

# Audit of Accounts Report – **Gwynedd Council**

Audit year: 2019-20

Date issued: 5 October 2020

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

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We intend to issue an unqualified audit report on your Accounts. There are some issues to report to you prior to their approval.

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# Audit of Accounts Report

## Introduction

- 1 We summarise the main findings from our audit of your 2019-20 accounts in this report.
- 2 We have already discussed these issues with the Principal Accountant (Corporate and Projects) and the Senior Finance Manager.
- 3 Auditors can never give complete assurance that accounts are correctly stated. Instead, we work to a level of 'materiality'. This level of materiality is set to try to identify and correct misstatements that might otherwise cause a user of the accounts into being misled.
- 4 We set this level at £8,837,000 for this year's audit.
- 5 We have now almost completed this year's audit but the following work is outstanding:
  - Completion of work being undertaken on assets not revalued in year;
  - Completion of work on splitting of costs relating to capital and pensions across departments;
  - Completion of pension work following receipt of IAS 19 letter from Pension Fund Auditors;
  - Review of the final accounts;
  - Clearance of audit review notes;
  - Finalisation of Partner review;
  - Clearance from quality reviewer;
  - Receipt of signed Letter of Representation.
- 6 In our professional view, we have complied with the ethical standards that apply to our work; remain independent of yourselves; and, our objectivity has not been compromised in any way. There are no relationships between ourselves and yourselves that we believe could undermine our objectivity and independence.

## Impact of Covid-19 on this Year's Audit

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

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

<b>Timetable</b>	<ul style="list-style-type: none"> <li>• The deadline for completing your accounts was changed by Welsh Government from 15 June 2020 to 30 August 2020, and the deadline to publish audited accounts was changed from 15 September 2020 to 30 November 2020.</li> <li>• We received the final draft accounts on 3 June 2020.</li> <li>• We expect your audit report to be signed on 15 October 2020.</li> </ul>
<b>Electronic signatures</b>	<p>We plan to use electronic signatures for the signing of the accounts.</p>
<b>Audit evidence</b>	<p>The information received in relation to Property Valuations differed to previous years due to no formal report being produced by the Valuer. Instead, the Valuer’s workbook was received which contained a significant amount of information, along with various dates which had not been updated for 2019/20 (although it was confirmed to us that all required valuations had been undertaken for 2019/20), which meant that the review of this information took longer than in normal years.</p> <p>In addition to this, we subsequently identified that a category of assets which were due for revaluation in 2019/20 (waste sites) as part of the Council’s 5 year valuation cycle were not revalued as the Council was unable to engage a specialist valuer to undertake this work. This resulted in subsequent valuation of these properties needing to be undertaken which the Council has now completed, with information being provided for audit w/c 28 September 2020. Our audit work relating to this is ongoing at the time of writing this report and we will update verbally at the Committee meeting.</p>
<b>Other</b>	<p>The impact of Covid-19 meant that we needed to factor additional considerations into our risk assessment and certain areas of our audit required further work, such as property valuations, pensions and the going concern assessment. We note that it has also resulted in a material uncertainty being attached to the property valuations produced by the Council’s Valuer.</p>

- 9 We will be reviewing what we have learned for our audit process from the Covid-19 pandemic and whether there are innovative practices that we might adopt in the future to enhance that process.

## Proposed Audit Opinion

- 10 We intend to issue an **unqualified audit opinion** on this year's accounts once you have provided us with a Letter of Representation based on that set out in **Appendix 1**.
- 11 We issue a 'qualified' audit opinion where we have material concerns about some aspects of your accounts; otherwise we issue an unqualified opinion.
- 12 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards along with confirmation of other specific information you have provided to us during our audit.
- 13 Our proposed audit report is set out in **Appendix 2**.

