

CITY AND COUNTY OF SWANSEA

NOTICE OF MEETING

You are invited to attend a Meeting of the

AUDIT COMMITTEE


At: Committee Room 3, Civic Centre, Swansea

On: Thursday, 24 April 2014

Time: 5.00 pm

AGENDA

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Patrick Arran
Head of Legal, Democratic Services & Procurement
Wednesday, 16 April 2014

Contact: Democratic Services: - 636016

AUDIT COMMITTEE (12)

Lay Member:

Mr Alan M Thomas (Independent Chair)

Councillors:

Labour Councillors: 8

Bob A Clay	Jennifer A Raynor
Phil Downing	Robert V Smith
Robert Francis-Davies	Des W W Thomas
Geraint Owens	Lesley V Walton

Liberal Democrat Councillors: 2

Jeff W Jones	Paul M Meara
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Independent Councillor: 1

Lynda James	
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Conservative Councillor: 1

Paxton R Hood-Williams	
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Officers:

Jack Straw	Chief Executive
Dean Taylor	Director of Corporate Services
Mike Hawes	Head of Financial Services
Paul Beynon	Chief Auditor
Tracey Meredith	Directorate Lawyer
Dave Mckenna	Overview & Scrutiny Manager
Richard Rowlands	Business Performance Manager
Patrick Fletcher	Communications
PricewaterhouseCoopers	External Auditors
Archives	
Democratic Services	
Spares	

Total Copies Needed:

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Agenda Item 2

Disclosures of Interest

To receive Disclosures of Interest from Councillors and Officers

Councillors

Councillors Interests are made in accordance with the provisions of the Code of Conduct adopted by the City and County of Swansea. You must disclose orally to the meeting the existence and nature of that interest.

NOTE: You are requested to identify the Agenda Item / Minute No. / Planning Application No. and Subject Matter to which that interest relates and to enter all declared interests on the sheet provided for that purpose at the meeting.

1. If you have a **Personal Interest** as set out in **Paragraph 10** of the Code, you **MAY STAY, SPEAK AND VOTE** unless it is also a Prejudicial Interest.
2. If you have a Personal Interest which is also a **Prejudicial Interest** as set out in **Paragraph 12** of the Code, then subject to point 3 below, you **MUST WITHDRAW** from the meeting (unless you have obtained a dispensation from the Authority's Standards Committee)
3. Where you have a Prejudicial Interest you may attend the meeting but only for the purpose of making representations, answering questions or giving evidence relating to the business, **provided** that the public are also allowed to attend the meeting for the same purpose, whether under a statutory right or otherwise. In such a case, you **must withdraw from the meeting immediately after the period for making representations, answering questions, or giving evidence relating to the business has ended**, and in any event before further consideration of the business begins, whether or not the public are allowed to remain in attendance for such consideration (**Paragraph 14** of the Code).
4. Where you have agreement from the Monitoring Officer that the information relating to your Personal Interest is **sensitive information**, as set out in **Paragraph 16** of the Code of Conduct, your obligation to disclose such information is replaced with an obligation to disclose the existence of a personal interest and to confirm that the Monitoring Officer has agreed that the nature of such personal interest is sensitive information.
5. If you are relying on a **grant of a dispensation** by the Standards Committee, you must, before the matter is under consideration:
 - i) Disclose orally both the interest concerned and the existence of the dispensation; and
 - ii) Before or immediately after the close of the meeting give written notification to the Authority containing:

- a) Details of the prejudicial interest;
- b) Details of the business to which the prejudicial interest relates;
- c) Details of, and the date on which, the dispensation was granted; and
- d) Your signature

Officers

Financial Interests

1. If an Officer has a financial interest in any matter which arises for decision at any meeting to which the Officer is reporting or at which the Officer is in attendance involving any member of the Council and /or any third party the Officer shall declare an interest in that matter and take no part in the consideration or determination of the matter and shall withdraw from the meeting while that matter is considered. Any such declaration made in a meeting of a constitutional body shall be recorded in the minutes of that meeting. No Officer shall make a report to a meeting for a decision to be made on any matter in which s/he has a financial interest.
2. A "financial interest" is defined as any interest affecting the financial position of the Officer, either to his/her benefit or to his/her detriment. It also includes an interest on the same basis for any member of the Officers family or a close friend and any company firm or business from which an Officer or a member of his/her family receives any remuneration. There is no financial interest for an Officer where a decision on a report affects all of the Officers of the Council or all of the officers in a Department or Service.

Agenda Item 3

CITY AND COUNTY OF SWANSEA

MINUTES OF THE MEETING OF THE AUDIT COMMITTEE

HELD AT THE CIVIC CENTRE, SWANSEA ON THURSDAY 27 MARCH
2014 AT 5.00 P.M.

PRESENT: Mr A M Thomas (Independent Chair) presided

Councillor(s):

R A Clay
P Downing
R Francis-Davies

Councillor(s):

P R Hood-Williams
L James
J W Jones

Councillor(s):

P M Meara
J A Raynor
R V Smith

Officers:

M Hawes - Head of Financial Services
P Beynon - Chief Auditor
D Smith - Directorate Lawyer
J Sheppard - Education Planning and Resources
J Parkhouse - Democratic Services Officer

72. **APOLOGIES FOR ABSENCE**

An apology for absence was received from Councillor L V Walton.

73. **DISCLOSURES OF PERSONAL AND PREJUDICIAL INTERESTS**

In accordance with the Code of Conduct adopted by the City and County of Swansea, no interests were declared.

74. **MINUTES**

RESOLVED that the Minutes of the meeting of the Audit Committee held on 27 February 2014 be agreed as a correct record.

The Committee were updated on the following:

Portmead Primary School

The Chief Auditor reported that the Headteacher had informed the Authority that the majority of the recommendations had now been implemented. However, there were some recommendations around school meals that had not been implemented. He added that a full audit would take place during the next financial year and that the school were currently undergoing an Estyn re-inspection.

The Committee expressed disappointment that some recommendations still remained outstanding.

75. **BRIEFING - RESPONSIBILITY FOR IMPLEMENTING AUDIT RECOMMENDATIONS IN SCHOOLS**

The Education Planning and Resources Representative provided the Committee with a briefing on the responsibility for implementing audit recommendations in schools. An Internal Audit Monitoring Report process was tabled which provided the proposed mechanism to ensure that audit reports were being carefully considered and matters addressed within Education..These were outlined as follows:

- The audit takes place.
- The report is sent to the school - to the headteacher and copied to the Chair of Governors.
- The report requires an action plan to be sent to Audit by a given date.
- The audit report should be an item on the Governing Body agenda.
- Within three months a report is sent to Audit demonstrating how issues have been addressed.
- Audit review the school's report and send a response back to the school, copied to the headteacher, Chair of Governors and Challenge Adviser (new name for System Leader).
- The Challenge Adviser (System Leader) will raise progress with the headteacher during the next visit.
- If concerns remain regarding the progress made then Audit return to the school.

It was added that within the Education Service individual service areas have departmental processes which include Performance and Financial Monitoring monthly meetings which examined Performance Indicators, school issues, standards and finance. To date, audit recommendations had not been part of this process. However, audit recommendations will be fed into these meetings on a quarterly basis in future. Schools get advice regarding financial procedures but it was stated that it is the responsibility of the Governing Body to follow up any actions with the Headteacher. There had been considerable focus upon compliance within Education and this is a regular item for discussion in meetings with headteachers and is also raised at the School Clerks/School Bursars Forum.

Minutes of the Meeting of the Audit Committee (27.03.2014) Cont'd

Members commented that they had requested that the appropriate Director, Chief Officer or Head of Service attend the meeting in order to provide the briefing and expressed disappointment that this was not the case.

Detailed discussions followed and centred around the following:

- the culture and attitude that had led to Portmead School with a number of incomplete audit recommendations;
- devolved authority of the School Governors and Headteacher in the process;
- the disregard for the audit system by certain schools;
- the requirement for a safety check in the system to allow for problem cases;
- the extent to which the internal audit system had been applied to Portmead School and whether matters had been appropriately checked;
- the sanctions available against schools that do not comply with the process;
- whether or not audit recommendations to schools had been reported to Governing Bodies;
- whether headteachers understand the process and when their failure to act becomes a capability issue;
- balances of school budgets, particularly those with excessive balances;
- the broader issue of management and standards within schools.

RESOLVED that:

- (1) the content of the briefing be noted;
- (2) the appropriate Director/Chief Officer/Head of Service attend a future meeting of the Committee in order to provide an update on audit procedures;
- (3) the Education Planning and Resources Representative confirms whether audit recommendations had been reported to Governing Bodies.

76. **INTERNAL AUDIT ANNUAL PLAN 2013/14 - MONITORING REPORT FOR THE PERIOD 1 OCTOBER 2013 TO 31 DECEMBER 2013**

The Chief Auditor presented the Internal Audit Plan 2013/14 Monitoring Report for the period 1 October 2013 to 31 December 2013. The report detailed the audits finalised and any other work undertaken by the Internal Audit Section.

The Committee asked a number of questions of the officer who responded accordingly

The key issues arising from discussions included:

- issues surrounding the Community Alarms Service;
- concern regarding the ongoing vacancies within the Internal Audit Section and the need to undertake more in-depth investigations in certain areas;
- the current scrutiny investigation in the Pupil Referral Unit;
- issues surrounding Llangyfelach Primary School;
- the ongoing deferral of items due to the lack of resources.

RESOLVED that:

- (1) the contents of the report be noted;
- (2) the Chair highlights the audit relating to the Pupil Referral Unit to the Chair of the Scrutiny Programme Committee.

77. **INTERNAL AUDIT ANNUAL PLAN - METHODOLOGY**

The Chief Auditor presented a 'for information' report which provided a briefing to the Audit Committee on the methodology used to prepare the Internal Audit Annual Plan in advance of the Annual Plan 2014/15 being reported to the Committee for approval.

The Committee asked a number of questions of the officer who responded accordingly.

The key issues arising from the discussions included:

- cross referencing of the Corporate Risk Register;

Minutes of the Meeting of the Audit Committee (27.03.2014) Cont'd

- how risk is reported in the future, particularly low level risk which may not require auditing;
- the ongoing impact of staff shortages and the need to make allowances in respect of the shortages;
- the process of producing the Annual Plan 2014/15, particularly the need to have a realistic plan;
- staff training and possible expertise available in the redeployment pool.

RESOLVED that the contents of the report be noted.

78. **AUDIT COMMITTEE WORK PLAN**

The Audit Committee Work Plan was provided for information.

RESOLVED that:

- (1) the contents of the report be noted;
- (2) an additional briefing on the responsibility for implementing audit recommendations in schools be added to the work plan.

79. **DATE OF NEXT MEETING**

NOTED that the next meeting of the Audit Committee be scheduled for 5.00 p.m. on Thursday, 24 April 2014.

The meeting ended at 6.30 p.m.

CHAIR



WALES **AUDIT** OFFICE
SWYDDFA **ARCHWILIO** CYMRU

Annual Financial Audit Outline **City and County of Swansea**

Audit year: 2013-14

Issued: April 2014

Status of document

This document has been prepared for the internal use of the City and County of Swansea as part of work performed/to be performed in accordance with statutory functions, the Code of Audit Practice and the Statement of Responsibilities issued by the Auditor General for Wales.

To the maximum extent permitted by law, the Wales Audit Office (the Auditor General and his staff) and, where applicable, the appointed auditor do not accept any liability for losses incurred by any member, officer or other employee in their individual capacity, or any third party arising from use of this document.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 Code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties.

In relation to this document, the Auditor General for Wales (and, where applicable, his appointed auditor) is a relevant third party. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at infoofficer@wao.gov.uk.

This document was produced by PricewaterhouseCoopers LLP on behalf of Anthony Barrett, the Appointed Auditor.

