 2004.

Gwynedd Council's financial 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 the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial position of Gwynedd Council as at 31 March 2018 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). 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.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the responsible financial officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The responsible financial officer is responsible for the other information in the annual report and accounts. The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated later in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information to identify material inconsistencies with the audited financial statements 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.

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 2017-18;
- 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;
- 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.

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.

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 set out on page 7, 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.

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.

Anthony Barrett
For and on behalf of the Auditor General for Wales
28 September 2018

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 misstatements that have 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.

Value of correction	Nature of correction	Reason for correction
£1,629,000	Note 17 – Financial Instruments We noted that the narrative beneath the financial liabilities table in note 17b of the financial statements stated that short term creditors included £937k that doesn't meet the definition of a financial liability. The creditors stated within this note of £54,007k gave a total of £54,994. However, per note 21 of the financial statements the total creditors were stated as £56,573k.	The total creditors balance within note 21 of the financial statements was correct and the balances included within note 17 did not reconcile to this with a difference of £1,629k.

Appendix 4

Recommendations arising from our 2017-18 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 – Controls Around Completeness of Accruals	
Findings	<p>Completeness of Accruals</p> <p>On an annual basis the Senior Finance Manager sends a document instructing staff that any invoices relating to 2017/18 are included in the purchasing unit by 4 April 2018, and after this date a creditor reserve is created for any work over £100 where the work has been received prior to 31 March 2018. A list of such instances are provided to the departmental accountants who subsequently raise an accrual within the financial system. A quarterly financial review takes place and as part of this departmental accountants are responsible for reviewing significant income/expenditure in their areas and providing explanations for such variances, this would allow the divisional accountants to identify any expenditure not posted.</p> <p>We note that this control does not ensure the completeness of expenditure, as the process described above is not directly followed up to ensure that appropriate accruals have been included within the financial statements for 2017/18.</p>
Recommendation	<p>It is recommended that the Council implements a control in relation to the completeness of accruals. This could involve a review of expenditure posted to the finance system after the period end, with this review documented within a working paper, along with commentary of which period expenditure relates, to ensure that expenditure has been accrued as appropriate. This working paper should then be reviewed by a second member of staff.</p>
Priority	Low
Benefit of Implementing Recommendation	By implementing this recommendation, this provides the Council with assurance that all expenses incurred in the financial year have been reflected within the financial statements.
Accepted in full by management	No

Appendix 4 (continued)

Management response	This task is undertaken as part of our closedown procedures. It is felt that our existing controls are adequate to manage the identified risk.
Implementation date	Will not be implemented.

Matter arising 2 – Confirmation of Provisions Balance	
Finding	Whilst the finance team consults service managers a specific discussion does not take place with the legal team as part of the year end processes, around the completeness and accuracy of the provisions balance at year end. A specific discussion with the legal team each year end would ensure that the provisions balance is agreed with the legal team prior to audit.
Recommendation	It is recommended that confirmation is obtained from the Legal Team at year end that the provisions note per the accounts is complete and accurate.
Priority	Low
Benefit of Implementing Recommendation	This control will help ensure that the provisions balance per the financial statements is accurate and complete, by identifying any probable obligations due by the Council that the finance team may not be aware of.
Accepted in full by management	Yes
Management response	Agreed
Implementation date	In advance of 2018/19 closure

Appendix 5

Recommendations arising from our 2016-17 and 2015-16 financial audit work

We set out all the recommendations arising from prior years audits with management's response to them. We have followed these up during the 2017-18 audit and have recorded the results below.

Matter arising 1 – Trust Funds	
2016-17 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 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.
2017-18 findings	In relation to our testing of Trust Funds in 2017/18, we were unable to obtain any supporting evidence for both of the two balances selected for testing.

Appendix 5 (continued)

Status	Recommendation re-raised
Management response	With regards to historic documentation we are satisfied that all reasonable work has been undertaken, with no further progress possible. Our financial system records has a full record of the transactions for each fund. In moving forward we are confident that adequate controls are in place.

Matter arising 2 – IT findings	
2016-17 Findings	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.
2017-18 findings	We note that progress has been made in this area, with three findings raised which relate to 2017/18.
Status	Recommendations raised in relation to 2017/18 findings
Management response	Agreed and some aspects already actioned.

Matter arising 3 – Estates	
2015-16 Findings	As part of our financial audit we engaged a valuation expert to assist the audit team with testing the appropriateness of the IAS 16 disclosure. The expert

Appendix 5 (continued)

	<p>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.</p>
Recommendation	<p>It is recommended that management work with the Estates Manager to ensure these recommendations are implemented in a timely manner.</p>
Priority	<p>Medium</p>
Benefit of Implementing Recommendation	<p>To improve the quality and robustness of valuation process.</p>
Accepted in full by management	<p>Yes</p>
Management response	<p>Agreed and some aspects already actioned.</p>
Implementation date	<p>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.</p>
2016-17 & 2017-18 findings	<p>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 and prepare schedules of the specific asset categories that need to be valued. 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 improvement which largely relate to procedures and processes around the valuations and the related report and summary schedule outputs.</p> <p>As part of our 2017/18 audit we have identified that further improvements have been made in this area, and given the progress that has been made in this area, we have deemed the significance of this finding low enough that we will not report on this matter in future years.</p>
Status	<p>Recommendation will not be re-raised.</p>
Management response	<p>Not applicable</p>

Appendix 5 (continued)

Matter arising 4 – Bad debt provision	
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>
Recommendation	<p>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.</p>
Management response	Agreed.
2017-18 findings	<p>We identified that the methodology used to inform the provision has been reviewed and an updated working paper produced.</p> <p>We have made recommendations to management in terms of further improvements to the information produced in relation to the aging of debtors, however, given the progress made we are happy to close this recommendation.</p>
Status	Recommendation will not be re-raised.
Management response	Not applicable

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