



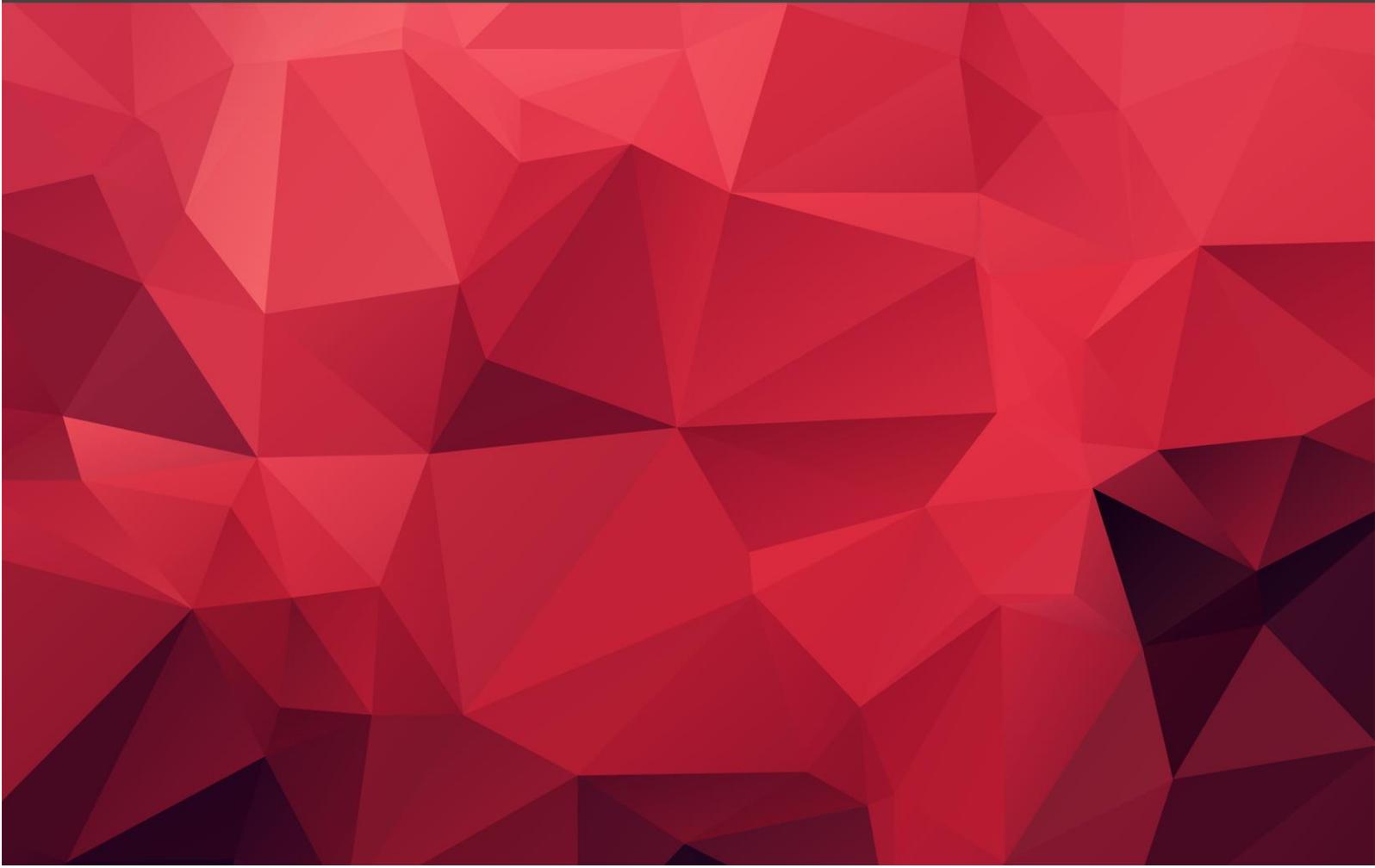
WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

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

Audit year: 2018-19

Date issued: September 2019



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infoofficer@audit.wales.

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

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), Clare Skivens (Engagement Manager) and Jonathan Saunders (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 2019 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 £8,245,000. 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 2018-19, that require reporting under ISA 260.

Status of the audit

- 6 We received the draft financial statements for the year ended 31 March 2019 on 30 May 2019, and have now substantially completed the audit work and at the date of our presentation of this report the following were outstanding:
 - Clearance of review notes;
 - Finalisation of partner and independent quality assurance review; 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 There were no uncorrected misstatements in 2018-19.

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; and• evaluated the rationale for any significant transactions outside the normal course of business. <p>No issues were identified.</p>
<p>Completeness of expenditure</p> <p>Under UK auditing standards, there is a presumed risk in respect of revenue recognition due to fraud. We have rebutted this risk, and instead believe that the fraud risk lies with the completeness and cut-off of expenditure and completeness of valuation of accruals.</p> <p>Given the pressures across the whole of the public sector, there is an inherent risk that the year-end position could be manipulated by omitting or misstating expenditure and year-end accruals.</p>	<p>The audit team 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, including detailed reviews of accruals; and• completed detailed testing in relation to management estimates and judgements as set out in the management override risk detailed above.

No issues were identified.

Other areas of audit attention

New accounting standards

IFRS 9 financial instruments applies from 1 April 2018 and brings in a new principles-based approach for the classification and measurement of financial assets. It also introduces a new impairment methodology for financial assets based on expected losses rather than incurred losses. This will result in earlier recognition of expected credit losses and will impact on how the bad debt provision is calculated.