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Annual Financial Audit Outline

Introduction

1. This Annual Financial Audit Outline has been prepared by PricewaterhouseCoopers LLP (PwC) on behalf of Anthony Barrett, the Appointed Auditor.
2. As your external auditor my objective is to carry out an audit which discharges my statutory duties as Appointed Auditor and fulfils my obligations under the Code of Audit Practice, namely to:
 - examine and certify whether your financial statements are ‘true and fair’; and
 - assess whether you have made proper arrangements for securing economy, efficiency and effectiveness in the use of resources.
3. The purpose of this outline is to explain to you:
 - My audit team’s approach to:
 - the audit of your financial statements for the year ending 31 March 2014 including the significant risks of material misstatement in your financial statements and how we plan to address them; and
 - the assessment of your arrangements for securing economy, efficiency and effectiveness in the use of resources.
 - The planned timetable, fees and audit team.
 - The scope of the audit, our respective responsibilities and how we ensure independence and objectivity in our work.
4. There have been no limitations imposed on me in planning the scope of this audit.

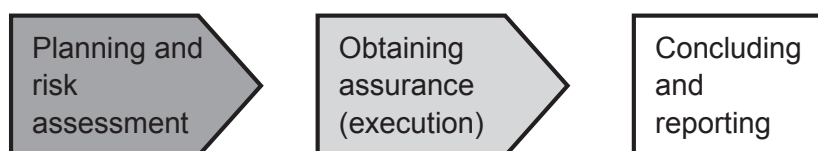
Financial statements audit

5. It is my responsibility to issue a report on the financial statements which includes an opinion on:
 - Whether or not the accounts give a ‘true and fair view’ of the City and County of Swansea’s (the Council’s) financial outturn and position. This provides assurance that the accounts:
 - are free from material misstatement, whether caused by fraud or error;
 - comply with statutory and other applicable requirements; and
 - comply with all relevant requirements for accounting presentation and disclosure.
 - The consistency of information in the Explanatory Foreword with the financial statements.
6. My report must also state by exception if the Annual Governance Statement for 2013-14 does not comply with requirements.

Audit approach

7. My team's audit work uses a range of techniques to assess risk and obtain audit evidence and assurance and is based on a thorough understanding of your business. This understanding allows my team to develop an audit approach which focuses on addressing specific risks whilst providing assurance for the financial statements as a whole. Our audit approach consists of three phases as set out in [Exhibit 1](#).

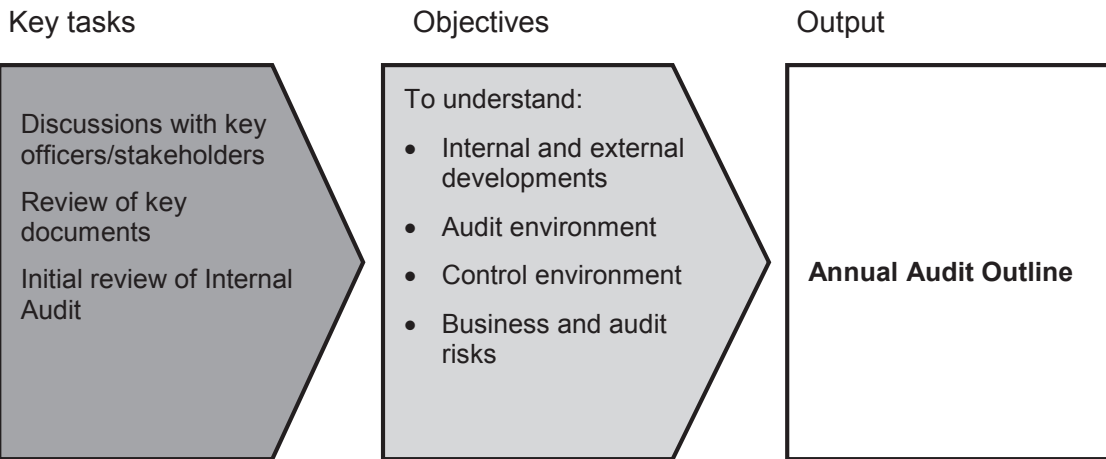
Exhibit 1: Our audit approach



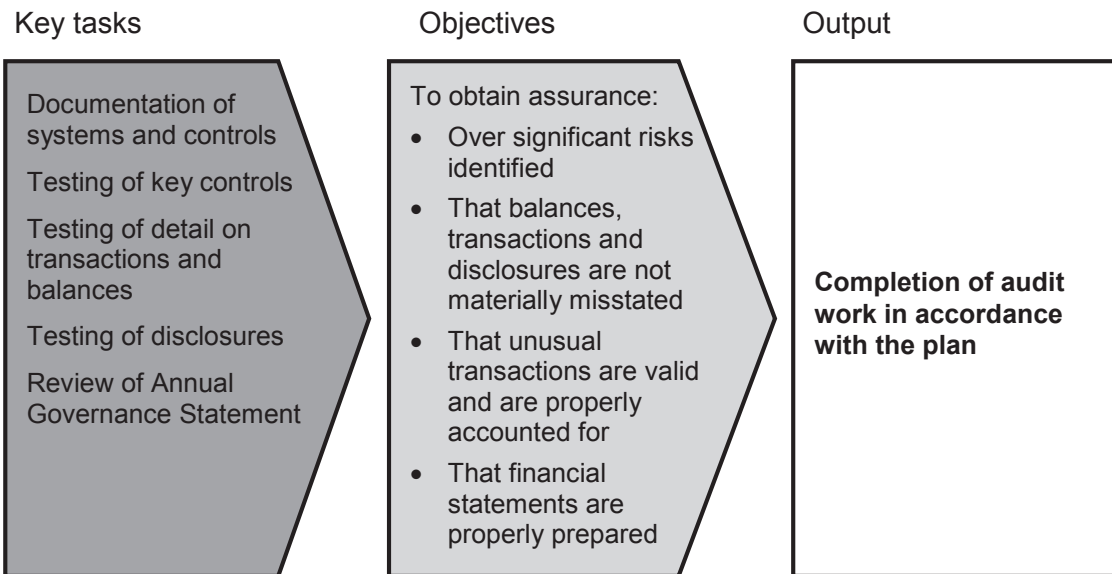
8. The work undertaken in each of these three areas is set out in more detail in [Exhibit 2](#).
9. I do not seek to obtain absolute assurance that the financial statements and related notes are true and fair, but adopt a concept of materiality. In planning and executing the audit, we aim to identify material misstatements in the financial statements and related notes, that is, those that might result in a reader of the accounts being misled. The levels at which I judge such misstatements to be material will be reported to the Audit Committee and Cabinet prior to completion of the audit.
10. For reporting purposes, we will treat any misstatements below a 'trivial' level (the lower of five per cent of materiality or £100,000) as not requiring consideration by those charged with governance and, therefore, will not report them.

Exhibit 2: Our audit approach

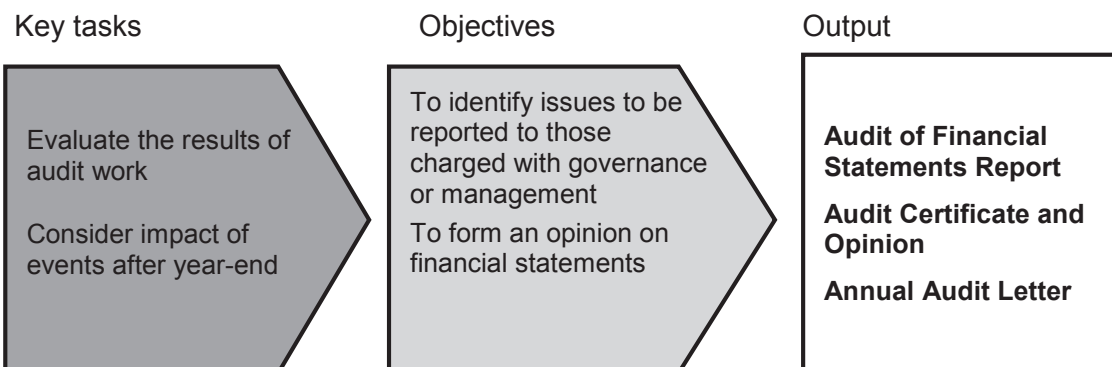
Planning and risk assessment



Obtaining assurance (execution)



Concluding and reporting



-
11. In planning my work and obtaining an understanding of the Council I consider the control environment including the activities of Internal Audit to determine the potential impact of its work on my planned procedures. I use the work of Internal Audit to inform my risk assessment as part of my planning procedures.
12. As part of the planning process, my staff considered the information which would be required to support the accounts submitted for audit. The fees, once agreed, will assume that this information will be provided by the timescales agreed and to the quality standards that we expect. My other main assumptions in setting the estimated fees will be that:
- appropriate accommodation and facilities are provided to enable my audit team to deliver our audit in an efficient manner;
 - the financial statements and supporting working papers have been subject to review and validation by management, to provide the Responsible Financial Officer with assurance that they are 'true and fair';
 - all appropriate officials will be available during the audit;
 - you have all the necessary controls and checks in place to enable those charged with governance to provide all the assurances that I require in the Letter of Representation addressed to me; and
 - Internal Audit has completed its planned programme of work and that management has taken all necessary remedial action on issues that could have affected the financial statements.

Audit risks and issues

Risks of material misstatement in the accounting statements

13. **Exhibit 3** provides information regarding the main operational and financial risks faced by the Council that could affect my audit. These are the main risks that I have identified during the initial audit planning process, based upon information currently available, and the actions proposed to address them. I may need to change the audit plan if any new risks emerge. I will not make any changes to the audit plan without first discussing them with officers and, where relevant, those charged with governance.

Exhibit 3: Summary of main audit risks and proposed responses

Significant audit risks

Risks	Action proposed
Control environment risks	
<p>The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • test the appropriateness of journal entries and other adjustments made in preparing the financial statements; • review accounting estimates for evidence of bias; • evaluate the rationale for any significant transactions outside the normal course of business; and • incorporate an element of “unpredictable” audit work, which varies each year.
<p>There is a risk of material misstatement due to fraud in income and non-pay expenditure recognition and this is treated as a significant risk.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • test the appropriateness of a sample of journals processed to income and non-pay expenditure ledger codes during the year; • review the application of relevant accounting policies to ensure that they are in compliance with accounting standards; and • perform substantive procedures on a sample basis to ensure that income and non-pay expenditure has been appropriately accounted for in the correct period.

Elevated audit risks

Risks	Action proposed
Preparation of the accounts risks	
<p>Valuation of property, plant and equipment (PPE) and investment property The Council is required to ensure that PPE and Investment Property assets held on the Balance Sheet are valued at sufficient regularity to ensure that the carrying amount is not materially different to the fair value of these assets at the year end. This valuation is subject to a number of judgements.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • consider the appropriateness of the Council’s proposed approach to the valuation of PPE and Investment Properties; and • test the valuation of such assets on a sample basis by using internal specialists

Risks	Action proposed
<p>Equal pay and job evaluation</p> <p>The Single Status Agreement committed authorities to undertake equal pay reviews and to introduce non-discriminatory pay structures, addressing the fact that local government employees were often employed on differing terms and conditions.</p> <p>The Council has settled a number of equal pay claims to date and has undertaken a significant amount of work to develop a model to support the calculation of its provision for Equal Pay and Job Evaluation. The valuation of this provision is subject to a number of judgements.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • review the status of the equal pay and job evaluation exercise with officers and consider whether the associated accounting treatment is appropriate; • consider the continued appropriateness of the methodology used to derive the overall estimate and the reasonableness of the assumptions therein; • perform sample testing on individual cases; and • to the extent that the provision has been utilised after the year end, compare the payments made to the amounts provided for in the accounts.
<p>Financial statements risks</p>	
<p>Group accounts</p> <p>During 2013-14 the trading operations Swansea City Waste Disposal Company Limited (SCWDC) were transferred to the Council. The Council fully owned SCWDC as at 31 March 2013. Therefore, the presentation and disclosure of this transaction in the accounts of the Council will need to be assessed and the requirement to produce group accounts considered.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • review the substance and accounting treatment of the transaction; and • consider the adequacy of disclosures in the accounts and group accounts of the Council.

Accounting and reporting issues

14. In addition to the audit risks set out above, I also need to consider any new financial accounting and reporting requirements which impact on my responsibilities. I summarise the more significant accounting and reporting changes that apply to 2013-14 in [Exhibit 4](#).

