

# Audit of Financial Statements Report

## Isle of Anglesey County Council

**Audit year:** 2013/2014

**Issued:** September 2014

**Document reference:** C14216

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# Status of report

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This document was produced by PricewaterhouseCoopers LLP on behalf of Anthony Barrett, the Appointed Auditor. The team who delivered the work comprised Lynn Pamment, Joe Hargreaves and Martin George from PricewaterhouseCoopers LLP.

# Contents

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Anthony Barrett, as Appointed Auditor, intends to issue an unqualified audit report on your financial statements. There are some issues to report to you prior to their approval.

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## Summary report

Introduction	4
Status of the audit	4
Proposed audit report	5
Significant issues arising from the audit	5
Independence and objectivity	15

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## Appendices

Final Letter of Representation	16
Proposed audit report of the Appointed Auditor to the Isle of Anglesey County Council	23
Summary of corrections made to the draft financial statements which should be drawn to the attention of the Audit Committee	25

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# Summary report

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## Introduction

1. Anthony Barrett, as Appointed Auditor, is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of the Isle of Anglesey County Council at 31 March 2014 and its income and expenditure for the year then ended. PricewaterhouseCoopers LLP are responsible for undertaking the financial statements audit work.
2. We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might result in a reader of the accounts being misled.
3. The quantitative level at which we judge such misstatements to be material for the Isle of Anglesey County Council are £2,343,000. 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 the Isle of Anglesey County Council, for 2013/14, that require reporting under ISA 260.

## Status of the audit

6. We received the draft financial statements for the year ended 31 March 2014 on 30 June 2014 and at the date of our presentation of this report the following were outstanding:
  - Finalisation of the adjustments to asset valuations
  - Completion of work on provision for additional Equal Pay claims
  - Assessment of progress on Job Evaluation
  - Bank confirmation letter from RBS
  - Work on related party transactions
  - Work on the segmental analysis
  - Work on cash flow statement
  - Completion procedures and review of the final financial statements

We will update the Audit Committee on the progress of these matters verbally on 23 September 2014.

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

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has already discussed these issues with the interim s.151 officer, Richard Micklewright.

## Proposed audit report

8. It is the Appointed Auditor's intention to issue an unqualified audit report on the financial statements once you have provided us with a Letter of Representation based on that set out in Appendix 1.
9. The proposed audit report is set out in Appendix 2.

## Significant issues arising from the audit

### Uncorrected misstatements

10. We set out below the misstatements we identified in the financial statements, which have been discussed with management but remain uncorrected, and request that these are corrected. If you decide not to correct these misstatements, we ask that you provide us with the reasons for non-correction.

#### *Error in Calculation of depreciation*

DR Depreciation expense	£102,000
CR Accumulated depreciation	£102,000

An error of £633 arose in an item of depreciation being tested, extrapolating to a projected error of £102,000. The error arose as the useful economic life applied to an asset within the depreciation calculation was incorrect.

#### *Prepayments*

DR Cost of service	£174,000
CR Prepayments	£174,000

An error of £174,000 was noted in relation to prepayments that were brought forward from 2012/13 but not appropriately reversed at the beginning of 2013/14.

### Corrected misstatements

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

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## Significant audit risks

- 12.** In our Financial Audit Strategy, we set out information regarding the significant and elevated audit risks that were identified during the audit planning process. The table below sets out the outcome of our audit procedures in respect of those risks:

