

Audit of Financial Statements Report

Isle of Anglesey County Council

Audit year: 2014-15

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Status of report

This document was produced by PricewaterhouseCoopers LLP ('PwC') on behalf of the Auditor General.

The PwC team that delivered the work comprised Lynn Pamment, Engagement Leader, Martin George, Engagement Manager and Richard Lanagan, Team Leader.

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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 Isle of Anglesey County Council at 31 March 2015 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 level at which we judge such misstatements to be material for Isle of Anglesey County Council is £2.2m. 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 Isle of Anglesey County Council for 2014-15 that require reporting under ISA 260.

Status of the audit

6. We received the draft financial statements for the year ended 31 March 2015 on 18 June 2015, 12 days prior to the agreed deadline of 30 June 2015, and have now substantially completed the audit work. At the date of our presentation of this report the following were outstanding:
 - Review of supporting documentation in respect of a small number of transactions;
 - Review of final accounts and disclosures; and
 - Finalisation of work on cash flow statement and segmental analysis
 - Completion procedures in respect of our audit work, including a review of post balance sheet events and signing of the letter of representation.
 - Work on the Whole of Government Accounts (WGA) returnWe will update the Audit & Governance Committee on the progress of these matters on 23 September 2015.
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 the interim s.151 Officer and Deputy s.151 Officer.

Proposed audit report

8. Subject to the satisfactory completion of outstanding work, 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](#).

Significant issues arising from the audit

10. Auditing Standards require us to tell you about relevant matters relating to the audit of the Statement of Accounts to enable you to take appropriate action.

Uncorrected misstatements

11. There are no misstatements identified in the financial statements that remain uncorrected.

Corrected misstatements

12. 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](#).

Significant and Elevated Risks

13. 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. We have conducted our audit in line with the Financial Audit Strategy, aside from the addition of an elevated risk in relation to the accounting for the Job Evaluation exercise that is currently being completed (see elevated risks section below).

Significant Risks

Financial Audit Risks	Audit outcome
<p>Risk of fraud in revenue and expenditure recognition</p> <p>There is a risk of material misstatement due to fraud in revenue recognition and as such is treated as a significant risk (ISA 240.26-27). We also extend this risk to cover expenditure recognition, as 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</p>	<p>We understood and evaluated the controls in place to mitigate these risks and:</p> <ul style="list-style-type: none">• tested key reconciliations;• test a sample of revenue and non-payroll expenditure to ensure that it is appropriately included in the accounts; and• tested that transactions that occurred around year-end were appropriately classified within the financial year to which they relate.

Comprehensive Income & Expenditure Statement.

We have specifically identified two risks in this area. The first is in respect of non-recurring revenue grant 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.

The second is in respect of expenditure relating to non-payroll costs which may be recognised incompletely, inaccurately, or in the wrong accounting period.

We also considered the accounting policies adopted by the Council and performed substantive testing over income and expenditure transactions.

We have not identified any misstatements as a result of our testing to date.

Management Override of Controls

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].

We understood and evaluate internal control processes and procedures and:

- tested the appropriateness of a sample of journal entries (selected based on risk) and other adjustments made in preparing the financial statements to ensure that they were processed appropriately and related to genuine business transactions. We used Computer Assisted Audit Techniques (CAATs) to identify and extract a sample journals deemed to pose a higher level of risk for testing.
- considered significant management estimates, such as provisions and valuations in order to identify any evidence of management bias.
- designed and performed procedures in order to confirm our understanding of the business rationale for significant transactions.
- designed our audit procedures to include an unpredictable element that varies year on year. We performed testing over whether expenditure included within the HRA was appropriately classified as such. We also examined the procurement procedures that have been followed with a sample of suppliers to which the council has made significant payments during the year.

We have not identified any misstatements as a result of our testing to date.

Complex Supplier Arrangements

The Financial Reporting Council (FRC) recently published a press release regarding complex supplier arrangements, which increases the focus on the review and accounting of such arrangements.

There is a significant risk that such transactions may not be accounted for or disclosed appropriately.

We obtained an understanding from management on how they satisfy themselves that complex supplier arrangements are identified, controlled and properly reflected in the accounting records and financial statements.

For a sample of contracts, we reviewed the contract to understand the key terms of the arrangements and considered the commercial and accounting implications.