Exhibit 4: Significant accounting and reporting changes for 2013-14

Accounting and reporting change

IAS 1 Presentation of Financial Statements

The Comprehensive Income and Expenditure Statement has been amended as a result of the June 2011 amendments to IAS 1 *Presentation of Financial Statements* (where relevant to an authority) and the June 2011 amendments to IAS 19. The requirement for Financing and Investment Income and Expenditure to include 'pensions interest cost and expected return on pensions assets' has been replaced by 'net interest on the net defined benefit liability / (asset)'. Financing and Investment Income and Expenditure also now includes 're-measurements of the net defined benefit liability / (asset) for long-term employee benefits recognised in accordance with section 6.2'.

IAS 19 Employee Benefits

Chapter 6 of the code includes revisions as a result of the June 2011 amendments to IAS 19 *Employee Benefits*:

- amendments to the definitions in section 6.1;
- updated terminology, amendments to the recognition requirements and clarifications of the disclosure requirements in section 6.2;
- amendments to the recognition requirements of section 6.3 Termination Benefits and clarification of the disclosure requirements; and
- amendments to the classification, recognition, measurement and disclosure requirements in section 6.4 Post-employment Benefits.

Risk of Fraud

15. International Standards on Auditing (UK&I) state that I am 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	Management's responsibility	Responsibility of those charged with governance
<p>My objectives are:</p> <ul style="list-style-type: none">• 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	<p>Management's responsibilities in relation to fraud are:</p> <ul style="list-style-type: none">• 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.	<p>Your responsibility as part of your governance role is:</p> <ul style="list-style-type: none">• To evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate 'tone at the top'; and• To ensure any alleged or suspected instances of fraud brought to your attention are investigated appropriately.

Your views on fraud

- 16.** We enquire of those charged with governance:
- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
 - What fraud detection or prevention measures (e.g. whistleblower lines) are in place in the entity?
 - What role you have in relation to fraud?
 - 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?

Use of resources audit

- 17.** To discharge my responsibilities regarding the arrangements that the Council has established to secure economy, efficiency and effectiveness in its use of resources, I shall place reliance upon:
- the results of the audit work undertaken on the financial statements;
 - the Council's system of internal control, as reported in the Annual Governance Statement and my report thereon;
 - the results of work carried out by the Auditor General, including work carried out under the Local Government (Wales) Measure 2009 (the Measure), certification of claims and returns, and data-matching exercises;
 - the results of the work of other external review bodies where relevant to my responsibilities; and
 - any other work that addresses matters not covered by the above, and which I consider necessary to discharge my responsibilities.

Certification of grant claims and returns

- 18.** The Appointed Auditor, acting as an agent of the Auditor General, undertakes certification work on the Council's grant claims and returns in accordance with instructions issued by the Auditor General.

Overall issues identified

- 19.** **Exhibit 5** summarises the more significant and/or recurring issues I identified when undertaking grant certification work in 2012-13.

Exhibit 5: Overall issues relating to grant claim and return certification

Qualified grant claims and returns qualified in 2012-13

A total of 44 grant claims and financial returns were certified for 2012-13 with a total value of £257 million. This is two claims more than in 2011-12 with a total additional value of approximately £2 million. A total of:

- 16 claims were certified without qualification or amendment;
- 16 were certified following amendment;
- 7 claims were certified with a qualification; and
- 5 claims were certified with a qualification following amendment.

Effectiveness of grant coordination arrangements

The Council had reasonable arrangements in place for the production and submission of grant claims and returns during 2012-13. The Council's grants coordinators worked closely with the audit team to ensure that an accurate and up to date schedule of grants was maintained during the year. A joint working protocol was put in place at the start of the audit process to facilitate this.

Issues related to specific grant claims and returns

20. In addition to the overall issues identified above, I summarise the more significant issues I have identified relating to individual grant claims and returns in [Exhibit 6](#).

Exhibit 6: Significant issues relating to specific grant claims and returns

Name of scheme

EC Structural Fund

The Council takes the lead on 5 schemes that are funded by the Welsh European Funding Office (WEFO) as part of the EC Structural Fund. We are required to certify each claim within six weeks following the end of the claim period. Our ability to do this is dependent on the Council preparing the claim on a timely basis. In respect of 2011-12, repeated delays were experienced, which led to the recommendation that the Council should take four weeks to prepare the claim, allowing two weeks for the certification work to be completed. However, delays have continued to be experienced and further work is required to ensure that these claims are completed on a timely basis.

Other work undertaken

21. In addition to my responsibilities in respect of the audit of the body's statutory financial statements set out above, I am also required to certify a return to the Welsh Government which provides information about the City and County of Swansea to support preparation of Whole of Government Accounts.

Auditor General's Regulatory Programme

22. A separate document, the Auditor General's Regulatory Programme for Performance Audit, has been issued setting out the work to be delivered by the Auditor General under the Measure.

Independence

Threats and safeguards

23. At the beginning of the audit process my audit team is required to assess their independence as your external auditor. I have made enquiries of all audit teams providing services to you and I have set out below the relationships that, in my professional judgement, may be perceived to impact upon my independence and the objectivity of my audit team, together with the related safeguards.

Services provided	Value	Threats to independence and safeguards in place
Certification of grant claims and returns	£150,000	<p>Self Review Threat: My audit team will conduct the grant certification and this has arisen due to their appointment as external auditors. There is no self-review threat as the audit team are certifying management completed grant returns and claims.</p> <p>Self Interest Threat: My audit team has no financial or other interest in the results of the Council. I have concluded that this work does not pose a self-interest threat.</p> <p>Management Threat: My audit team is not required to take any decisions on behalf of management as part of this work.</p> <p>Advocacy Threat: I will not be acting for, or alongside, management and I have therefore concluded that this work does not pose an advocacy threat.</p> <p>Familiarity Threat: Work complements my audit teams external audit appointment and does not present a familiarity threat.</p> <p>Intimidation Threat: I have concluded that this work does not pose an intimidation threat as all officers and members have conducted themselves with utmost integrity and professionalism.</p>

Relationships and Investments

24. Senior officers and members should not seek or receive personal financial or tax advice from my audit team. Senior officers and members who receive such advice from us should notify me, so that I can put appropriate conflict management arrangements in place.
25. Therefore at the date of this plan I confirm that in my professional judgement, my audit team are independent accountants with respect to the Council, within the meaning of UK regulatory and professional requirements and that the objectivity of my audit team is not impaired.

Fee, audit team and timetable

Fee

26. We are currently unable to provide you with an estimate of our fee for our 2013-14 audit work.
27. As a result of the requirements of the Public Audit (Wales) Act 2013, we have been required to revise our approach to fee setting. This act introduces a slightly revised fee-setting requirement on the new Wales Audit Office for all our audit work once its provisions come into effect from 1 April 2014. In anticipation of this new requirement, we have needed to take legal advice to clarify a number of its provisions. In the light of that advice, we have reviewed our cost allocation and apportionment processes to ensure that, going forward, our fee setting will fully comply with these new statutory requirements. This, unfortunately, has been a time-consuming process. The exercise has now been completed and the Auditor General has consulted on his fee scales, which take account of revisions made in anticipation of the new legislation. That consultation provides further information about the new legislative requirements.
28. After the end of the consultation process (28 February 2014), and after considering the consultation responses, we will be able to provide you with an estimate of your fee for 2013-14.
29. Planning will be ongoing and changes to my programme of audit work and, therefore, my fee may be required if any key new risks emerge. I shall make no changes without first discussing them with the Head of Financial Services. Further information on the new Wales Audit Office fee scales and fee setting will be provided once finalised.
30. In previous years, there have been no formal objections to the Council's financial statements. However, I do receive a number of queries and items of correspondence from members of the public and other interested parties. A small amount of time will be included within the fee to deal with minor queries, as part of the overall management of the audit.

-
31. Any detailed investigations or other work required to respond to queries and objections will result in an additional fee. Any such additional fee will be charged at daily rates based on the specific grade or skill mix required for the work, but will be discussed with the Council, prior to undertaking the work.
 32. The Auditor General is required to recover, in respect of each grant or return, an amount that covers the full cost of the relevant work undertaken. Grant and return certification work is charged on a daily basis in line with the skill-related fee scales set out in the Auditor General's local government fees letter. The fees will reflect the size, complexity and particular issues relating to the specific grants.
 33. Further information on the Auditor General's fee scales and fee setting can be found on our website at: www.wao.gov.uk/aboutus/4240.asp.

Audit team

Exhibit 7: My team

Name	Role	Contact number	E-mail address
Anthony Barrett	Appointed Auditor	029 2032 0500	anthony.barrett@wao.gov.uk
Kevin Williams	Engagement Lead – Financial Audit	029 2080 2161	kevin.a.williams@uk.pwc.com
Hywel Pullen	Engagement Manager	029 2080 2662	hywel.pullen@uk.pwc.com
Darragh Hanley-Crofts	Financial Audit Manager	029 2080 2632	darragh.e.hanley-crofts@uk.pwc.com
Kristel Sootarsing	Financial Audit Team Leader	029 2080 2058	kristel.s.sootarsing@uk.pwc.com

34. I can confirm that my team members are all independent of the Council, its officers and any joint committees. In addition, I am not aware of any potential conflicts of interest that I need to bring to your attention.

Timetable

35. I will provide reports, or other outputs as agreed, to the Audit Committee and Cabinet as appropriate covering the areas of work identified in this document. My key milestones are set out in [Exhibit 8](#).

Exhibit 8: Timetable

Planned output	Work undertaken	Report finalised
Annual Financial Audit Outline for 2014	March 2014	April 2014
Financial accounts work: <ul style="list-style-type: none">• Audit of Financial Statements Report• Opinion on Financial Statements• Financial Accounts Memorandum• Whole of Government Accounts	July 2014 – September 2014	September 2014
Use of Resources Work	July 2014 – September 2014	November 2014
Annual Audit Letter 2014	October 2014	November 2014
Certification of Grant Claims	October 2014 – December 2014	June 2015

Appendix 1

Roles and responsibilities

This Annual Financial Audit Outline has been prepared to meet the requirements of auditing standards and proper audit practices. It provides City and County of Swansea (the Council) with an outline of the financial audit work required for the 2013-14 financial statements.

The Public Audit (Wales) Act 2013 (the 2013 Act) sets out that the Auditor General is to be the auditor of local government bodies in Wales. The 2013 Act does, however, provide transitional arrangements where the appointment of a person as an auditor under section 13 of the Public Audit (Wales) Act 2004 continues to have effect until the end of the period for which the appointment was made (subject to any earlier termination). The Auditor General has appointed me as the auditor of the Council's accounts for the year ending 31 March 2014.

As Appointed Auditor, I am required by the Public Audit (Wales) Act 2004 to examine and certify the accounts of the Council. In accordance with professional standards that apply by virtue of the Code of Audit Practice set under the act, this involves giving an opinion on whether the accounts give a true and fair view of the Council's financial position and of its income and expenditure for the year. The act also requires me to satisfy myself of these things:

- that the accounts are prepared in accordance with regulations under section 39 of the act (the Accounts and Audit (Wales) Regulations 2005);
- that the accounts comply with the requirements of all other statutory provisions applicable to them;
- that proper practices have been observed in the compilation of the accounts; and
- that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

I am also required to certify that the audit has been completed in accordance with the Public Audit (Wales) Act 2004.

The audit does not relieve the Council of its responsibility to:

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

The Public Audit (Wales) Act 2004 sets out the rights of the public and electors to inspect the Council's financial statements and related documents, to ask me, as the Appointed Auditor questions about the accounts and, where appropriate, to challenge items in the accounts.

A separate Annual Financial Audit Outline for the audit of the 2013-14 accounts of the City and County of Swansea Pension Fund has been issued.

The Auditor General is required to certify certain grant claims and returns. The Appointed Auditor, acting as an agent of the Auditor General, undertakes the audit work relating to those claims and returns.

Electronic communication

During the engagement my audit team may from time to time communicate electronically with you. However, the electronic transmission of information cannot be guaranteed to be secure, virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use.

My audit team may also need to access external electronic information and resources during the engagement. You agree that there are benefits to each of us in their being able to access external networks via your internet connection and that they may do this by connecting their laptop computers to your network. We each understand that there are risks to each of us associated with such access, including in relation to security and the transmission of viruses.