## Significant Issues arising from the Audit

### Uncorrected misstatements

- 14 We set out below the misstatements we identified in the accounts, which have been discussed with management but remain uncorrected. We request that these are corrected. If you decide not to correct these misstatements, we ask that you provide us with the reasons in writing for not correcting it.
  - We identified that the Council's cash balance includes the full cash balances relating to the Gwynedd Council Harbours Joint Committee (£17.6k), the Joint Planning Policy Committee (£179.2k) and the North Wales Economic Ambition Board (£508.8k). There are no separate bank accounts for the joint committees and as no exercise is undertaken to remove any balances not relating to Gwynedd Council from the cash balance in the Gwynedd Council Statement of Accounts (apart from removing the balances relating to GwE) this balance is being overstated. Whilst the overstatement is not material, it has been noted as part of this report as it exceeds our reporting threshold of £100k.
  - We identified a number of instances which provide evidence that the creditors balance has been understated. Whilst all of the instances identified were below our reporting threshold of £100k, as we have not been able to determine that these are isolated incidents, we have performed an extrapolation of the errors identified which has resulted in a projected error of £2,170k which is not material.
  - We identified numerous small errors as a result of our debtors testing. All were below our reporting threshold of £100k individually and in total. However, as we were not able to conclude that these were isolated errors we have extrapolated the potential error which totals to £580k. The errors identified included a balance which we concluded was not a genuine debtor, two balances which were yet to be received by the Council which raises uncertainty about their recoverability, and one debtor which was based on an estimate that was lower than the final debtor amount.
  - A legal challenge has been made against the Government in respect of unequitable pension benefits for male spouses of female members (in respect of service before 1988). An Employment Tribunal has recently upheld the claim, resulting in an additional liability needing to be recognised in FY20, as a post balance sheet adjusting event, as a past service cost. We note that this is an area which has been developing since the accounts were first drafted, and our pension specialists have estimated

that the impact of this could be in the order of 0.2% of the defined benefit obligation (i.e. around £2m) which is not considered to be material.

## Corrected misstatements

- 15 There were initially misstatements in the accounts that have now been corrected by management. These were not material so we do not believe they need to be drawn to your attention, with the exception of the misstatement included below (which we have yet to complete our audit work on). Where we have identified a control deficiency as a result of the misstatements identified, which has been included within **Appendix 3**.

Value of correction	Nature of correction	Reason for correction
There is no impact on the total cost of services as this relates to a reclassification between departments. The biggest change as a result of this relates to Corporate where expenditure has decreased from £91,352k to £45,501k.	The Council have reallocated costs relating to the use of non-current assets (e.g. depreciation) and employee benefits from all being included within the Corporate department, and to instead reflect the appropriate department. This relates to costs in the current year and prior year.	Per paragraph 3.4.2.39 of the CIPFA code, there is a requirement to include within each department the appropriate charges for use of non-current assets and employee benefit accrued costs.

## Other Significant Issues arising from the Audit

- 16 In the course of the audit, we consider a number of matters relating to the accounts and report any significant issues arising to you. There were no issues arising in these areas this year.

## Recommendations

- 17 The recommendations arising from our audit are set out in **Appendix 3**. Management has responded to them and we will follow up progress against 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. We note that recommendations raised in the 2018/19 ISA 260 have not been re-raised. The recommendation relating to Car Park Revaluations has not been followed up as Car Parks were not subject to a full revaluation in 2019/20. The recommendation relating to disposals has not been re-raised as we have not identified any issues on testing disposals in 2019/20. The recommendation relating to IT findings has been superseded by the findings in **Appendix 3**.



# Appendix 1

## Letter of Representation

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

15 October 2020

## Representations regarding the 2019/20 financial statements

This letter is provided in connection with your audit of the financial statements of Gwynedd Council for the year ended 31 March 2020 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 value of those assets which are currently held at historic cost, but should be accounted for at their current value in line with the CIPFA Code of Practice on Local Authority Accounting, is not materially different to their current value.

The pension liability, and related disclosures within the financial statements, are up to date following developments in the McCloud and Goodwin legal cases. Where the liability has not been updated for relevant developments, the impact of this is not material.

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:

- **Cash balance** - The Council's cash balance includes the full cash balances relating to the Gwynedd Council Harbours Joint Committee (£17.6k), the Joint Planning Policy Committee (£179.2k) and the North Wales Economic Ambition Board (£508.8k) as there are no separate bank accounts for the joint committees and no exercise is undertaken to remove any balances not relating to Gwynedd Council from the cash balance in the Gwynedd Council Statement of Accounts.
- **Understatement of creditors** – A number of errors were identified in relation to the creditors balance, specifically indicating that this balance is understated. Whilst these errors were individual insignificant, a projected error of £2,170k has been estimated.
- **Overstatement of debtors** - A number of errors were identified in relation to the debtors balance, specifically indicating that this balance is overstated. Whilst these errors were individual insignificant, a projected error of £580k has been estimated.
- **Goodwin Pension Case** – The impact of the case is estimated to result in an understatement of the defined benefit obligation of around £2m.