## Significant risks

Risks	Action taken
<b>Control environment risks</b>	
<p><b>Management override of controls</b></p> <p>In any organisation, management may be in a position to override the financial controls that you have in place. A breach of controls of this nature may result in a material misstatement.</p>	<ul style="list-style-type: none"> <li>• We understood and evaluated internal control processes and procedures as part of our planning work. We reviewed and tested the appropriateness of a sample of manual journals processed during the year.</li> <li>• We looked carefully at management estimations and considered if they were subject to bias.</li> <li>• We understood the business rationale for significant transactions which appeared out of the normal course of business.</li> <li>• Our audit procedures also included an unpredictable element that varies year on year.</li> </ul> <p>We have not identified any misstatements as a result of our testing to date.</p>
<p><b>Revenue and expenditure recognition</b></p> <p>There is a risk that the Council could adopt accounting policies or treat income and expenditure transactions in such a way as to lead to material misstatement in the Comprehensive Income &amp; Expenditure Statement.</p> <p>We have specifically identified two risks. The first is in respect of non-recurring revenue grants funding, in that revenue may not be recognised in line with the terms and conditions of its funding where these grants are for specific programmes or one-off purposes.</p> <p>The second is in respect of expenditure relating to non-payroll costs which may be recognised incompletely, inaccurately, or in the wrong accounting period.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• evaluated key controls to confirm our understanding of the design of the control;</li> <li>• tested key reconciliations.</li> <li>• tested non-recurring revenue grant income to check that the Council was entitled to include it within its financial statements,</li> <li>• tested non-payroll expenditure to ensure that it is appropriately included in the accounts.</li> <li>• tested that transactions that occurred around year-end were appropriately classified within the financial year to which they related.</li> </ul> <p>We have considered the accounting policies adopted by the Council and subjected income and expenditure to the appropriate level of testing to identify any material misstatement. We have also considered the work we undertook in relation to the risk of management override of controls (see above). We did not identify any misstatements as a result of our work.</p>

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*Elevated risks*

Risks	Action taken
<b>Financial statements risks</b>	
<p><b>Property, plant and equipment (PPE)</b></p> <p>The Council is required to ensure that its PPE held on the Balance Sheet is valued sufficiently regularly to ensure that the carrying amount is not materially different to the fair value of these assets at the year-end.</p> <p>We have previously identified audit adjustments around assets not formally valued in year which have not been adjusted on basis of immateriality. There is a risk that any such adjustments proposed in future could be material.</p>	<p>We considered the Council's approach to assessing and justifying valuation of its PPE at 31 March 2014 and considered whether it was sufficient and appropriate. We engaged our internal valuation experts to consider the robustness of key management assumptions and estimates.</p> <p>As a result of our work, some amendments to the financial statements were made (see below and appendix 3).</p>
<p><b>Pensions liability</b></p> <p>The Council currently holds a material net liability in respect of its pension obligations on the balance sheet.</p> <p>We identified errors in the census data underlying the net pension liability figure in the Council's accounts in 2012/13 as a result of the Council's failure to provide Gwynedd Council pension scheme with sufficient information regarding employee movements and role changes on a timely basis.</p>	<p>We assessed the Council's approach to assessing its net pension liability at 31 March 2014 and tested the accuracy and completeness of the underlying census data provided to the pension scheme.</p> <p>As a result of our work, we identified a number of discrepancies in the census data underlying the net pension liability. Our work is currently ongoing on this area and may result in amendments to the financial statements (see below). The Council additionally identified an error in the actuary's reporting, resulting in the actuary re-issuing his report, and an adjustment to the pension liability of £11.6m (see appendix 3).</p>



Risks	Action taken
<p><b>Equal pay provision and Job Evaluation</b></p> <p>The Council currently holds a material provision on its balance sheet in respect of a number of Equal Pay claims which it has calculated it may be required to settle. We are not aware that any offers have yet been issued to claimants.</p> <p>The Council is additionally currently undertaking a pay and grading scale review as part of its Job Evaluation exercise. Based on the extent to which a liability may arise to backdate any pay differences and compensate staff, the Council may require further provision to be put in place for this.</p>	<p>We assessed the impact that offers to claimants for Equal Pay that the Council made had on its provision as well as identifying further claims in the intervening period.</p> <p>We identified misstatements as a result of our work in this area (see below and appendix 3).</p> <p>We assessed the Council's progress in undertaking the pay and grading scale review, assessing whether a liability was required as a result of this.</p> <p>Our work is currently ongoing on this area and may result in amendments to the financial statements (see below).</p>

**Other risks**

13. We additionally identified two further risks which the significant and elevated audit risks set out above should be considered in light of.