We each recognise that systems and procedures cannot be a guarantee that transmissions, our respective networks and the devices connected to these networks will be unaffected by risks such as those identified in the previous two paragraphs. We each agree to accept the risks of and authorise (a) electronic communications between us and (b) the use of your network and internet connection as set out above. We each agree to use commercially reasonable procedures (i) to check for the then most commonly known viruses before either of us sends information electronically or we connect to your network and (ii) to prevent unauthorised access to each other's systems.

We shall each be responsible for protecting our own systems and interests and you and my audit team shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between you and my audit team and my audit teams reliance on such information or our use of your network and internet connection.

The exclusion of liability in the previous paragraph shall not apply to the extent that such liability cannot by law be excluded.

Quality arrangements

I want to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with me how my service could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately. In this way I can ensure that your concerns are dealt with carefully and promptly. I undertake to look into any complaint carefully and promptly and to do all I can to explain the position to you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales.

If you are not satisfied with the way your complaint has been dealt with, you can contact the Complaints Investigation Manager at the Wales Audit Office by phone on 029 2032 0500, or

by email at complaints@wao.gov.uk. Further details about the complaints process are available at www.wao.gov.uk/complaints.



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WALES **AUDIT** OFFICE
SWYDDFA **ARCHWILIO** CYMRU

Annual Financial Audit Outline

City & County of Swansea Pension Fund

Audit year: 2013-14

Issued: April 2014

Status of document

This document has been prepared for the City & County of Swansea Pension Fund as part of work performed in accordance with statutory functions, the Code of Audit Practice and the Statement of Responsibilities issued by the Auditor General for Wales.

To the maximum extent permitted by law, the Wales Audit Office (the Auditor General and his staff) and, where applicable, the appointed auditor do not accept any liability for losses incurred by any member, officer or other employee in their individual capacity, or any third party arising from use of this document.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 Code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties.

In relation to this document, the Auditor General for Wales (and, where applicable, his appointed auditor) is a relevant third party. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at infoofficer@wao.gov.uk.

This document was produced by PricewaterhouseCoopers LLP on behalf of Anthony Barrett, the Appointed Auditor.

Contents

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Annual Financial Audit Outline

Introduction

1. This Annual Financial Audit Outline has been prepared by PricewaterhouseCoopers LLP on behalf of Anthony Barrett, the Appointed Auditor.
2. As your external auditor, my objective is to carry out an audit which discharges my statutory duties as Appointed Auditor and fulfils my obligations under the Code of Audit Practice to examine and certify whether the City & County of Swansea Pension Fund (the Pension Fund) accounting statements are 'true and fair'.
3. The purpose of this outline is to explain to you:
 - my audit team's approach to the audit of your Pension Fund accounting statements for the year ending 31 March 2014 including the significant risks of material misstatements in your accounting statements and how we plan to address them;
 - the planned timetable, fees and audit team; and
 - the scope of the audit, our respective responsibilities and how we ensure independence and objectivity in our work.
4. There have been no limitations imposed on me in planning the scope of this audit. If there have been limitations imposed these should be stated here or at an appropriate place in the body of the document.

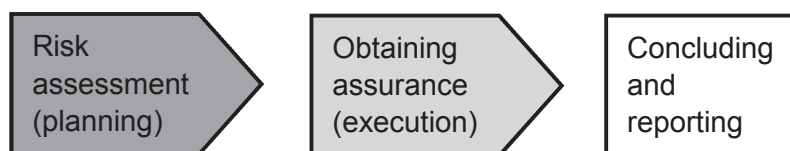
Audit of Pension Fund accounts

5. It is my responsibility to issue a report on the accounting statements which includes an opinion on their 'truth and fairness', providing assurance that they:
 - are free from material misstatement, whether caused by fraud or error;
 - comply with statutory and other applicable requirements; and
 - comply with all relevant requirements for accounting presentation and disclosure.

Audit approach

6. Information regarding the financial audit team is provided in [Exhibit 5](#).
7. My team's audit work uses a range of techniques to assess risk and obtain audit evidence and assurance, and is based on a thorough understanding of your business. This understanding allows my team to develop an audit approach which focuses on addressing specific risks whilst providing assurance for the Pension Fund accounts as a whole. Our audit approach consists of three phases as set out in [Exhibit 1](#).

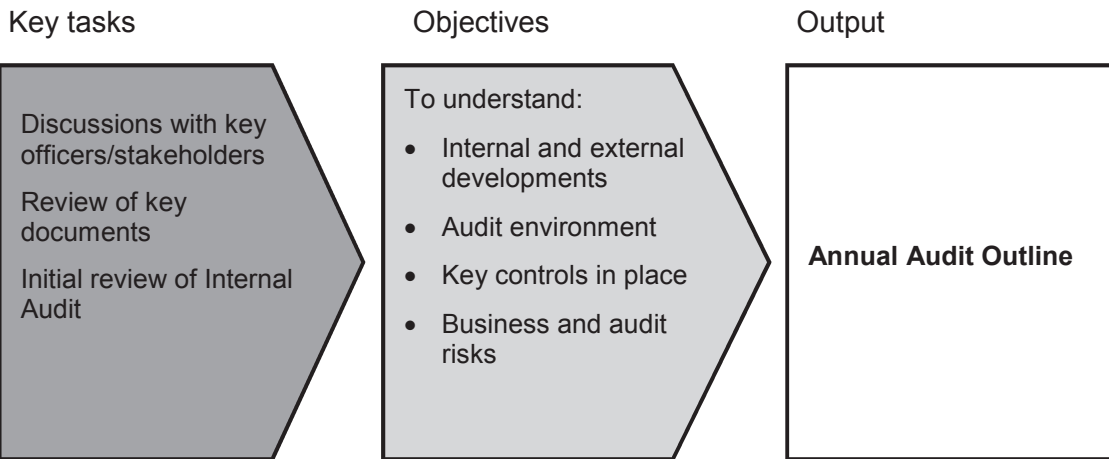
Exhibit 1: Our audit approach



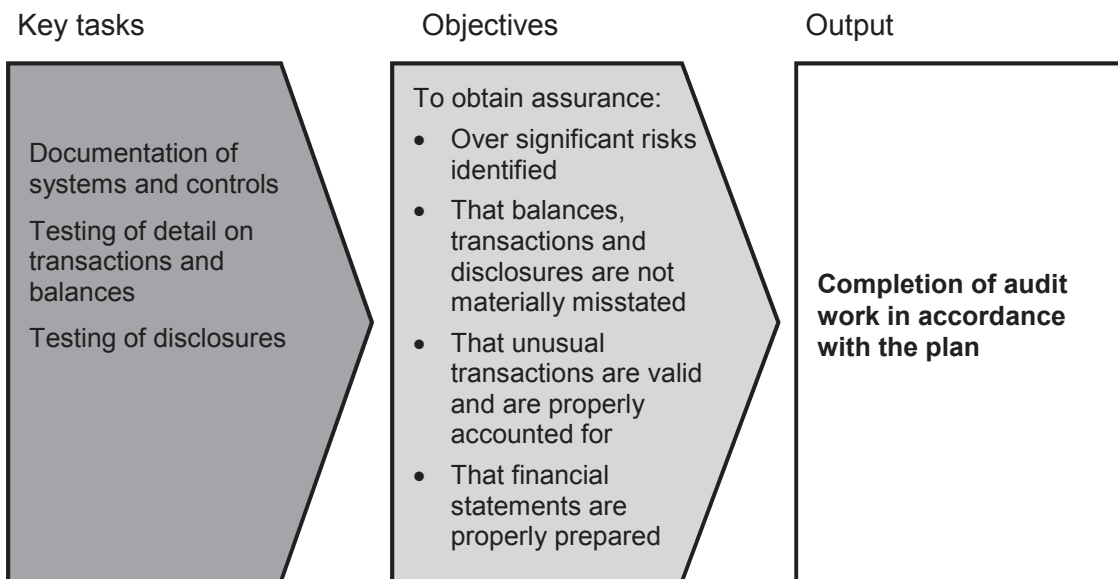
8. The work we undertake in each of these three areas is set out in more detail in [Exhibit 2](#).
9. I do not seek to obtain absolute assurance that the Pension Fund accounting statements are true and fair, but adopt a concept of materiality. In planning and executing the audit, we aim to identify material misstatements in the accounts and related notes, that is, those that might result in a reader of the accounts being misled. The levels at which I judge such misstatements to be material will be reported to the Pension Fund Panel and to those charged with governance for the City & County of Swansea (the Council), as the administering authority of the Pension Fund as a whole, prior to completion of the audit.
10. For reporting purposes we will treat any misstatements below a 'trivial' level (the lower of five per cent of materiality or £100,000) as not requiring consideration by those charged with governance and, therefore, will not report them.

Exhibit 2: Our audit approach

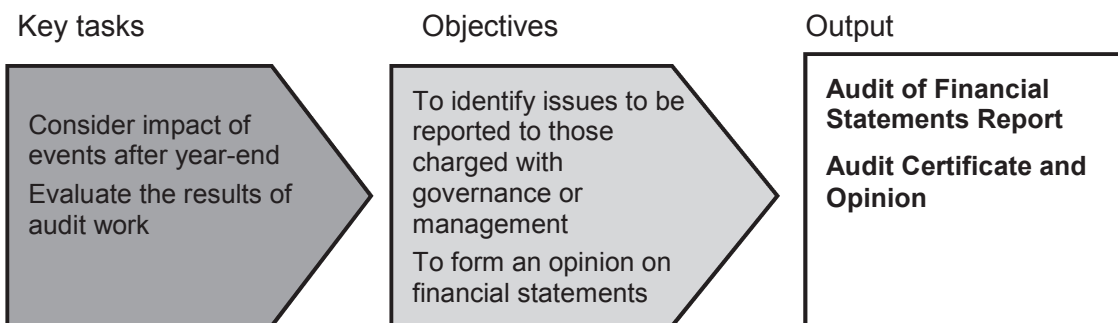
Risk assessment (planning)



Obtaining assurance (execution)



Concluding and reporting



-
11. In planning my work and obtaining an understanding of the Pension Fund, I consider the control environment including the activities of Internal Audit to determine the potential impact of its work on my planned procedures. I use the work of Internal Audit to inform my risk assessment as part of my planning procedures.
12. As part of the planning process, my staff considered the information which would be required to support the accounts submitted for audit. The fees, once agreed, will assume that this information will be provided by the timescales agreed and to the quality standards that we expect. My other main assumptions in setting the estimated fees will be that:
- appropriate accommodation and facilities are provided to enable my audit team to deliver our audit in an efficient manner;
 - the financial statements and supporting working papers have been subject to review and validation by management, to provide the Responsible Financial Officer with assurance that they are 'true and fair';
 - all appropriate officials will be available during the audit;
 - you have all the necessary controls and checks in place to enable those charged with governance to provide all the assurances that I require in the Letter of Representation addressed to me; and
 - Internal Audit has completed its planned programme of work and that management has taken all necessary remedial action on issues that could have affected the financial statements.

Audit risks

13. **Exhibit 3** provides information regarding the main operational and financial risks faced by the Pension Fund that could affect my audit. These are the main risks that I have identified during the initial audit planning process, based upon information currently available, and the actions proposed to address them. I may need to change the audit plan if any new risks emerge. I will not make any changes to the audit plan without first discussing them with officers and, where relevant, those charged with governance.

Exhibit 3: Summary of main audit risks and proposed responses

Significant Risks	Action proposed
Control environment risks	
<p>The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • test the appropriateness of journal entries and other adjustments made in preparing the financial statements; • review accounting estimates for evidence of bias; • evaluate the rationale for any significant transactions outside the normal course of business; and • include an unpredictable element to our audit procedures that varies year on year.

Accounting and reporting issues

- 14. In addition to the significant risk set out above, I also need to consider any new financial accounting and reporting requirements which impact on my responsibilities.
- 15. There are no significant new financial accounting and reporting requirements that I wish to draw to your attention.

Risk of Fraud

- 16. International Standards on Auditing (UK&I) state that I am 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	Management's responsibility	Responsibility of those charged with governance
<p>My objectives are:</p> <ul style="list-style-type: none"> 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 	<p>Management's responsibilities in relation to fraud are:</p> <ul style="list-style-type: none"> 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. 	<p>Your responsibility as part of your governance role is:</p> <ul style="list-style-type: none"> To evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate 'tone at the top'; and To ensure any alleged or suspected instances of fraud brought to your attention are investigated appropriately.