## 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 15 October 2020.

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:

Signed by:

Councillor John Brynmor Hughes  
Chairman  
Audit & Governance Committee  
Gwynedd Council

Date:

# Appendix 2

## Proposed Audit Report

### **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 2020 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 2019-20 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 2020 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 2019-20.

#### **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.

#### **Emphasis of matter – material uncertainty related to property valuations**

I draw attention to Note 6 to the financial statements, which describes a material valuation uncertainty clause arising from circumstances caused by the COVID-19 pandemic. My opinion is not modified in respect of this matter.

#### **Emphasis of Matter - UK property funds**

I draw attention to Note 6 to the financial statements which describes a material uncertainty regarding the valuation of the UK property funds managed by the Gwynedd Pension Fund. My opinion is not modified in respect of this matter.

#### **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 2019-20;
- The information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and the 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 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 8, 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my auditor's report.

Adrian Crompton  
Auditor General for Wales  
[Date]

24 Cathedral Road  
Cardiff  
CF11 9LJ

# Appendix 3

## Recommendations

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:

### Exhibit 2: matter arising 1

<b>Matter arising 1 – Separate Bank Accounts for Joint Committees</b>	
<b>Findings</b>	There are no separate bank accounts which have been established in order to hold the joint committees' cash balances.
<b>Priority</b>	Low
<b>Recommendation</b>	It's recommended that the Council considers establishing separate bank accounts to manage the cash balances of the joint committees'.
<b>Benefits of implementing the recommendation</b>	We've noted earlier in this report an immaterial misstatement relating to the Gwynedd Council cash balance and managing the cash balances of the joint committees separately may be beneficial in order to prevent this arising in future years.
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	This recommendation does not ensure value for money for Gwynedd residents and as the impact is not material, we are not changing the current procedure.
<b>Implementation date</b>	When the materiality changes, we will change it at that time.

**Exhibit 3: matter arising 2**

<b>Matter arising 2 – Review of Payroll Disclosure Note Supporting Reports</b>	
<b>Findings</b>	Initial completeness testing highlighted that approximately 700 employees were not included in the report to support the median pay disclosure. This was discovered to be due to an issue with the parameters set for the report which caused the exclusion of any employees who had pay changes effective from 1 April 2020. The report was re-run with this issue corrected, resulting in the median pay ratio to change and the disclosure has been amended.
<b>Priority</b>	Low
<b>Recommendation</b>	It is recommended that the reports which are received from payroll and are used to support the disclosures in the accounts are reviewed to determine whether they are complete and accurate as part of the process for compiling the accounts. We note arrangements are in place for the review of other notes in the accounts and this appears to have been an isolated exception.
<b>Benefits of implementing the recommendation</b>	To prevent errors in the draft accounts.
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	The requirements of the Median Salary report dictate that a snapshot of historic data is required for its creation. Due to the way in which the parameter for this report is structured the snapshot date used in the creation of the original report resulted in payroll records that were closed on a specific date (March 31 <sup>st</sup> ) being omitted from the output. Since this matter



has now become apparent, we will be aware of the anomaly in future and can ensure that relevant records have not been left out, but we will also be undertaking additional checks from now on to ensure the accuracy of Note 30b.

**Implementation date**

In advance of 2020/21 accounts closure.

#### Exhibit 4: matter arising 3

<b>Matter arising 3 – IT Findings</b>	
<b>Findings</b>	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.
<b>Priority</b>	Low
<b>Recommendation</b>	It is recommended that management work with the IT Manager to ensure these recommendations are implemented in a timely manner.
<b>Benefits of implementing the recommendation</b>	To improve the quality and robustness of the IT systems.
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	A number of the recommendations have already been implemented or in the process of being implemented
<b>Implementation date</b>	During 2020/21





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