Risks	Action taken
<p><b>Accounts preparation:</b> Difficulties in filling positions permanently in the Finance Team had an adverse effect on the Council's accounts production process in 2009/10 and 2010/11. Experienced interim staff were successful in meeting deadlines in 2011/12 and 2012/13. However, two experienced interim staff members occupying key accounting roles have left the Council. It is essential that the council ensures that sufficient and appropriate resources are dedicated to the production of the statutory accounts in accordance with required timetables.</p>	<p>We worked closely with management in order to monitor the progress made in the preparation and production of the 2013/14 accounts. Staff were successful in meeting the relevant deadlines.</p> <p>We continue to have concerns regarding the reliance on temporary staff within the finance team and have reported this below.</p>

Risks	Action taken
<p><b>Implementation of new general ledger system (Civica):</b> A new general ledger system was implemented as at 1 April 2013. The accuracy and integrity of the 2013/14 financial statements will be contingent on the new system being implemented effectively, and closing balances from the prior year being rolled forward accurately and completely.</p>	<p>We undertook work to assess that the closing balances from the prior year had been rolled forward accurately and noted no misstatements.</p> <p>We note that the Council's Internal Auditors have reported issues regarding the implementation of Civica to the Audit Committee, particularly in respect of identifying duplicate payments made, and the granting of extended rights to Council staff to raise and approve invoices in order to clear previous backlogs. We have not repeated their findings in this report. We undertook further work to assess whether these access rights had been inappropriately used.</p> <p>We did not identify any issues as a result of our work.</p>

## Significant estimates

14. During the course of our audit we undertook specific procedures in respect of areas subject to estimation risk.

## Fixed asset valuations

15. The Council revalued a proportion of its fixed asset portfolio at 31 March 2014 in accordance with its accounting policy to revalue assets on a rolling five year basis. Our audit focussed on the robustness of the calculations performed by the Council's qualified internal valuer and the assumptions used in the valuation.
16. For the assets formally revalued by the Council, we identified a misstatement of £55k in the value of Investment Properties based on an error in the methodology used in their calculation. We note that a similar error arose in the prior year.
17. An additional misstatement arose as a result of an assessment by the Council's valuers that several assets were no longer classified as Investment Properties. These were removed from the value of the Council's Investment Property assets, but were not subsequently added to other categories of fixed assets. The net reduction in investment properties was £429k and there was an increase of £794k to property, plant and equipment.
18. In previous years, the Council have undertaken an indexation exercise to assess whether the value of those significant categories of land and property not formally valued in year to 31 March 2014 may have been materially misstated. No such exercise had been undertaken by the Council when the draft Statements of Account were provided to the audit team.

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19. We challenged the Council to provide evidence that the value of those significant categories of land and property not formally valued in year were not materially misstated. As a result, the Council's valuers undertook formal revaluations of the majority of their land and property assets. This resulted in an increase in the value of fixed assets of £7.3m as a result of the formal revaluations. This has been amended in the financial statements.
  20. Further, as a result of the revaluation exercise, it was identified that part of the property at Ysgol David Hughes had not been transferred to the Council's existing asset register system when it was introduced, meaning that the value of the school was under-reported by approximately £2.8m. This has been amended in the financial statements.
  21. We noted in the previous year that the Council uses the Beacon approach to value its council housing stock, which involves selecting a number of 'beacon' properties which are representative of differing categories or tiers of social housing, valuing them, and then applying this value to each tier respectively.
  22. In order to reflect the difference between private housing and social housing (such as council dwellings) where tenants have much greater rights, under the Beacon approach an adjustment factor is applied.
  23. At the time of the last formal valuation there was no data on adjustment factors available for Wales, so the Council selected a comparator region (Yorkshire and Humberside) and applied this adjustment factor of 31%.
  24. A research paper, published by DVS (public sector valuation specialists) in April 2011, provided indicative information on adjustment factors for the Welsh regions, and the factor given for North and North-East Wales was 39%. This paper has not however yet been incorporated within any formal guidance.
  25. A 1% change in the adjustment factor applied would have a material impact on the value of council dwellings. The Council therefore carefully considered which adjustment factor to apply, concluding that the research paper had not undergone sufficient consultation and validation in order for it to be relied upon for such a significant change to their statement of accounts. It has therefore retained its existing adjustment factor of 31% but has drawn the readers' attention to the research paper in its statement of accounts noting that it could lead to a significant change in the value of its council dwellings in future by approximately £3m per 1% difference. We considered this approach reasonable.