Your views on fraud

17. We enquire of those charged with governance:
- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
 - What fraud detection or prevention measures (e.g. whistleblower lines) are in place in the entity?
 - What role you have in relation to fraud?
 - 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?

Pension Fund annual report

18. In addition to including the Pension Fund accounts in their main accounting statements, administering authorities are required to publish a Pension Fund annual report which must include the Pension Fund accounts.
19. I am required to read the Pension Fund annual report and consider whether the information it contains is consistent with the audited Pension Fund accounts included in the Council's main accounting statements.
20. I also issue an audit statement confirming the consistency of the accounts included in the annual report with the audited Pension Fund accounts.

Independence

Threats and safeguards

21. At the beginning of the audit process my audit team is required to assess their independence as your external auditor. I made enquiries of all audit teams providing services to you and in order to identify any relationships that, in my professional judgement, may be perceived to impact upon my independence and the objectivity of my audit team.

Relationships and Investments

22. Senior officers and members should not seek or receive personal financial or tax advice from my audit team. Senior officers and members who receive such advice from us should notify me, so that I can put appropriate conflict management arrangements in place.
23. Therefore at the date of this plan I confirm that in my professional judgement, my audit team are independent accountants with respect to the Council, within the meaning of UK regulatory and professional requirements and that the objectivity of my audit team is not impaired.

Fee, audit team and timetable

Fee

24. We are currently unable to provide you with an estimate of our fee for our 2013-14 audit work.
25. Owing to the requirements of the Public Audit (Wales) Act 2013, we are required to revise our approach to fee setting. This act introduces a slightly revised fee-setting requirement on the new Wales Audit Office for all our audit work once its provisions come into effect from 1 April 2014. In anticipation of this new requirement we have needed to take legal advice to clarify a number of its provisions. In the light of that advice, we have reviewed our cost allocation and apportionment processes to ensure that going forward our fee setting will fully comply with these new statutory requirements. This unfortunately has been a time-consuming process. The exercise has now been completed and the Auditor General is has consulted on his fee scales, which take account of revisions made in anticipation of the new legislation. That consultation provides further information about the new legislative requirements.

-
26. After the end of the consultation process (28 February 2014), and after considering the consultation responses, we will be able to provide you with an estimate of your fee for 2013-14.
27. Planning will be ongoing, and changes to my programme of audit work and, therefore, my fee may be required if any key new risks emerge. I shall make no changes without first discussing them with the Head of Financial Services. Further information on the new Wales Audit Office fee scales and fee setting will be provided once finalised.
28. Further information on the Auditor General's fee scales and fee setting can be found on our website at: www.wao.gov.uk/aboutus/4240.asp.

Audit team

Exhibit 4: My team

Name	Role	Contact number	E-mail address
Anthony Barrett	Appointed Auditor	029 2032 0500	anthony.barrett@wao.gov.uk
Kevin Williams	Financial Audit Engagement Lead	029 2080 2161	kevin.a.williams@uk.pwc.com
Stuart Austin	Audit Manager (Pensions Specialist)	0121 265 5871	stuart.austin@uk.pwc.com
Ian Looker	Financial Audit Team Leader (Pensions Specialist)	029 2080 2653	ian.z.looker@uk.pwc.com

29. I can confirm that my team members are all independent of the City & County of Swansea Pension Fund and its officers. In addition, I am not aware of any potential conflicts of interest that I need to bring to your attention.

Timetable

30. I will provide reports, or other outputs as agreed, to the Pension Fund Panel, Audit Committee and Cabinet covering the areas of work identified in this document. My key milestones are set out in [Exhibit 5](#).

Exhibit 5: Timetable

Planned output	Work undertaken	Report finalised
Annual Financial Audit Outline	March 2014	April 2014
Audit of Financial Statements (ISA 260) Report	July 2014	September 2014
Audit Opinion on the 2012-13 Financial Statements	July 2014	September 2014

Appendix 1

Roles and responsibilities

The Council is the administering authority of the Pension Fund. This Annual Financial Audit Outline has been prepared to meet the requirements of auditing standards and proper audit practices. It provides the Council with an outline of the financial audit work required for the 2013-14 Pension Fund accounts.

The Public Audit (Wales) Act 2013 (the 2013 Act) sets out that the Auditor General is to be the auditor of local government bodies in Wales, and their associated pension funds. The 2013 Act does, however, provide transitional arrangements where the appointment of a person as an auditor under section 13 of the Public Audit (Wales) Act 2004 continues to have effect until the end of the period for which the appointment was made (subject to any earlier termination). The Auditor General has appointed Anthony Barrett as the auditor of the Pension Fund accounts for the year ending 31 March 2014.

As Appointed Auditor, I am required by the Public Audit (Wales) Act 2004 to examine and certify the accounts of the Pension Fund. In accordance with professional standards that apply by virtue of the Code of Audit Practice set under the act, this involves giving an opinion on whether the accounts give a true and fair view of the Pension Fund's financial transactions and of the amount and disposition of the fund's assets and liabilities. The act also requires me to satisfy myself of these things:

- that the accounts are prepared in accordance with regulations under section 39 of the act (the Accounts and Audit (Wales) Regulations 2005);
- that the accounts comply with the requirements of all other statutory provisions applicable to them; and
- that proper practices have been observed in the compilation of the accounts.

I am also required to certify that the audit has been completed in accordance with the Public Audit (Wales) Act 2004.

The audit does not relieve the Council of its responsibility regarding the Pension Fund to:

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

Electronic communication

During the engagement my audit team may from time to time communicate electronically with you. However, the electronic transmission of information cannot be guaranteed to be secure, virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use.

My audit team may also need to access external electronic information and resources during the engagement. You agree that there are benefits to each of us in their being able to access external networks via your internet connection and that they may do this by connecting their laptop computers to your network. We each understand that there are risks to each of us associated with such access, including in relation to security and the transmission of viruses.

We each recognise that systems and procedures cannot be a guarantee that transmissions, our respective networks and the devices connected to these networks will be unaffected by risks such as those identified in the previous two paragraphs. We each agree to accept the risks of and authorise (a) electronic communications between us and (b) the use of your network and internet connection as set out above. We each agree to use commercially reasonable procedures (i) to check for the then most commonly known viruses before either of us sends information electronically or we connect to your network and (ii) to prevent unauthorised access to each other's systems.

We shall each be responsible for protecting our own systems and interests and you and my audit team shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between you and my audit team and my audit teams reliance on such information or our use of your network and internet connection.

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Quality arrangements

I want to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with me how my service could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately. In this way I can ensure that your concerns are dealt with carefully and promptly. I undertake to look into any complaint carefully and promptly and to do all I can to explain the position to you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales.

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Report of the Chief Auditor

Audit Committee – 24 April 2014

INTERNAL AUDIT ANNUAL PLAN 2014/15

Purpose:	This report presents the Internal Audit Annual Plan 2014/15 to the Audit Committee for approval.
Policy Framework:	None.
Reason for Decision:	To allow the Audit Committee to discuss and approve the Internal Audit Annual Plan 2014/15.
Consultation:	Legal, Finance, Access to Services.
Recommendation:	It is recommended that: the Committee approves the Internal Audit Annual Plan 2014/15.
Report Author:	Paul Beynon
Finance Officer:	Paul Beynon
Legal Officer:	Sharon Heys
Access to Services Officer:	Sherill Hopkins

1. Introduction

- 1.1 A risk based Internal Audit Annual Plan is prepared each year which is used to guide the work of the Internal Audit Section and allow the Chief Auditor to deliver the annual opinion on control as well as providing assurance to the Audit Committee and Section 151 Officer.
- 1.2 The methodology used to prepare the Annual Plan was reported to the Committee at the meeting on 27th March 2014.
- 1.3 This report presents the Internal Audit Annual Plan 2014/15 to Committee for approval.

2. Internal Audit Annual Plan 2014/15

- 2.1 For 2014/15, the Internal Audit Section is made up of 10.6 staff excluding the Chief Auditor which is a reduction of 1 post from 2013/14
- 2.2 To contribute to the significant savings the Council was required to make in 2014/15, a Group Auditor who applied for early

retirement/voluntary redundancy was allowed to leave and the post has been deleted from the structure.

- 2.3 This means that the Internal Audit Section will in future be operating as a single team headed by 1 Group Auditor.
- 2.4 The loss of a management post within the Section will mean that some work will pass down to Senior Auditors such as reviewing audit files completed by Auditors. This work is already done by Senior Auditors but to a lesser extent than will be required in the future. The natural consequence of this is that there will be a reduction in the time spent undertaking audits by the Senior Auditors.
- 2.5 A summary of the Internal Audit Plan 2014/15 is shown in Appendix 1 and a list of audits planned for 2014/15 is shown in Appendix 2 along with the number of days planned for each audit.
- 2.6 Appendix 1 shows that the total days available in 2014/15 have reduced by 260 days due to the loss of the Group Auditor post.
- 2.7 As previously reported to the Committee, a large number of audits were deferred in 2013/14 due to vacant posts and the time spent on special investigations exceeding the time allowed in the Annual Plan.
- 2.8 To accommodate the audits deferred from 2013/14 and to match the Audit Needs Assessment to the available resources, a number of audits due in 2014/15 have been deferred to 2015/16. The total number of days for the audits deferred to 2015/16 is just over 500. A risk based approach has been used to identify the audits to be deferred.
- 2.9 In addition, a further 200 days have been saved due to audit no longer required as the service or grant has ceased and a number of fundamental audits have also been moved from an annual audit to a 2 year cycle as they have consistently received the highest level of assurance over a 3 year period. PwC have confirmed that they feel it is appropriate to take account of the level of assurance when considering the frequency and scope of audit reviews.
- 2.10 Further solutions will be considered during the course of the year to address the loss of resources and prevent significant numbers of audits being deferred on an annual basis including
 - Deferring or deleting lower risk audits
 - Extending the period of time between audit visits
 - Reviewing the range and frequency of audits
 - Increasing the use of alternatives e.g. self assessment

2.11 Any changes arising from this review will be discussed with our external auditors and reported to the Audit Committee for approval.

2.12 Progress made by the Internal Audit Section in achieving the Plan will be reported to the Audit Committee on a quarterly basis.

3. Equality and Engagement Implications

3.1 There are no equality and engagement implications associated with this report.

4. Financial Implications

4.1 There are no financial implications associated with this report.

5. Legal Implications

5.1 There are no legal implications associated with this report.

Background Papers: Internal Audit Plan 2014/15

Appendices: Appendix 1 Internal Audit Annual Plan 2014/15 – Summary
Appendix 2 Internal Audit Annual Plan 2014/15

INTERNAL AUDIT ANNUAL PLAN 2014/15 - SUMMARY

Categories of Audit Work	Plan	Plan	%
	2013/14 Days	2014/15 Days	
Regularity Audits			
1. People	639	462	16.8
2. Place	433	419	15.2
3. Corporate Services	108	200	7.2
Systems Audits	447	389	14.1
Computer Audits	77	102	3.8
Contract Audits	15	5	0.2
Projects and Special Investigations			
1. Projects	214	214	7.8
2. Special Investigations	110	110	4.0
Miscellaneous Audits	5	0	0.0
Productive Days	2048	1901	69.1
Other Activities			
1. Staff Training	113	92	3.3
2. Holidays, Sick & Special Leave	527	489	17.7
3. Admin, Planning, Control, Clerical Support etc	197	197	7.1
4. Contingencies	38	60	2.2
5. Voluntary Reduction in Hours	52	0	0.0
6. Vacancies	24	0	0.0
7. Non Audit Work	17	17	0.6
Non Productive Days	968	855	30.9
Total Days	3016	2756	100.0