	<p>We reviewed the sample of agreements and assessed the accounting for the related transactions.</p> <p>We have not identified any misstatements as a result of our testing to date.</p>
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Elevated Risks

Financial Audit Risks	Audit outcome
<p>Pension liability</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 and 2013-14 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 2015.</p> <p>We performed testing over the accuracy and completeness of the underlying employee data provided to the actuary for the purpose of calculating the actuarial liability of the scheme at 31 March 2015.</p> <p>See section below on accounting estimates for further information.</p>
<p>Valuation of property, plant and equipment (PPE)</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 materiality. 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 2015 and assessed whether it was sufficient and appropriate.</p> <p>We engaged our internal valuation specialists to consider the valuation methodology used, as well as 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>Job Evaluation</p> <p>The Council is currently undertaking a pay and grading scale review as part of its Job Evaluation (JE) exercise.</p> <p>The Council currently holds an earmarked reserve for the estimated cost of the Job Evaluation exercise.</p> <p>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 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 we have proposed an amendment to the financial statements to recognise the costs associated with providing back pay to individuals as a provision, rather than within the earmarked reserve (see below).</p>

Significant estimates

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

Fixed asset valuation methodology and assumptions

15. The Council revalued a proportion of its fixed asset portfolio at 31 March 2015 in accordance with its accounting policy to revalue assets on a rolling five year basis. In addition to this, as part of the 2014-15 exercise, all assets held by the Council with a value of over £500k, including Council Dwellings, were also revalued in the year. 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. We selected a sample of the revalued assets to evaluate the methodology and assumptions used by the valuer. We noted a small number of instances where assets were valued based on an inaccurate floor area, which is an issue that has been noted in prior year audits and for which we have proposed an adjustment (see [Appendix 3](#)). The appropriateness and accuracy of the valuation is undermined where the asset floor plans do not support the area used in the valuation calculation. We also identified a small number of assets over £500k that had been omitted from the valuation exercise by the valuer and some revaluations performed by the valuer that had not been incorporated into the accounting records. These have been amended in the Statement of Accounts.
17. **Investment Property** - We identified a further error whereby the units built by the Council at Penyrorsedd, Llangefni were double counted within the accounting records. In the draft Statement of Accounts, the cost of the units was included within Assets Under Construction (AUC) within PPE and also at valuation in investment properties, as they are held to rent out to local businesses. We have proposed an adjustment in [Appendix 3](#) to transfer the costs of the units from AUC to investment property and to write down the cost of the finished units to their fair value.
18. **Assets Held For Sale** - Assets that are intended to be sold are held within the accounts as current assets in Assets Held For Sale (AHFS). Assets should be revalued at the point of transfer to AHFS to the lower of their carrying value and their fair value less costs to sell. We tested a sample of assets in this category and identified two assets where the assets' carrying values exceeded fair value less costs to sell but no adjustment to revalue the assets had been made. We also identified one asset (land at the site of the former Ysgol Y Graig) that should be transferred to AHFS as at 31/3/15. Adjustments for these errors are shown in [Appendix 3](#) to this report.
19. **Council Dwellings** - 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.
20. 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 to reduce the value accordingly.
21. At the time of the last formal valuation (2010-11) 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%.
22. 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 and so the same adjustment factor of 31% has been applied in the current year.

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23. 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 £3.5m per 1% difference. We considered this approach reasonable.
24. We reviewed the detailed calculations of the valuation of Council Dwellings and assessed the reasonableness of the beacon values adopted by the valuer. We noted a small number of calculation errors within the spreadsheet and noted an inaccuracy in the total number of properties within the calculation. An adjustment of £284k has been made to the Statement of Accounts as a result, as shown in [Appendix 3](#).
25. **Schools Accounting** - there are four faith schools within the County, one of which is owned by a religious body and, as such, is excluded from the Authority's balance sheet. One school is owned by the Authority and so is included within the accounts of the Council. The accounting framework requires schools that are owned by religious bodies to be excluded from the Authority's balance sheet. However it was noted that for the two remaining schools, there is some uncertainty around whether the schools are owned by the Church or the Council.. As the value of these two schools is not material (net book value at 31 March 2015 is £1.4m) and the Authority is responsible for ongoing costs in relation to the schools, we consider this to be reasonable but recommend an exercise is undertaken in the 2015-16 financial year to determine ownership and, if necessary, amend the accounting treatment.