### Equal pay liabilities

26. In 1997, local government employers and the trade unions signed the 'Single Status Agreement'. Enshrined in equal pay legislation the agreement committed authorities to undertake equal pay reviews and to introduce non-discriminatory pay structures, addressing the fact that local government employees were employed on differing terms and conditions.
27. In recent years the Council has received equal pay claims and continued to receive further claims during 2013/14. Management have assessed the Council's potential

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exposure to claims in order to arrive at an estimate of the liability in respect of these legal claims.

28. During 2013/14, a number of these claims were settled by the Council and compensation payments were made. Compensation payments which were made after the year end date were accrued for. The total of compensation payments and accruals made was £3.3m.
29. The value of compensation payments and accruals was not removed from the existing provision balance in the draft accounts. This has now been corrected.
30. The Council additionally held an Unequal Pay Back Pay reserve of £1.9m which had been established in 2011/12 to defer the impact on the Council Fund of providing for Equal Pay claims until the claims were settled. The Council did not release the reserve to impact the Council Fund on settlement of claims during 2013/14, therefore an adjustment was proposed to this effect. The Capitalisation Direction granted by the Welsh Government was intended to mitigate only this £1.9m adjustment, rather than the value of £3.3m which the Council had accounted for, therefore a further adjustment has been made to amend for this.
31. After making compensation payments, the Council received a further 200 Equal Pay claims, approximately. No provision was made for these in the draft Statement of Accounts. We challenged management over this, and they agreed to make a provision for the 200 additional claims received (see appendix 3) of £1.9m.
32. We have substantively tested the calculations performed by management and discussed the estimate with the s151 officer. Our work in respect of the key judgements within the calculation of the provision is ongoing and we will update the audit committee as to the outcome of this work at the meeting on 23 September 2014.

### Job evaluation

33. The Council is currently undertaking its Job Evaluation exercise, but has not yet been able to provide a detailed assessment of its potential liabilities resulting from the requirement to introduce a new pay and grading system with effect from 1 April 2007.
34. Job Evaluation scores associated with posts have been issued to Council Heads of Service, who have responded with a number of questions which the Council are currently addressing. Job Evaluation scores have not yet been issued to individual staff members, or associated with a new pay and grading system.
35. It is possible that the Council may have to recognise a material liability in respect of this exercise. It has a reserve of £2.4m set aside to fund its anticipated costs. As the Council has not yet proposed a new pay and grading system and has not quantified any potential back pay liabilities, no provision has been made in respect of the job evaluation exercise although a contingent liability is disclosed.
36. At the date of writing, the Council is engaged in ongoing discussions with the trade unions and modelling of a new pay and grading structure. We will continue to monitor any developments in this area.

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## Waste provision

37. The Council has retained a £2.7m provision in the statement of accounts in respect of after-care costs at part of the capped Penhesgyn waste site. The valuation of this provision derives from a specialist environmental assessment undertaken in 2008 and the Council's assessment based on on-going aftercare costs. The assessment projects costs for after-care over a 30 year period for the whole site. These costs, which are revenue in nature, are required to be incurred by environmental legislation and therefore are correctly provided for.
38. We have undertaken some sensitivity analysis, discounting based on the costs stated in the specialist environmental assessment and those experienced by the Council in recent years, applying a number of discount rate and inflation assumptions to give a range of potential provision values. We are satisfied that the Council's provision falls within a reasonable range of estimates which are based on a discounted model.

## Pensions

39. The Council holds a net pension liability as a result of its obligations to members of the current pension scheme, and in respect of the Council's proportion of the former Gwynedd County Council pension scheme liabilities. Information about these liabilities is provided to the Council by its actuaries, Hymans Robertson, in two separate reports. However, Hymans Robertson initially provided inaccurate information to the Council. This was subsequently identified by the Council, and new information was therefore issued by Hymans Robertson leading to a decrease of £11.6m in the Council's pension liability and associated actuarial loss. This has been adjusted in the Statement of Accounts.
40. During the 2012/13 audit, following testing on the completeness and accuracy of membership data provided to the pension scheme, we identified that the membership data used by the actuary was inaccurate, leading to an amendment of £2m to the Council's net pension liability. In the current year we have undertaken further testing on the membership data used by the actuary and identified a number of differences in it to the data held by the Council relating to the date of commencement of employment and pensionable salaries of employees.
41. If the data held by the Council and that used by the actuary differs significantly, it is possible that the Council may have to make a material adjustment in respect of its pension liabilities. Our work is ongoing in this area and we will update the Audit Committee verbally on 23 September 2014.