INTERNAL AUDIT ANNUAL PLAN 2014/15

Head of Service	Risk Rating	Days 2014/15	Type of Work
Head of Education Planning & Resources			
Primary Schools	Medium	106	Assurance
Secondary Schools	Medium	40	Assurance
School Kitchens	Medium	10	Assurance
Total		156	
Head of Education Improvement			
Ethnic Minority Language & Achievement Service	Medium	10	Assurance
Music Service	Medium	10	Assurance
Support for the Arts	Medium	5	Assurance
Total		25	
Head of Education Inclusion			
Access to Learning - Management & Admin	Medium	10	Assurance
Psychology Service	Medium	5	Assurance
Recoupment	Medium	5	Assurance
SEN Support & Statementing	Medium	5	Assurance
Behaviour & Learning Support	Medium/Low	5	Assurance
Education Welfare Service	Medium	10	Assurance
Education other than at School	Medium	10	Assurance
School & Governor Unit	Low	5	Assurance
Total		55	
Education - Other			
Community Focused Schools Grant	N/A	5	Grant Certification
School Uniform Grant	N/A	5	Grant Certification
Foundation Phase Grant	N/A	5	Grant Certification
Schools Annual Report	N/A	3	Assurance
Total		18	
Head of Child and Family Services			
Admin Support - Lakeside	Medium	6	Assurance
Independent Agency Payments	Medium/High	10	Assurance
Youth Offending Service	Medium/High	10	Assurance
Discretionary Payments	Medium/High	10	Assurance
Use of Taxis	Medium	10	Assurance
Total		46	

INTERNAL AUDIT ANNUAL PLAN 2014/15

Head of Service	Risk Rating	Days 2014/15	Type of Work
Head of Adult Services			
Home Care	Medium/High	10	Assurance
Morfydd House Admin	Medium	5	Assurance
Integrated Community Equipment Service	New	10	Assurance
Flexible Support Service	Medium	10	Assurance
Adult Family Placements	New	10	Assurance
Self Assessment Checklist	Medium/High	10	Assurance
Total		55	
Directorate Services			
Debt Recovery	High	15	Assurance
TSB Accounts	Medium	5	Assurance
Transport Depot	Medium	15	Assurance
Supporting People Grant	N/A	8	Grant Certification
Staff Development & Training Section	Medium/Low	10	Assurance
Contracting	Medium	10	Assurance
Total		63	
Head of Poverty & Prevention			
Childcare Grants	New	10	Assurance
Flying Start	New	10	Assurance
Families First	New	10	Assurance
Play Team	Medium	6	Assurance
Community Food Growing Team	Medium	8	Assurance
Total		44	
Head of Corporate Building & Property Services			
Heol y Gors - Estimating	Medium	15	Assurance
Oracle Time and Labour	New	15	Assurance
Facilities Management	Medium/Low	5	Assurance
Total		35	
Head of Waste Management			
Skip Hire	Medium/Low	5	Assurance
Waste Enforcement	New	10	Assurance
Total		15	

INTERNAL AUDIT ANNUAL PLAN 2014/15

Head of Service	Risk Rating	Days 2014/15	Type of Work
Head of Highways & Transportation			
Home to School Transport	Medium	15	Assurance
Road Safety incl. School Crossing Patrols	Low	10	Assurance
Concessionary Bus Fares	N/A	2	Assurance
Taxi Framework Contract	Medium	10	Assurance
Clydach Depot - Stores	Medium	10	Assurance
Clydach Depot - Plant & Fuel	Medium	10	Assurance
Central Transport Unit - Fleet & Spot Hire	Medium	10	Assurance
Total		67	
Head of Housing & Public Protection			
Blaenymaes District Housing Office	Medium	15	Assurance
Townhill District Housing Office	Medium	15	Assurance
Morrison District Housing Office	Medium	15	Assurance
Sketty District Housing Office	Medium	7	Assurance
Void Team / Home Preparation Unit	Medium	15	Assurance
Renewals & Adaptations	Medium	25	Assurance
Trading Standards	Medium	10	Assurance
Rechargeable Works	Medium	5	Assurance
Community Safety & CCTV	Medium	10	Assurance
Total		117	
Head of Culture, Sport, Leisure & Tourism			
Cefn Hengoed Leisure Centre	Medium	10	Assurance
Penlan Leisure Centre	Medium	15	Assurance
Morrison Leisure Centre	Medium	15	Assurance
ACTIVA	New	5	Assurance
Spot Checks	N/A	5	Assurance
Grounds Maintenance	Medium	15	Assurance
Parks Central Operations	Low	6	Assurance
Parks Buildings	Medium	5	Assurance
Branch Libraries	Medium/Low	11	Assurance
Central Library	Medium	15	Assurance
Tourist Information Centre	Low	5	Assurance
Total		107	

INTERNAL AUDIT ANNUAL PLAN 2014/15

Head of Service	Risk Rating	Days 2014/15	Type of Work
Head of Economic Regeneration and Planning			
Business Development	Medium	15	Assurance
Swansea Market	Medium	20	Assurance
Economic Development Admin	Medium/Low	5	Assurance
European Unit	Medium	8	Assurance
Section 106 Agreements	New	10	Assurance
Rights of Way	New	10	Assurance
Planning and Enforcement	New	10	Assurance
Total		78	
Head of Communications & Consultation			
Communications & Public Relations	Low	10	Assurance
Total		10	
Head of Finance & Delivery			
Cashiers Office	Medium/High	5	Assurance
Write-off Requests by Departments	N/A	20	Assurance
Cashiers Write Offs	N/A	5	Assurance
Housing Advances	Low	5	Assurance
Blue Badges	Medium	5	Assurance
Petty Cash Accounts	Medium	5	Assurance
Car Loans	Medium	5	Assurance
Taxation - VAT	Medium	10	Assurance
Construction Industry Tax Scheme	Medium	10	Assurance
Pension Fund Other	New	10	Assurance
Trusts & Charities	New	10	Assurance
Risk Management	High	10	Assurance
Total		100	
Head of Legal, Democratic Services & Procurement			
Land Charges	Low	10	Assurance
Election Expenses	N/A	10	Assurance
Total		20	
Head of Human Resources			
Flexitime & Security	Medium/High	20	Assurance
Employee Vetting	High	10	Assurance
HR Policies	New	10	Assurance
Officers Expenses	Medium	10	Assurance
Total		50	

INTERNAL AUDIT ANNUAL PLAN 2014/15

Head of Service	Risk Rating	Days 2014/15	Type of Work
Head of Information & Business Change			
ISiS Authorisation Limits	Medium/High	10	Assurance
Record Management	New	10	Assurance
Total		20	
Fundamental Systems			
Payroll	High	40	Assurance
Pensions	High	20	Assurance
Teachers Pensions	Medium	15	Assurance
Accounts Receivable	High	35	Assurance
NNDR	Medium	39	Assurance
Treasury Management - Borrowing & Investments	Medium	18	Assurance
Accounts Payable	Medium	35	Assurance
Cash	Medium/High	30	Assurance
Housing/Council Tax Benefit	Medium	22	Assurance
Council Tax	Medium	30	Assurance
Capital Accounting	Medium	15	Assurance
Main Accounting System	Medium	20	Assurance
Total		319	
Contract Audits - Systems			
Legal			
Acceptance of Tenders	Medium	10	Assurance
Liquidations	Medium/High	5	Assurance
Procurement			
Contract and Supplier Register	Medium	10	Assurance
Transportation			
Business Case, Tendering and Evaluation	Medium	20	Assurance
Control of Contracts	Medium	15	Assurance
Corporate Building Services			
Tendering	Medium	10	Assurance
Total		70	

INTERNAL AUDIT ANNUAL PLAN 2014/15

Head of Service	Risk Rating	Days 2014/15	Type of Work
Computer Audits			
IT Assets	Medium	10	Assurance
Corporate Network Controls	Medium	10	Assurance
Virtual Server Environment	New	10	Assurance
Corporate Network - Internet Controls	Medium/Low	10	Assurance
Payment Card Industry - Data Security Standard	Medium	5	Assurance
Physical and Environmental Controls	Medium	7	Assurance
Disaster Recovery & Business Continuity	Medium/High	10	Assurance
Software Licences (F.A.S.T.)	Medium/High	5	Assurance
Paris System	Medium	5	Assurance
GCSX & Encryption	New	5	Assurance
Extraction of Data - Miscellaneous	N/A	10	Assurance
Data Matching Exercise - NFI 2014	N/A	10	Assurance
Duplicate Payments - Housing Benefits	N/A	5	Assurance
Total		102	
Contract Audits			
Final Accounts	N/A	3	Assurance
Financial Appraisal of Contractors for Tenders	N/A	2	Assurance
Contract Audit - Total		5	
Projects and Special Investigations			
Fraud Investigations	N/A	100	
Unpresented Cheques > £2,000	N/A	10	
PwC Queries / Draft Reports	N/A	5	
Galileo Audit Management System	N/A	15	
Annual Plan & Annual Report	N/A	30	
Health & Safety Group	N/A	8	
Housing Benefits Panel	N/A	1	
Recommendations Tracker	N/A	15	
Follow Ups	N/A	60	
P Card Review of Purchases	New	25	Assurance
Departmental Gifts & Hospitality Registers	New	15	Assurance
Partnerships - Overview & Governance	New	15	Assurance
Partnership Working with ABMU	New	10	Assurance
Corporate Governance Review	New	15	Assurance
Total		324	
Productive Days - Total		1,901	

Report of the Chief Auditor

Audit Committee – 24 April 2014

AUDIT COMMITTEE PERFORMANCE REVIEW

Purpose:	This report summarises the issues identified during the recent performance review undertaken by the Audit Committee using the CIPFA Self Assessment Checklist
Policy Framework:	None
Reason for Decision:	To allow the Audit Committee to confirm the issues it wishes to take forward to improve the performance and effectiveness of the Committee
Consultation:	Legal, Finance, Access to Services.
Recommendation(s):	It is recommended that: 1) the Committee agrees the issues to be taken forward arising from the performance review 2) a further review of performance takes place towards the end of the 2014/15 municipal year.
Report Author:	Paul Beynon
Finance Officer:	Paul Beynon
Legal Officer:	Sharon Heys
Access to Services Officer:	Sherill Hopkins

1. Introduction

- 1.1 The Council has a statutory responsibility under the Local Government (Wales) Measure 2011 to have an Audit Committee which must include a lay member.
- 1.2 The Audit Committee in its current format met for the first time in December 2012 and following a full cycle of business, it was appropriate for the Committee to undertake a review of its effectiveness in meeting its role and the functions placed on it by the Council and the Local Government (Wales) Measure 2011.

1.3 A Self Assessment Checklist produced by CIPFA was used as the basis for the performance review. The Checklist was made available to all Committee members at the meeting on 20th June 2013 and the Audit Committee Performance Review appeared on the agenda of the meeting held on 27th February 2014.

2. Audit Committee Performance Review

2.1 The CIPFA Self Assessment Checklist covers the following areas

- Role and remit
- Membership, induction and training
- Meetings
- Internal control
- Financial reporting and regulatory matters
- Internal Audit
- External Audit
- Agenda management
- Papers
- Actions arising

2.2 The Audit Committee members were encouraged to complete the Checklist and a number were returned. The Committee discussed the Checklist and undertook a review of the Committee's performance at the meeting on 27th February 2014.

2.3 The overall outcome of the performance review was that the Audit Committee was generally performing well measured against the Checklist.

2.4 However, the performance review identified a small number of issues where improvements could be made to ensure that the Committee was following best practice.

2.5 The issues identified were

- **Terms of Reference** – the Audit Committee has terms of reference but they are not the same as the model terms of reference put forward by CIPFA in its Practical Guidance for Local Authority Audit Committees. The Committee felt that its terms of reference should be amended to those recommended by CIPFA
- **Annual Report** – the Audit Committee does not make a formal annual report to Council outlining its work and performance during the year. Similar reports are already produced for Scrutiny and the Standards Committee. The Committee felt that it should also produce an Annual Report to Council
- **Committee Members Training** – initial training was provided to the Audit Committee over a number of months following the initial

meeting of the Committee. However, this training has not been provided to the new members who have subsequently joined the Committee. The Committee felt that training should be provided to all new members of the Committee.

- **Risk Management** – the Local Government (Wales) Measure 2011 formally makes risk management a function of the Audit Committee. A number of presentations have been made to the Committee on Risk Management but the Committee felt that a structured approach was required to reporting Risk Management issues to the Committee. It was recognised that new arrangements are being put in place for the management of the Risk Management function within the Council which will hopefully address this issue.