Pension liability

26. One of the most significant estimates in the Statement of Accounts is in the valuation of net pension liabilities for employees in the Gwynedd LGPS pension fund. Your net pension deficit at 31 March 2015 was £125.5 million (2014 - £91.1 million), as valued by the Authority's actuaries, Hymans Robertson.
27. We reviewed the reasonableness of the assumptions underlying the pension liability, and we are comfortable that the assumptions are within an acceptable range. The pension liability is most sensitive to changes in the discount rate (i.e. the rate at which future liabilities are discounted back to present value). The assumption used of 3.2% is within our expected range and has fallen from 4.3% in the prior year. This fall means that future liabilities are discounted to a lesser degree than in the prior year, resulting in an increase in the value of the liability at 31 March 2015.
28. We utilised the work of actuarial experts to assess the assumptions applied by the Council and performed testing over the information provided to the actuary by the Council (such as the level of employee and employer contributions in the period).
29. We obtained assurance from the auditor of the pension scheme (the Auditor General) that there are no matters from the pension scheme audit that would raise concern over the accuracy of the calculations or the existence of scheme assets or the notional

apportionment method between different participating employers within the pension fund.

30. During discussions with management in relation to the pension, we noted that the annual return provided to Gwynedd Pension Fund, contained inaccurate information. This return provides details of contributions made by IoACC employees and by the Council as employer during the year. The report is not provided to the actuary and so does not have an impact upon the pension liability reported in the Statement of Accounts and we understand that revised information has now been provided to the pension fund. The same issue was identified in previous years and we recommend that a review of the reporting to Gwynedd Pension Fund be carried out to ensure that complete and accurate information is provided on a timely basis.

Equal pay liabilities

31. 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.
32. In recent years the Council has received equal pay claims and made payments totalling £3.3m to claimants during 2013-14. After making the compensation payments in 2013-14, the Council received a further 200 Equal Pay claims, approximately. A provision for these claims was held at 31 March 2014.
33. The Authority has continued to receive further claims during 2014-15. Management have assessed the Council's potential exposure to claims in order to arrive at an estimate of the liability in respect of these legal claims. We substantively tested the calculations performed by management and identified that an increase in the provision is required. An adjustment of £0.35m is included within [Appendix 3](#) in relation to this matter.

Job Evaluation

34. The Authority is currently undertaking its Job Evaluation exercise and has recently made an offer of back-pay to employees whose pay is increasing.
35. At the time of preparing the draft accounts, the Council had not yet proposed a new pay and grading system and had not quantified any potential back pay liabilities. As a result, no provision was made in respect of the job evaluation exercise although a contingent liability is disclosed.
36. An earmarked reserve for the costs of job evaluation of £5.4m was held at 31 March 2015 per the draft accounts (2014: £2.4m). Since the draft accounts were prepared, the Authority is now able to make a reasonable estimate of the cost of the back-pay element of the job evaluation exercise, as staff have been informed of the proposed changes to their pay and the dates to which back-pay will be awarded have been decided. As such, an adjustment has been proposed to reclassify an element of the reserve to a provision, in accordance with IAS 37 (see [Appendix 3](#)).
37. At the date of writing, the Council is engaged in ongoing discussions with employees and trade unions regarding the new pay and grading structure. We will continue to monitor any developments in this area and provide an update to the Audit & Governance Committee on 23 September 2015.

Waste provision

38. The Council has retained a £2.6m provision in the statement of accounts (2014: £2.7m) 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 updated in 2014-15, as well as the Council's assessment based on the on-going aftercare costs being incurred. 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, as the Authority has an obligation to restore the land previously used for landfill.
39. 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.
40. The Council also recognises within its accounts an earmarked reserve of £2m for the Penhesgyn site, in relation to the culvert that flows through the site. The culvert is partially crushed and, whilst currently operational, is considered by management to be likely to fail in future. The amount of £2m has been set aside to fund the costs of the replacement of the culvert in the event of its collapse.

Other significant issues arising from the audit

41. 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 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 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, although we have identified several areas in which it would be possible to improve control.** These are included in [Appendix 4](#).
 - **There are no other matters specifically required by auditing standards to be communicated to those charged with governance.**

Related parties

42. In forming an opinion on the financial statements, we are required to evaluate:
- whether identified related party relationships and transactions have been appropriately accounted for and disclosed; and
 - whether the effects of the related party relationships and transactions cause the financial statements to be misleading.

We did not identify any such matters during the course of our work.

Fees update for 2014-15

43. We reported our fee proposals in our audit plan. Our actual fees are expected to be in line with our proposals.

Risk of Fraud

44. International Standards on Auditing (UK&I) state that we, as auditors, are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

Auditors' responsibility

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

Management's responsibility

Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

Responsibility of the Audit Committee

Your responsibility as part of your governance role is:

-
- to evaluate management’s identification of fraud risk, implementation of anti-fraud measures and creation of appropriate “tone at the top”; and
 - to investigate any alleged or suspected instances of fraud brought to your attention.