## Other significant issues arising from the audit

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

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- **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.** We received information in a timely and helpful manner and were not restricted in our work.
  - **There were no significant matters discussed and corresponded upon with management which we need to report to you.**
  - **There is one other matter significant to the oversight of the financial reporting process that we need to report to you.**

The reliance on temporary staff for a number of key positions within the Council's finance team has continued. This has continued to place pressure on the finance team to produce a CIPFA Code-compliant final draft of the Statement of Accounts in time for audit committee. It is essential that arrangements are put in place as soon as possible to ensure that the finance team has adequate and appropriately skilled resources going forwards.

We identified two materials error through the course of our audit fieldwork and a number of further immaterial errors (see Appendix 3). These issues could have been identified by a more detailed review during the production of the accounts.

We have not identified any further material weaknesses in control, although we have identified several areas in which it would be possible to improve control. These will be reported separately to management.

- **We identified some material weaknesses in internal controls in the year.**

As noted above, the Council's Internal Auditors have reported issues regarding the implementation of Civica to the Audit Committee, particularly in respect of identifying duplicate payments made, and the granting of extended rights to Council staff to raise and approve invoices in order to clear previous backlogs. We also noted weaknesses in the audit trail of users posting manual journals to the ledger. Our testing did not identify any issues in material transactions undertaken whilst the extended access rights had been granted however we consider that the control environment was weakened in this period.

Our fieldwork over payments noted that a fraudulent request to change bank details for one of the Council's suppliers was received and actioned during the year. A payment of approximately £0.3m was made to the false bank details as part of the Council's normal course of business. The transaction was however stopped by the Council's bankers and brought to the Council's attention. The Council subsequently contacted the supplier who confirmed that they had not submitted any request to amend their bank details. We understand the matter is now being investigated by the Council's Internal Auditors.
- **There are no other matters specifically required by auditing standards to be communicated to those charged with governance.**

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## Independence and objectivity

43. As part of the finalisation process, we are required to provide you with representations concerning our independence.
44. PwC provides grants certification services to the Council, on behalf of the Auditor General for Wales, which give rise to annual charges of approximately £160,000.
45. 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 the Isle of Anglesey County Council that we consider to bear on our objectivity and independence.

## Other matters

46. In our audit plan presented to you in April, we reported our planned overall materiality which we used in planning the overall audit strategy and based on the 2012/13 Statement of Accounts. We varied our materiality to £2.3m on the basis of the 2013/14 draft Statement of Accounts received by the audit team in July.

# Appendix 1

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## Final Letter of Representation

[Audited body's letterhead]

Appointed Auditor  
Wales Audit Office  
24 Cathedral Road  
Cardiff  
CF11 9LJ

[Date]

## Representations regarding the 2013/14 financial statements

This letter is provided in connection with your audit of the financial statements (including that part of the Remuneration Report that is subject to audit) of the Isle of Anglesey County Council for the year ended 31/03/2014 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 Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 based on International Financial Reporting Standards; in particular the financial statements give a true and fair view in accordance therewith.

We acknowledge our responsibility for the design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

### Information provided

We have provided you with:

- Full access to:
  - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;



- 
- additional information that you have requested from us for the purpose of the audit; and
  - unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
  - The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
  - Our knowledge of fraud or suspected fraud that we are aware of and that affects the Isle of Anglesey County 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. We confirm that the attached appendix to this letter is a complete list of the Council's related parties. All transfer of resources, services or obligations between the Council and these parties have been disclosed to you, regardless of whether a price is charged. We are unaware of any other related parties, or transactions between disclosed related parties.

We confirm that we have identified to you all members of key management, as defined by IAS 24, and included their remuneration in the disclosures of key management compensation.