2.6 An annual review of performance by the Audit Committee is a worthwhile exercise to ensure that it is fulfilling its role and to identify any learning points are identified and used to improve performance in future years.

3 Equality and Engagement Implications

3.1 There are no equality and engagement implications associated with this report

4. Financial Implications

4.1 There are no financial implications associated with this report.

5. Legal Implications

5.1 There are no legal implications associated with this report.

Background Papers: None

Appendices: None

Agenda Item 8

Report of the Head of Financial Services

Audit Committee – 24 April 2014

COASTAL PROJECT

Purpose:	This report provides details of an investigation completed by the Internal Audit Section into the Coastal Project following a change in the terms and conditions of the grant by the Welsh European Funding Office in August 2013. An update is also provided regarding the current situation with the Project.
Policy Framework:	None
Reason for Decision:	To allow the Audit Committee to review the investigation completed by the Internal Audit Section and the management action taken and planned in response
Consultation:	Legal, Finance, Access to Services
Recommendation:	It is recommended that: the Committee notes the report
Report Author:	Paul Beynon
Finance Officer:	Paul Beynon
Legal Officer:	Sharon Heys
Access to Services Officer:	Sherill Hopkins

1. Introduction

- 1.1 The Coastal Project is an ESF funded project which commenced in June 2009 covering 6 local authorities in South West Wales. The original total cost of the Project exceeded £51m with £27m being provided as grant funding via the Welsh European Funding Office (WEFO)
- 1.2 The primary aim of the Project was to prepare vulnerable adults for employment through a range of training and support measures and to secure employment for them.

- 1.3 In August 2013, WEFO imposed a retention on the grant which would be permanently withheld if the Project failed to achieve its employment target. The reason for the retention by WEFO was the perceived poor performance of the Project against the employment target. The maximum retention was 20% of the grant funding which is equivalent to £4.55m.
- 1.4 The imposition of the retention posed a significant financial risk to the Project and to the City and County of Swansea in particular. As a result of this risk, an Internal Audit review of the Coastal Project was requested by the Head of Finance and Delivery.

2. Coastal Project

- 2.1 A copy of the Internal Audit report relating to the Coastal Project is attached in Appendix 1
- 2.2 The report has been considered by the Executive Board who have accepted all recommendations made in full and have already acted on the recommendations.
- 2.3 The Head of Finance and Delivery has also arranged a review of all other grants and projects that the Council is involved in to ensure that the situation that arose with the Coastal Project is not repeated. This review found that there are no significant financial risks with any of the other grants or projects.
- 2.4 A 'lessons learnt' session was also held at a recent Top Managers Group meeting which is attended by all Corporate Directors, Chief Officers and Heads of Service. The session identified the lessons from this Project to apply to other areas.
- 2.5 The audit report was written in October 2013 so fails to fully take account of the actions which have been taken both by the Project's Regional Management Team (RMT) and specifically by the City and County of Swansea to address performance against the Project's targets.
- 2.6 Following the action taken by WEFO in August 2013, it was quickly recognised by all parties involved in Coastal that positive action was required to avoid the financial risk of the retention.
- 2.7 The Coastal Project's RMT have taken the following action across all joint sponsors involved in Coastal to encourage and support the sponsors to achieve the employment target
 - RMT staff have spent significant amounts of time meeting and monitoring partners across the region to ensure that progress is made in achieving the Project's targets and in particular the employment target

- The Regional Operational Group now meets monthly and the Regional Project Board now meet every alternate month to keep senior staff in each partner authority informed of progress and to allow them to take action where required
- A more rigorous monthly progress reporting process has been put in place to record the outcomes reported to WEFO and also the underlying position regarding overall progress. Copies of the monthly report are circulated to Project Board members and Project Managers in each authority. A copy is also sent to the Head of Finance and Delivery
- All 'closed' files have been checked to ensure that any outcomes which may be claimed against the Project's targets have not been missed and also to ensure the relevant evidence is on file to support the claim.
- Proposals have been submitted to WEFO to extend the end date of the Project to from 30th June 2014 to 31st December 2014. The proposals have been agreed by WEFO at a time where it is understood that requests for extensions by other projects have been refused.

2.8 The Social Services Directorate, supported by other Services Areas across the Council, has also responded positively to the challenge of ensuring the Swansea service delivery contract delivers the required outcomes. This has included the following

- Drafting in a principal officer to provide additional management capacity
- Creating additional governance and scrutiny by the weekly reporting of actions taken to the Social Services Directorate Management Team and the Principal Officers Group (Adult Services)
- Weekly meetings of the managerial leads to review performance against targets
- Creation of a single employment team replacing the previous arrangement under separate service lead officers.
- Creation of corporate work placement initiatives through the Council's Top Managers Group. This initiative has created opportunities for employment for over 40 Coastal participants.
- Better 'buy in' and understanding of Coastal by managers and staff especially match funded staff to ensure appropriate contributions
- Monthly reports to the Executive Board identifying progress against targets both locally and regionally. The report also highlights any identified risks.

2.9 In terms of impact on the performance of the Project against targets, the actions taken have been extremely positive and as at the end of February 2014, the Project has placed 644 participants into employment against a profile of 617 participants by the end of March 2014.

2.10 For Swansea, performance against the employment target has increased significantly and as at the end of February 2014, the number of participants placed into employment by Swansea exceeded the profile to the end of March 2014.

2.11 Overall, the financial risk created by the retention imposed by WEFO now appears to have been overcome and the Project is in a healthy position measured against the targets it is required to achieve by the end of the Project.

3. Equality and Engagement Implications

3.1 There are no equality and engagement implications associated with this report.

4. Financial Implications

4.1 There are no financial implications associated with this report.

5. Legal Implications

5.1 There are no legal implications associated with this report.

Background Papers: None

Appendices: Appendix 1 – Internal Audit Report 2013/14 Coastal Project

**CITY AND COUNTY OF SWANSEA
INTERNAL AUDIT REPORT 2013/14
COASTAL PROJECT**

1. Introduction

- 1.1 An Internal Audit investigation has been undertaken of the Coastal Project which is an ESF funded project which commenced in June 2009. The Project covers 6 local authorities i.e. Bridgend, Neath Port Talbot, Swansea, Carmarthenshire, Pembrokeshire and Ceredigion. Swansea is the lead sponsor of the Project with the other authorities being joint sponsors
- 1.2 The primary aim of the Project is to prepare vulnerable people for employment through a range of training and support measures and to secure employment for them. It was recognised at the outset that the Project would be working with participants who were significantly removed from employment due to illness, disability, substance misuse or serious social disadvantage associated with the transition from long term care to adulthood.
- 1.3 This review has been requested as a result of WEFO invoking a significant retention under the terms of the ESF grant due to the slow progress being made by the Project in placing participants into employment. The WEFO retention would be either 10% or 20% based on the final number placed into employment at the end of the Project.
- 1.4 The brief for the investigation is shown below
- What risks were identified at the outset and who, corporately and politically were aware of the risks?
 - Who re-negotiated the reduction in targets and who, corporately and politically were aware of the reductions?
 - Who was aware that the Project was performing poorly on a regional basis and who was it reported to? What action was taken to improve performance?
 - Why was poor performance not linked to the financial risk of retention by WEFO?
 - Who was aware that the Swansea contract was performing particularly poorly and who was it reported to? What action was taken to improve performance by Swansea?
- 1.5 The investigation has included a review of documentation relating to the Coastal Project and interviews with Social Services management

as well as staff involved in the Coastal Project and the delivery of services to the Project by the City and County of Swansea.

2. Background

- 2.1 As the lead sponsor, Swansea employed a Regional Management Team (RMT) to co-ordinate the Project. The RMT undertook an open procurement exercise to let contracts for the delivery of the Project's services in each local authority area.
- 2.2 The Project had 6 objectives at the outset, each objective had a specific target which had to be achieved under the terms of the ESF grant. The targets have been revised twice during the course of the Project with the agreement of WEFO. The original and amended targets are shown in the following table

Objective	Original	Nov 2011	Dec 2012
Engage with economically inactive and unemployed participants	9,020	8,500	7,500
Participants into sustainable employment	2,870	1,500	750
Participants gaining a qualification	5,412	6,500	4,500
Participants entering further education	1,763	2,750	1,875
Participants gaining other positive outcomes	6,724	8,100	4,500
Employers adopting or improving equality and diversity strategies and monitoring systems	20	10	10

- 2.3 The first change to the targets arose as a result of the DWP's Work Programme which significantly reduced the number of participants that Coastal could work with while the second change was a result of the recognition that the economic climate at the time made the targets unrealistic.
- 2.4 The changes to the targets were agreed with WEFO however on 6th August 2013 WEFO wrote to Swansea as the lead sponsor invoking paragraph 55 of the grant offer which allows WEFO to unilaterally amend the terms and conditions at any time subject to reasonable notice.
- 2.5 The grant was subject to the standard 10% project closure retention which applies to all WEFO grants to ensure satisfactory project closure. The special conditions imposed by WEFO increased the retention rate to 20% and also linked the retention to the achievement

of the employment target as WEFO considered that Coastal was performing poorly against this target although this was based on project claims to December 2012 so did not reflect the up to date position at the time the retention was increased.

- 2.6 The special conditions stated that the 20% retention will be permanently retained if the number of participants entering employment falls below 600 with the permanent retention being 10% if the numbers entering employment fall below 675.
- 2.7 A 10% retention is equivalent to £2.275m and a 20% retention is equivalent to £4.550m.
- 2.8 Each joint sponsor has signed an SLA and contract for the delivery of the Coastal services but none of the documents contain provision for the allocation of a retention amongst the Project sponsors. This situation is further complicated as it is likely that some joint sponsors will meet their employment targets while others, in particular Swansea, may not. It would be difficult to withhold grant from sponsors who have achieved their targets making the potential financial risk to Swansea even greater.
- 2.9 A further complication is that some service delivery contracts are with third sector organisations where a retention would have a significant impact on their financial viability meaning that any retention for third sector organisations may have to be picked up by the joint sponsors.
- 2.10 The financial risk of the retention imposed by WEFO to Swansea is difficult to quantify at this stage as ultimately it depends on the achievement of the employment target across the Project. However one possible scenario is that Swansea is the only joint sponsor who does not meet the employment target and the number entering employment falls below 600 then the full 20% retention i.e. £4.55m may have to be borne by Swansea.
- 2.11 The current end date for Coastal is 30th June 2014 but the RMT are in negotiations with WEFO to allow service delivery to continue until 30th June 2014 with the Project closure process running until 31st December 2014.

3. Governance

- 3.1 The Coastal Project was approved by Swansea's Cabinet on 11th December 2008. The Cabinet report contained details of 'project governance' including the role of the RMT, the use of SLA's with joint sponsors, the service delivery and procurement arrangements.
- 3.2 However, the report makes no mention of governance arrangements within the City and County of Swansea for Coastal.

- 3.3 Following the award of the Coastal delivery contract to Swansea, a separation was established between the RMT and the services delivering the contract. Internal Audit were informed that a 'Chinese Wall' was established by the Social Services Directorate Management Team but it has not been possible to confirm this arrangement was in place in subsequent interviews with senior Social Services Management although the need for a separation was confirmed.
- 3.4 Interviews held during this review confirmed that Coastal would have been discussed as part of routine supervision meetings involving staff employed on the Project and the Social Services Directorate Management Team but otherwise it was stated that Social Services Management had little involvement in the Project.
- 3.5 A lead officer in Social Services was appointed to put together the Swansea bid for the procurement exercise who was subsequently given the lead role for the Swansea service delivery contract. However the lead role was in addition to existing duties which still had to be delivered.
- 3.6 From the review of documents and interviews, it is clear that the RMT established governance arrangements for the Coastal Project including a quarterly Regional Project Board meeting, a monthly Operational Group meeting and monthly meetings between senior RMT staff and service delivery staff in each joint sponsor. A detailed audit regime for quarterly claims was also established.
- 3.7 The Regional Project Board papers and minutes were circulated to the relevant members of the Social Services Directorate Management Team throughout the course of the Project and from August 2013, the lead officer for the Swansea service delivery contract was added to the circulation list due to attendance at all previous meetings in the absence of members of the Social Services Directorate Management Team.
- 3.8 Interviews have confirmed that copies of the Regional Project Board papers were received by the relevant member of the Social Services Directorate Management Team but that due to the volume of e-mails etc received, they were not always read and reliance was placed on staff to raise issues directly. It was confirmed that the RMT had raised issues regarding the Swansea service delivery contract and that meetings had been convened to resolve the issues. However the issues raised did not relate to the achievement of targets or any of the other current issues surrounding Coastal.
- 3.9 Minutes of all meetings held have been provided and reviewed as part of this investigation.