IFRS 15 revenue from contracts with customers introduces a principles-based five-step model for recognising revenue arising from contracts with customers. It is based on a core principle requiring revenue recognition to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration a body expects to be entitled to, in exchange for those goods or services. It will also require more extensive disclosures than are currently required.

The audit has assessed the likely impacts of the new IFRSs and the team have responded to any identified risks of material misstatement **with no issues identified.**

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 2018-19 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

13 September 2019

Representations regarding the 2018-19 financial statements

This letter is provided in connection with your audit of the financial statements of Gwynedd Council for the year ended 31 March 2019 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
 - 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. There were no uncorrected misstatements above our financial reporting threshold.

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 13 September 2019.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Signed by:

Dafydd L Edwards
Head of Finance
Gwynedd Council

Date: 13/09/2019

Signed by:

Councillor Angela Russell
Vice-Chairman
Audit & Governance Committee
Gwynedd Council
(the person presiding at the committee)

Date: 13/09/2019

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 2019 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 2018-19 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 2019 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 2018-19.

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 2018-19;
- 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:

- proper 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 seven, 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 J Barrett
For and on behalf of the Auditor General for Wales
13 September 2019

24 Cathedral Road
Cardiff
CF11 9LJ

Appendix 3

Summary of corrections made to the draft financial statements which should be drawn to the attention of the Audit Committee

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

Value of correction	Nature of correction	Reason for correction
£14.3m	The Property Plant and Equipment – car park revaluation amount has been reduced by £14.3m.	<p>During 2018-19 the internal valuer revalued Gwynedd Council's car parks which at 31 March 2018 were held at a net book value amount of circa £7.8m, the revaluation in year saw this value increase to £26.8m (within a 6% increase in the overall valuation of 'Property Plant and Equipment' from £438m to £468m).</p> <p>Of this valuation circa £24.8m related to income generating car parks and we engaged our internal real estate specialist to review the valuation approach adopted by the Council and identified a number of additional considerations which needed to be accounted for when determining the year end valuation. These being:</p> <ul style="list-style-type: none">• Net income to be determined in line with the relevant RICS guidance note;• A deduction should be made against the resulting net income to determine market rent level reflecting the RICS guidance note; and• The valuer should reconsider the yield level reflecting RICS guidance and other evidence provided by our internal real estate team. The expected yield level would be considerably higher than the 5% yield currently adopted. Based on guidance examples we would expect this yield to fall within the 8% to 12% range. <p>We provided the Council with a worked example of the revaluation, which amended the year end valuation of income generating car parks to £10.5m.</p> <p>The Council has reviewed these calculations and agreed for the purposes of the 2018-19 financial statements and we have agreed to jointly revisit this calculation for future calculations. As such we have raised a recommendation in Appendix 4.</p>

Appendix 4

Recommendations arising from our 2018-19 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 – Car Park revaluations	
Finding	The Council revalued its car parks during 2018-19 and we identified a difference between the assumptions used by the Council and those suggested by the relevant RICS guidance and other best practice examples, please see Appendix 3 for detail.
Recommendation	It is recommended that the Council revisit its revaluation methodology in respect of its income generating car parks.
Priority	Medium
Benefit of Implementing Recommendation	To ensure car parks are revalued using methods and assumptions more in line with the relevant RICS guidance and market comparators.
Accepted in full by management	This was an agreed action for the 2018/19 financial statements and we have agreed to jointly revisit this calculation for future valuations.
Management response	Carpark valuations will be reviewed using a mutually agreed methodology in future.
Implementation date	2018/19 financial statements have been revised accordingly.

Matter arising 2 – Disposals	
Finding	<p>One of the items we tested as part of our disposals testing related to a disposal made in 2015, was not identified as disposed of until the 2018/19 revaluation exercise.</p> <p>This asset was Porthmadog Day Care Centre and was immaterial and related to an asset which was formed part of a complete site disposal.</p>
Recommendation	It is recommended that the Council maintain a register which links assets that are grouped on a single site, and that this is reviewed when updating the asset management system for disposals.
Priority	Low

Appendix 4 (continued)

Benefit of Implementing Recommendation	To reduce the risk of disposed assets being retained on the fixed asset register after they have been disposed of.
Accepted in full by management	Yes
Management response	Agreed
Implementation date	In advance of 2019-20 closure.

Appendix 5

Recommendations arising from our 2017-18 and 2016-17 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 2018-19 audit and have recorded the results below.

Matter arising 1 – Confirmation of Provisions Balance	
2017-18 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
2018-19 finding	Consultation with legal team implemented as part of the 2018-19 close down procedures.
Status	Recommendation will not be re-raised.
Management response	Not applicable.

Matter arising 2 – IT findings	
2016-17 finding	As part of our financial audit we engaged IT specialists to assist the audit team with testing the appropriateness of the Council's IT systems which have a direct impact on the production of the financial statements. The IT specialists identified a number of recommendations which have been communicated to management.
Recommendation	It is recommended that management work with the IT Manager to ensure these recommendations are implemented in a timely manner.
Priority	Low
Benefit of Implementing Recommendation	To improve the quality and robustness of the IT systems.
Accepted in full by management	Yes
Management response	Agreed
Implementation date	Two of the recommendations have already been implemented, with the third to be implemented in October 2017.
2018-19 finding	During the 2018-19 financial audit our IT specialists identified that one recommendation remains outstanding from previous years and that four new recommendations have been identified.
Status	In progress.
Management response	A number of the recommendations have already been implemented or in the process of being implemented.

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