45. In our audit plan presented to the Audit Committee we enquired:

- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?;
- What fraud detection or prevention measures are in place in the Council?;
- What role you have in relation to fraud?; and
- What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?

In presenting this report to you we ask for your confirmation that there have been no changes to your view of fraud risk and that no additional matters have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud is included in the letter of representation.

Recommendations arising from our 2014-15 financial audit work

46. The recommendations arising from our financial audit work are set out in [Appendix 4](#).

Independence and objectivity

- 47.** As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 48.** PwC provides grants certification services to the Council, on behalf of the Auditor General for Wales, which give rise to annual charges of approximately £135k.
- 49.** 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, the Auditor General or PwC and Isle of Anglesey County Council that we consider to bear on our objectivity and independence.

Annual Governance Statement

- 50.** Local Authorities are required to produce an Annual Governance Statement (AGS) that is consistent with guidance issued by CIPFA / SOLACE: “Delivering Good Governance in Local Government”.
- 51.** We reviewed the AGS and consider that it complies with the CIPFA / SOLACE “Delivering Good Governance in Local Government” framework. We do not consider it to be misleading or inconsistent with other information known to us from audit work.

Appendix 1

Draft Letter of Representation

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

29 September 2015

Representations regarding the 2014-15 financial statements

This letter is provided in connection with your audit of the financial statements of Isle of Anglesey County Council for the year ended 31 March 2015 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 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. I confirm that the attached appendix to this letter is a complete list of the Authority's related parties. All transfers of resources, services or obligations between the Authority 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.

I confirm that we have made you aware of all employee benefit schemes in which employees of the Authority participate.

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

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.

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 Isle of Anglesey County Council on 29 September 2015.

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:

Richard Micklewright
Interim s.151 Officer

Date: 29 September 2015

Signed by:

Officer or Member who signs on behalf of
those charged with governance

Date: 29 September 2015

Appendix: List of related parties (*to be inserted*)

Appendix 2

Proposed audit report of the Auditor General to the Members of Isle of Anglesey County Council

Auditor General for Wales' report to the Members of Isle of Anglesey County Council

I have audited the accounting statements and related notes of Isle of Anglesey County Council for the year ended 31 March 2015 under the Public Audit (Wales) Act 2004.

Isle of Anglesey County Council's accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet and the Cash Flow 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 2014-15 based on International Financial Reporting Standards (IFRSs).

Respective responsibilities of the responsible financial officer and the Auditor General for Wales

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 Financial Reporting Council'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 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 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.

Opinion on the accounting statements of Isle of Anglesey County Council

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Isle of Anglesey County Council as at 31 March 2015 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 2014-15.

Opinion on other matters

In my opinion, the information contained in the Explanatory Foreword 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 following matters, which I report to you, if, in my opinion:

- adequate accounting records have not been kept;
- the accounting 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;
- the Annual Governance Statement contains material misstatements of fact or is 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 Isle of Anglesey County Council in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

For and on behalf of
Huw Vaughan Thomas
Auditor General for Wales
24 Cathedral Road
Cardiff CF11 9LJ
30 September 2015

Appendix 3

Summary of corrections made to the draft financial statements which should be drawn to the attention of those charged with governance

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 Accounts payable CR Capital Grants Receipts in Advance <i>Being a reclassification of Capital Grants Receipts in Advance from creditors</i>			380	380
2	DR Accounts payable CR Short-term borrowing <i>Being a reclassification of accrued interest from short-term creditors to short-term borrowing</i>			1,681	1,681
3	DR Accounts receivable CR Accounts payable <i>Being the reclassification of receipts in advance on from debtors to creditors</i>			677	677
4	DR Revaluation loss CR Assets held for sale <i>Being the decrease in value required to revalue two assets held in AHFS to their fair value less costs to sell.</i>	2,078			2,078
5	DR Investment property CR PPE DR CIES (FIIE) CR Investment property <i>Being an adjustment to reclassify Penyrorsedd Units to investment property and revalue the completed units to fair value</i>	1,124		1,354	1,354 1,124
6	DR Costs of Services CR Bad debt provision DR Accounts receivable CR Accounts payable <i>Being an adjustment to increase the bad debt provision for a number of errors in the</i>	270		180	270 180