Based on progress to date, we are currently unable to make an assessment of our potential liabilities for back pay with respect to the ongoing Job Evaluation exercise.

The 'Other' provision (included in respect of Equal Pay claims) is based on our best estimate of the potential liabilities arising from the settlement of these claims, and that all claims and developments in applicable case law which we are aware of have been taken into account. We confirm that the Council intends to attempt to settle these claims out of tribunal, and that settlements are only to be offered to those claimants who the Council currently considers has a valid claim, and has accordingly made provision in the statements of account for.

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We confirm that we are satisfied that the figures given in respect of Fixed Assets and Investment Properties in the Statements of Account represent our best estimate of the value of those assets and that the valuation methods used are appropriate.

The underlying assumptions and membership data used in the actuarial valuation of the pension scheme are appropriate for the Isle of Anglesey County Council.

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:

*Error in Calculation of depreciation*

DR Depreciation expense	£102,000
CR Accumulated depreciation	£102,000

An error of £633 arose in an item of depreciation being tested, extrapolating to a projected error of £102,000. The error arose as the useful economic life applied to an asset within the depreciation calculation was incorrect.

*Prepayments*

DR Cost of service	£174,000
CR Prepayments	£174,000

An error of £174,000 was noted in relation to prepayments that were brought forward from 2012/13 but not appropriately reversed at the beginning of 2013/14.

The Council is satisfied that the errors in the prior year have been correctly identified and quantified.

The Council has no plans or intentions that may materially alter the carrying value and where relevant the fair value measurements or classification of assets and liabilities reflected in the financial statements.

The Council has satisfactory title to all assets and there are no liens or encumbrances on the authority's assets, except for those that are disclosed in the financial statements.

We confirm that we have carried out impairment reviews appropriately, including an assessment of when such reviews are required, where they are not mandatory. We confirm that we have used the appropriate assumptions with those reviews. The Council's investments have been reviewed for impairment and any such impairment is reflected in the financial statements accordingly.

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The Council is satisfied that the depreciation charge in the accounts is not materially misstated as a result of its approach to componentisation.

Where we have assigned fair values to financial instruments, we confirm that the valuation techniques, the inputs to those techniques and assumptions that have been made are appropriate and reflect market conditions at the balance sheet date, and are in line with the business environment in which we operate.

The Council has recorded or disclosed, as appropriate, all liabilities, both actual and contingent, and has disclosed in the financial statements all guarantees that we have given to third parties, including oral guarantees made by the authority on behalf of an affiliate, member, officer or any other third party.

All retirement benefits that the Council is committed to providing, including any arrangements that are statutory, contractual or implicit in the authority's actions, wherever they arise, whether funded or unfunded, approved or unapproved, have been identified and properly accounted for and/or disclosed. We confirm that we have made you aware of all employee benefit schemes in which employees of the Council participate.

Full provision has been made for all liabilities at the balance sheet date including guarantees, commitments (in particular in relation to redundancy plans) and contingencies where the items are expected to result in significant loss. Other such items, where in my opinion provision is unnecessary, have been appropriately disclosed in the financial statements.

We confirm that, to the best of our knowledge and belief, in accordance with the requirements of IAS 37 (Provisions, Contingent Liabilities and Contingent Assets), the Council financial statements include a reasonable estimate of the outstanding potential liabilities arising from the equal pay claims brought against the Council.

All contractual arrangements (including side-letters to agreements) entered into by the Council have been properly reflected in the accounting records or, where material (or potentially material) to the financial statements, have been disclosed to you.

We have complied with the taxation requirements of all countries within which we operate and have brought to account all liabilities for taxation due to the relevant tax authorities whether in respect of any corporation or other direct tax or any indirect taxes. We are not aware of any non-compliance that would give rise to additional liabilities by way of penalty or interest and we have made full disclosure regarding any Revenue Authority queries or investigations that we are aware of or that are ongoing.

In managing the tax affairs of the Council, we have taken into account any special provisions such as transfer pricing, debt cap, tax avoidance disclosure and controlled foreign companies legislation as applied in different tax jurisdictions.

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## Representations by the Audit Committee

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by the Council on 26 September 2014.

