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Llinos Medi / Marc Jones  
Council Offices  
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Dear Llinos / Marc

## Annual Audit Letter – Isle of Anglesey County Council 2017-18

This letter summarises the key messages arising from the Auditor General for Wales's (Auditor General's) statutory responsibilities under the Public Audit (Wales) Act 2004 and my reporting responsibilities under the Code of Audit Practice.

### The Council complied with its responsibilities relating to financial reporting and use of resources.

It is Isle of Anglesey County Council's (the Council's) responsibility to:

- put systems of internal control in place to ensure the regularity and lawfulness of transactions and to ensure that its assets are secure;
- maintain proper accounting records;
- prepare a Statement of Accounts in accordance with relevant requirements; and
- establish and keep under review appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Public Audit (Wales) Act 2004 requires the Auditor General to:

- provide an audit opinion on the accounting statements;
- review the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources; and
- issue a certificate confirming that I have completed the audit of the accounts.

Local authorities in Wales prepare their accounting statements in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. This Code is based on International Financial Reporting Standards.

The draft financial statements were prepared to a good standard and were supported by comprehensive and timely working papers. The key matters arising from the audit of the financial statements were reported to members of the Audit and Governance Committee in my Audit of Financial Statements report on the 19 September 2018.

On 28 September 2018, the Auditor General issued an unqualified audit opinion on the financial statements confirming that they present a true and fair view of the Council's financial position and transactions.

The key matters arising from these audits were reported to the relevant committees where appropriate.

**The Auditor General is satisfied that the Council has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources.**

The Auditor General's consideration of the Council's arrangements to secure economy, efficiency and effectiveness has been based on the audit work undertaken on the accounts as well as placing reliance on the work completed under the Local Government (Wales) Measure 2009. The Auditor General will highlight areas where the effectiveness of these arrangements has yet to be demonstrated or where improvements could be made when he publishes his Annual Improvement Report.

**To date my work on behalf of the Auditor General on the certification of grant claims and returns has not identified significant issues that would impact on the 2018-19 accounts or key financial systems.**

My ongoing work on the certification of grants claims and returns has not identified any significant issues to date in relation to the accounts or the Council's key financial systems. I will report any key issues to the Council once this year's programme of certification work is complete.

**The Council faces significant challenges in seeking to set a balanced budget accompanied by diminishing general fund balance.**

Austerity funding remains the most significant challenge facing all local government bodies in Wales and these financial pressures are likely to continue for the medium term. The 2018/19 local government funding settlement saw the Council's settlement increase by only 0.7% when inflation is more than 2%.

For 2018-19, the authority projects that it will report a deficit on the provision of services of £3.3m and has identified demand pressures in the number of children looked after and associated out of county placement costs and increased demand for adult social care as key drivers of the projected deficit.

To respond to these pressures, the Council has had to make tough decisions about where to devote scarce resource and consider new ways to deliver services to people. In its medium term financial plan it has identified the following targets and savings to achieve those targets.

**Short Term:** In the 2018/19 budget the Council has identified the need for savings of £2.5m and a 4.8% increase in Council Tax. Budget savings of £2.522m were removed from service budgets for 2018/19. It is anticipated that £2.255m have or will be fulfilled by the year-end. However, £267k may potentially not be achieved.

**Medium Term:** The Council has identified the need in 2019/20 for savings of £3.7m and between a 6.5 – 9.5% increase in Council Tax to stay to budget. This includes proposals to close or sell a building, reduce the numbers of low level care packages, charge for services the Council has previously delivered for free, and provide a cash settlement to schools which is lower than the full cost of their forecasted budget pressures.

The Council determined in February 2018 that general fund balances should be maintained at £6.5m or above. The Council intends to re-consider this target level at its meeting in February 2019.

At 31 March 2016 the general fund balance was £8.9m its highest level for several years. However, since then the balance has been utilised resulting in a balance at 31 March 2018 of £6.9m. Whilst this is currently above the Council's target level, projections by the Council to 31 March 2019 suggest the balance could be as low as £3.6m. This recent trend of reduction in the general fund balance is unsustainable and increases the need for the Council to deliver recurring savings. This is recognised as a risk by the S151 Officer and the Council and there is an acceptance that over the longer term the budgets need to provide for the replenishing of the reserves.

Similarly the Council's other reserves have been decreasing through planned usage and changes in accounting treatment of one reserve. Earmarked reserves have reduced from £16m at 31 March 2016 to a forecasted £6.5m at 31 March 2019. Over the same period schools balances have reduced from £2.5m to a forecast of £1m as expected by the reduction in the delegated schools budget.

Continued careful consideration of reserves balances and how they might be used to support financial plans is particularly important as it is not sustainable to rely on reserves to support ongoing costs of demand led Care / Children's services. Once reserves have been depleted, other sources of funds or efficiencies must be identified.

The Executive's resolution to "make sufficient savings in 2019/20 to balance the revenue budget without resorting to the use of general reserves and to ensure that the required savings in 2019/20 are achievable." is therefore a welcomed statement.

Early estimates for 2019/20 after allowing for a 5% increase in Council Tax indicate a funding gap of £5m. Services have been asked to identify budget savings which would generate the £5m of savings, and budget workshops held over the summer with Heads of Service have identified potential savings of £3.747m. Identified savings will need to be realised with minimal slippage, as any delay in implementation will ultimately have an adverse effect on diminishing General Fund balances.

The financial audit fee for 2017-18 is expected to be in accordance with the agreed fee set out in the Annual Audit Plan.

Yours sincerely

A handwritten signature in blue ink that reads "I C Howse". The signature is written in a cursive style with a large 'I' and 'C'.

**Ian Howse**  
**For and on behalf of the Auditor General for Wales**