	<i>calculation and to reclassify housing accounts receipts in advance to creditors</i>				
7	DR Costs of Services CR Accounts receivable <i>Being an adjustment to decrease the amount of NNDR income accrued for from WG.</i>	244			244
8	DR HRA income (cost of services) CR Accounts receivable <i>Being an adjustment to decrease the amount of rental income recognised, as the void loss for the year was omitted in error.</i>	178			178
9	DR Costs of Services CR Accounts payable DR Accounts payable CR Costs of Services <i>Being an adjustment to reverse erroneous journals that were posted in the year to write-off creditor balances brought forward.</i>	121	145	145	121
10	DR Costs of Services CR Short-term provisions <i>Being an adjustment to increase the provision for equal pay claims, as a result of new claims received in the year.</i> <i>The effect of this on the general fund can be reversed through the MiRS, with the debit taken to the unequal back pay reserve pending application for a capitalisation direction.</i>	353			353
11	DR Costs of Services CR Short-term provisions <i>Being an adjustment to transfer the estimated cost of back pay to 31 March 2015 from the job evaluation (JE) earmarked reserve to short-term provisions. This is based upon the latest calculations provided by the Authority's job evaluation consultant.</i>	2,900			2,900
12	DR revaluation reserve CR PPE (council dwellings) <i>Being an adjustment to reduce the increase in valuation reported due to an error in the number of properties used in the calculation, offset by compensating calculation differences identified.</i>			284	284

13	DR revaluation reserve DR CIES CR PPE (L&B) <i>Being the net adjustment required in relation to a number of errors noted from the revaluation exercise, including an asset omitted from the fixed asset register (FAR), differences in floor areas and revaluations not having been reflected in the FAR.</i>	452		120	572
14	DR Assets held for sale CR PPE (L&B) <i>Being an adjustment to reclassify the land at the former Ysgol Y Graig to assets held for sale</i>			694	694
15	DR Debtors CR CIES <i>Being an adjustment to correct the year-end Housing Benefit Overpayment balance, which was initially incorrectly posted to the ledger.</i>		378	378	
	Total	7,720	523	5,893	13,090

CIES – Comprehensive Income and Expenditure Statement

BS – Balance Sheet

Internal Recharges

The CIES included in the draft Statement of Accounts included internal recharges that ought to have been eliminated. This was noted prior to the 30 June 2015 deadline for the preparation of the draft Statement of Accounts and a revised CIES with the internal recharges removed was presented to the Audit and Governance Committee at its meeting of 23 June 2015.

Appendix 4

Recommendations arising from our 2014-15 financial audit work

We set out below the most significant recommendations arising from our audit with management's response to them. More minor control points will be communicated to management separately.

Matter arising 1 – Revaluation

Findings	Several errors were noted from the testing performed over the revaluation of the property assets of the Council (incorporating Property, Plant & Equipment, Investment Property and Assets Held for Sale). These are described in detail in the significant accounting estimates section of this report.
Priority	High
Recommendation	Communication between finance and the valuer should be improved and finance staff should carry out a programme of validation testing on the valuation report and data provided, to gain assurance that the figures reported are appropriate. A reconciliation should be undertaken to compare the assets recorded in the fixed asset register to the records held independently by estates and/or the legal department.
Benefits of implementing the recommendation	Implementing the recommendation will increase the accuracy of the valuation of the Council's PPE assets, as included within the accounts.
Accepted in full by management	<i>Accepted by management.</i>
Management response	<i>Management are considering options around the provision of services for valuations for next year and will include this as part of that process.</i>
Implementation date	<i>The reconciliation process will be implemented by end of December 2015. The improvements to the revaluation process will be implemented by the end of March 2016</i>

Matter arising 2 – Pensions

Findings	During discussions with management in relation to the pension, we noted that the annual return provided to Gwynedd Pension Fund, contained inaccurate information. The report is not provided to the actuary and so does not have an impact upon the pension liability reported in the Statement of Accounts and we understand that revised information has now been provided to the pension fund. The same issue was identified in previous years
Priority	High

Matter arising 2 – Pensions

Recommendation	We recommend that a review of the reporting to Gwynedd Pension Fund be carried out to ensure that complete and accurate information is provided on a timely basis. We understand that a number of employers within the Gwynedd Pension Fund have implemented an electronic data transfer system that automatically provides information to the pension fund on a daily basis. It is recommended that the Authority carry out a cost/benefit analysis of implementing such a system
Benefits of implementing the recommendation	Implementing the recommendation would result in a reduction in errors and could achieve savings in terms of management time and staff input.
Accepted in full by management	Yes
Management response	<i>No additional management comment – recommendations accepted</i>
Implementation date	<i>December 2015</i>

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