Signed by:

[Officer who signs on behalf of management]

Date:

Signed by:

[Officer or Member who signs on behalf of those charged with governance (director only for companies)]

Date:

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## Related parties

### *Welsh Government*

Welsh Government has significant influence over the general operations of the Authority in respect of providing the statutory framework within which the Authority operates, providing the majority of funding in the form of revenue and capital grants, revenue support grant and NNDR. Further details regarding grant income received and due can be found in Note 37 to the Accounts, whilst details of revenue support grant received and NNDR Pool transactions are summarised in Note 14 to the Accounts.

### *Precepting bodies*

These are set out in Note 12 to the Accounts.

### *Members*

Members of the council have direct control over the Authority's financial and operating policies. The total of members allowances paid in 2013/2014 is shown in Note 33 to the Accounts.

Members have declared interests in contracts, or in organisations, which may have dealings with the Council, in the Statutory Register of Members' Interests. Details of transactions with these entities are disclosed in Note 38 to the accounts.

### *Chief Officers*

Details of chief officers' emoluments are provided in Note 34 to the accounts.

### *Pension Contributions*

Employer's contributions are made to the Teachers' Pension Agency and the Gwynedd Pension Fund in respect of the Authority's employees. Further details of amounts involved are given in Notes 40 and 41 to the Accounts.

### *Menter Môn Cyfyngedig*

The Council is a member of Menter Môn Cyf, and was one out of a total of 3 members at 31 March 2014.

### *Cwmni Cynnal Cyf*

This company was established jointly by Ynys Môn and Gwynedd Councils on local government reorganisation. It provides education support services under contract to maintained schools and to the local education authorities and schools inspection services to Estyn.

### *Cwmni Gwastraff Môn-Arfon Cyf*

Cwmni Gwastraff Môn-Arfon Cyf is a Local Council Waste Disposal Company established jointly by predecessors of the Anglesey and Gwynedd Councils in 1994. The two Councils decided to close the company down during 2007/08 and to undertake the work in-house. The relevant operational assets and liabilities and the staff were transferred to the Council in January 2008.

### *Other Bodies*

The Authority is a member of the Welsh Joint Education Committee - WJEC CBAC Limited and the Welsh Local Government Association (WLGA).

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The Council also acts as trustee for a number of trust funds, including the Isle of Anglesey Charitable Trust, Welsh Church Fund and Anglesey Further Education Trust. Details of transactions with these entities are disclosed in Note 38 and 39 to the accounts.

# Appendix 2

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## Proposed audit report of the Appointed Auditor to the Isle of Anglesey County Council

### Independent auditor's report to the Members of the Isle of Anglesey County Council

I have audited the accounting statements and related notes of the Isle of Anglesey County Council for the year ended 31/03/2014 under the Public Audit (Wales) Act 2004.

The Isle of Anglesey County Council's accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Movement on the Housing Revenue Account Statement and the Housing Revenue Account Income and Expenditure Statement.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2013-14 based on International Financial Reporting Standards (IFRSs).

### **Respective responsibilities of the responsible financial officer and the independent auditor**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the responsible financial officer is responsible for the preparation of the statement of accounts, which gives a true and fair view.

My responsibility is to audit the accounting statements and related notes in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the accounting statements**

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements and related notes sufficient to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Isle of Anglesey County Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the responsible financial officer and the overall presentation of the accounting statements and related notes.

In addition, I read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited accounting statements and related notes. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

### **Opinion on the accounting statements of the Isle of Anglesey County Council**

In my opinion the accounting statements and related notes:

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- give a true and fair view of the financial position of the Isle of Anglesey County Council as at 31/03/2014 and of its income and expenditure for the year then ended; and
  - have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013-14.

### **Opinion on other matters**

In my opinion, the information contained in the Explanatory Foreword for the financial year for which the accounting statements and related notes are prepared is consistent with the accounting statements and related notes.

### **Matters on which I report by exception**

I have nothing to report in respect of the Governance Statement on which I report to you if, in my opinion, it does not reflect compliance with 'Delivering Good Governance in Local Government: Framework' published by CIPFA/SOLACE in June 2007, or if the statement is misleading or inconsistent with other information I am aware of from my audit.

In respect of the Governance Statement, I report to you if, in my opinion, it does not reflect compliance with 'Delivering Good Governance in Local Government: Framework' published by CIPFA/SOLACE in June 2007, or if the statement is misleading or inconsistent with other information I am aware of from my audit.

### **Certificate of completion of audit**

I certify that I have completed the audit of the accounts of the Isle of Anglesey County Council in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Code of Audit Practice issued by the Auditor General for Wales.

**[Appointed Auditor**

**Address**

**Date]**



## 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 their relevance to your responsibilities over the financial reporting process.

	Nature of correction	CIES Dr	CIES Cr	BS Dr	BS Cr
		£'000	£'000	£'000	£'000
1	DR Provisions CR Accruals CR Cost of Services expenditure DR General Fund (MiRS) CR CAA (MiRS) A number of liabilities in respect of equal pay claims made against the Council were settled during the 2013/14 financial year. Provision for any settlements arising from these claims had been made in the accounts in previous years, however payments were not then subsequently netted off against the existing provision as should have been the case and the treatment of the payments made was inappropriate.	3,731	431 3,300	3,300	3,300
2	DR Provisions CR Cost of Services expenditure A provision for the replacement of a partly-damaged culvert on the Penhesgyn landfill site was made by management. However, as any replacement would be capitalised as an infrastructure asset, there is no requirement to make such provision in the financial statements. The Council has established an earmarked reserve for this balance.		2,000	2,000	
3	DR General fund CR Unequal pay reserve			1,935	1,935

	<p>DR Capital Adjustment Account CR General fund</p> <p>An unequal pay reserve was established by the Council in 2011/12 to allow them to partially defer the impact on the general fund of making provision for Equal Pay claims against the Council until claims were settled.</p> <p>As a number of claims exceeding this value have now been settled, the Unequal pay reserve should have been reversed. The effect of this on the general fund should be ameliorated through application of the Authority's Capitalisation Direction</p>			1,935	1,935
4	<p>DR Cost of Services expenditure CR Provisions DR Capital Adjustment Account CR General Fund</p> <p>Following settlement of a number of liabilities in respect of equal pay claims made against the Council during the 2013/14 financial year, additional claims have been received which have not yet been provided for. The adjustment represents the liability estimated by the Council's HR advisor and suggested by legal counsel.</p>	1,438		1,438	1,438 1,438
5	<p>DR Accounts receivable CR Accounts payable</p> <p>The Council has recorded a number of grant accounts receivable and payable balances in the same account in the general ledger, leading to a net presentation in the draft financial statements.</p> <p>Amounts should not be presented as a net total, but as separate accounts receivable and payable balances.</p>			1,337	1,337
6	<p>DR PPE CR Investment property (IP) CR Loss on revaluation of IP</p> <p>An error has arisen in the valuation process for investment property,</p>		365	794	429

	resulting in a reduction to the value of investment property and transfer to PPE.				
7	DR Cost of Services income CR Cost of Services expenditure Being correction of the accounting for the Council Tax cost and income incorrectly recorded in the CIES.	5,083	5,083		
8	DR Revaluation Reserve CR PPE Being the removal of the revaluation increase recognised in relation to the Community Asset element of Ynys Llanddwyn as value already included in Heritage Assets and so is double counted			147	147
9	DR Pension Liability CR Actuarial Loss Being an adjustment to the net pension liability upon removal of the double counting of the IoACC share of the closed Gwynedd Pension Scheme's funded liabilities.		11,607	11,607	
10	DR Gross Income CR Gross Expenditure Being the removal of internal recharges that were not appropriately coded to internal recharge codes.	1,346	1,346		
11	DR Cash and Cash Equivalents CR Creditors Being the reclassification of cheques that were raised in duplicate in 2013/14 but cancelled in 2014/15.			122	122
12	DR PPE CR Revaluation Reserve Being the increase in land and buildings values and recognition of the leisure centre at Ysgol David Hughes, following an updated revaluation exercise.			10,083	10,083
	<b>Total</b>	<b>11,612</b>	<b>24,132</b>	<b>34,712</b>	<b>22,192</b>

There is nil net effect on the Council Fund to that presented in the draft Statement of Accounts.

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