- 3.10 It was also found that governance arrangements had been established for the Swansea service delivery contract including a series of minuted officer meetings.
- 3.11 Although governance was in place for the Project and the Swansea service delivery contract, it appears from interviews that there were no further governance arrangements within the City and County of Swansea
- 3.12 Interviews with senior staff involved in the RMT and the Swansea service delivery contract have identified that concerns relating to the Coastal Project were raised with the relevant members of the Social Services Directorate Management Team during supervision meetings but it appears that those concerns were not escalated elsewhere e.g. to the Social Services monthly PFM meeting, Corporate Management Team, Finance, Cabinet Member, Cabinet.
- 3.13 The review of the minutes for both regional project meetings and Swansea contract meetings has shown that issues with the achievement of targets have been raised from quite early in the Project. The agenda papers and minutes of the Regional Project Board were circulated to the relevant members of the Social Services Directorate Management Team but the issues regarding the achievement of targets, which were included in the papers, were not escalated.
- 3.14 As noted above, the targets for Coastal have been re-profiled with WEFO on 2 occasions. The re-profile and the subsequent agreement of WEFO to the revised targets was reported to and agreed by the Regional Project Board and were reported within the Swansea service delivery contract. However, the re-profile of targets was not formally reported within the City and County of Swansea although the WEFO variation letters were signed by the authorised signatory for grants in the Finance Department.

4. Risks

- 4.1 Risks and the management of risk formed part of the Coastal Business Plan submitted to WEFO as part of the grant application process.
- 4.2 The risks included in the Business Plan appeared under the following headings
- Operational/Market
 - Compliance with Legislation/Delivery
 - Procurement
 - Organisational
 - Match Funding and Financial
 - Timescale Slippage
 - State Aid

- 4.3 The risks identified in the Business Plan did not use the Council's RAG status to score the risks but from the descriptions of the risks, it is clear that none were considered to be significant risks.
- 4.4 The risk of the Project not achieving its targets and the potential for a grant retention by WEFO was not identified as a risk at this stage which is not really surprising at the application stage.
- 4.5 The only reference to risks in the report to Cabinet on 11th December 2008 relates to the completion of SLA's with the other joint sponsors. As Coastal was a regional project extending over a 4 year period, it is felt that a far greater emphasis should have been given to risks in the Cabinet report.
- 4.6 The RMT introduced a Risk/Issue Log in January 2010 which was initially circulated with the agenda papers for each Regional Project Board meeting. The Log was formally reported at each Board meeting from January 2011 as evidenced by a review of the minutes of the Board meetings.
- 4.7 A review of the Risk/Issue Log has shown that the risk of not achieving targets potentially leading to financial penalties was identified in October 2010.
- 4.8 Although the use of a Risk/Issue Log by the RMT has been identified, there is no evidence of the risks being formally escalated within Swansea other than by being reported in the Regional Project Board minutes.
- 4.9 The Coastal Project and any associated risks have never appeared in the Social Services Directorate Risk Register and consequently have not been escalated to the Council's Corporate Risk Register.
- 4.10 Interviews with senior RMT staff has identified that meetings were held with the authorised signatory for grants in the Finance Department prior to the signing of the original grant acceptance letter and the first variation letter with project risks forming a significant part of the discussion. However, this can't be verified at the present time.

5. Targets

- 5.1 The review of the meeting minutes has shown that some people, particularly those linked to the Swansea contract, felt that the original targets for Coastal were unrealistic. The employment target appeared to cause the most concern as the participants in the Project were those furthest away from employment in the labour market.
- 5.2 As identified above, the agreed targets have been varied twice during the course of the Project. Firstly due to the introduction of the Work Programme

by the DWP which significantly reduced the number of participants who could be helped by Coastal. Negotiations with WEFO led to the employment target being reduced from 2,870 to 1,500. Changes were also made to the other targets at this time.

- 5.3 The second re-profile of targets arose from the recognition that the economic climate made the achievement of the targets unrealistic. On this occasion, the employment target was further reduced to 750. Again changes were also made to the other targets at this time.
- 5.4 On both occasions, the setting of the revised targets was based on information provided by the Project teams within each joint sponsor and the third sector partners.
- 5.5 The review has shown that the re-profile of the targets was reported throughout the Project's and the Swansea contract's governance arrangements. The final approval to submit the revised Business Plan to WEFO was given by the Regional Project Board on both occasions.
- 5.6 Interviews have confirmed that the relevant members of the Social Services Directorate Management Team were aware of the re-profiling of the targets as a result of supervision meetings with staff but were not involved in the process and did not know the full details.
- 5.7 However there was no formal reporting of the re-profile on the targets within the City and County of Swansea. Those linked with the delivery of the Swansea contract were aware of the changes but they were not reported to the Cabinet, Cabinet Member or Social Services PFM meetings.
- 5.8 The authorised signatory for grants in the Finance Department would have been aware of the changes due to the requirement to sign the grant amendment letters.

6. Performance

- 6.1 The RMT is responsible for the quarterly submission of claims to WEFO including each joint sponsor's progress towards meeting each target.
- 6.2 As the participants in the Project were those furthest away from employment, it has always been recognised that the achievement of the employment target would be biased towards the end of the Project due to the need to work with the participants before they were able to enter employment.
- 6.3 The interviews held with staff as part of the investigation and the review of the minutes from the various regional meetings held over the course of the Project has shown that the monitoring and achievement of targets has been discussed since very early in the Project.

- 6.4 The discussions around performance initiated the re-profiling of the targets which were agreed by WEFO. Clear evidence has been identified of the RMT reporting the need to meet agreed targets and in particular the employment target which has been given a particular emphasis on numerous occasions at the Regional Project Board since early 2012
- 6.5 The process of re-profiling the targets for the second time in December 2012 included each joint sponsor completing an Action Plan identifying how they were going to achieve the re-profiled targets. The Action Plans have been monitored at each Regional meeting since January 2013.
- 6.6 It has also been noted that performance and the meeting of targets has been raised and discussed at the Swansea Steering Group throughout the Project again with an emphasis on the employment target since 2011.
- 6.7 It can be seen that it was recognised both regionally and in Swansea that the Swansea contract was performing poorly for some time. The review of the Steering Group minutes has shown that there was a degree of reluctance on the part of some of the teams involved in delivering the services under the Swansea contract to concentrate on the employment target. The minutes clearly show that efforts have been made to ensure that the teams do concentrate on services which are likely to deliver an employment outcome.
- 6.8 The relevant member of the Social Services Directorate Management Team has indicated that it was known from fairly early on in the Project that Swansea was not achieving its employment target but that the other targets were felt to be more important in the early stages of the Project.
- 6.9 The poor performance of the Swansea contract in terms of the employment target which as at 31st August 2013 showed that 19 participants had gained employment out of a target of 142 seems to be due to the way the delivery of the Swansea contract was established.
- 6.10 The other joint sponsors all set up dedicated teams for the delivery of services to Coastal including contract monitoring services. However, in Swansea, the Coastal funding was used to support teams that already existed under the previous Objective 1 funded schemes.
- 6.11 The lead officer for the Swansea service delivery contract did not have line management responsibility for each of the separate teams which delivered services to Coastal and as previously mentioned also had responsibility for other services not linked to Coastal.
- 6.12 Some tension between the RMT and the Swansea service delivery contract has also been identified during this investigation which did not create the ideal conditions for the achievement of the targets.
- 6.13 Senior RMT staff have stated that issues regarding performance were raised with the relevant members of the Social Services Directorate

Management Team in supervision meetings. It has been confirmed that performance issues were discussed at supervision meetings but it was considered that the issues had not been raised as significant risks to the Project.

- 6.14 The current situation regarding performance is that since the imposition of the retention by WEFO, increased efforts have been made across the Project to ensure that the employment target is given added importance. In Swansea, a more robust Action Plan has been developed with weekly and monthly progress meetings being held including the monthly reporting of progress to the Executive Board.
- 6.15 The general feeling within the Project is that as WEFO based the imposition of the retention on the December 2012 figures and the additional work that has arisen since early August 2013 that the achievement of targets is now close to the projected profile.

7. Conclusion

- 7.1 A governance structure was established for Coastal on a regional basis and also for the Swansea service delivery contract. However, there was no formal governance structure within the City and County of Swansea to report or escalate any issues arising from the Project. The progress of Coastal in the achievement of its targets on which the ESF grant was based was never reported higher than supervision meetings within Social Services e.g. to the Social Services PFM meetings.
- 7.2 A good attempt at identifying the Project risks was included in the Business Plan submitted to WEFO with the grant bid but the risks were not included in the Cabinet report where approval was given for the Project to proceed. This means that there was no political awareness of the risks associated with the Project. Given that the Project was arranged on a regional basis and extended over 4 years, it is felt that risks should have been given greater emphasis in the Cabinet report.
- 7.3 The risks identified in the Business Plan did not include the failure to achieve targets or the possibility of grant being withheld by WEFO. This is not surprising at the outset of the Project but it has been seen that some staff felt that the initial employment target was unrealistic.
- 7.4 A Risk/Issue Log was maintained regionally but the risks associated with Coastal never appeared in the Social Services Directorate Risk Register meaning that there was no visibility of any Coastal risks corporately within Swansea.
- 7.5 The re-profiling of the targets for Coastal was dealt within the governance structure established for the Project but there was no reporting of the re-profiling outside of the Project. In particular the significant reduction in the employment target from 2,870 to 750 over the course of the Project was not reported to Cabinet or the Cabinet Member.

- 7.6 It can be seen that regionally there was an awareness that the Project was performing poorly against its targets. This gave rise to the re-profiling of targets with WEFO and the introduction of Action Plans to improve performance. Regional Project Board minutes where performance against targets was regularly discussed were provided to the relevant members of the Social Services Directorate Management Team and Project performance was discussed at supervision meetings but it appears that the poor performance of the Project was not escalated.
- 7.7 It can also be seen that the poor performance of the Swansea service delivery contract in achieving its targets was known regionally and within the structure set up in Swansea to manage the contract. Again it is understood that the performance of the Swansea contract was discussed in supervision meetings but not escalated.
- 7.8 The most significant question arising from this investigation is whether anyone could have linked poor performance to the financial risk which arose when WEFO imposed the retention as a special condition.
- 7.9 Whilst it is clear that WEFO did not raise the possibility of a retention based on performance prior to the letter on 6th August 2013, it was known that the targets were the ultimate aim of the grant being provided. So it could be argued that the financial risk should have been foreseen especially in view of the ESF funding for the Genesis Project being terminated early by WEFO due to poor performance.
- 7.10 This investigation has shown that there is not much more that could have been done by the RMT or the staff managing the Swansea service delivery contract to raise and address the issues regarding performance. It can be seen that relevant members of the Social Services Directorate Management Team had the opportunity to identify poor performance from the Regional Project Board papers and it is felt that the issues should have been escalated prior to August 2013.
- 7.11 It could be argued that the imposition of the performance related retention by WEFO has had the desired effect on the Project as a whole. The impact of the potential financial risk has concentrated minds on addressing performance and in particular ensuring that every effort is made to place participants into employment.

8 Recommendations

- 8.1 As the Coastal Project is now largely complete, the following recommendations are intended to ensure that any future projects of a similar nature have sufficient controls in place to safeguard the Council's position.
- 8.2 The project governance arrangements should include an escalation route for any significant events or changes that occur during the course of the project. This should include e.g. reporting to the monthly Directorate Performance

and Financial Monitoring (PFM) meetings where issues are identified with performance or targets for the project.

- 8.3 The project governance arrangements including any escalation routes should be detailed in the report to Cabinet requesting approval for the project. Any significant changes which occur during the course of the project should be reported to Cabinet.
- 8.4 A full assessment of risk for the project should be completed at the application stage using the Council's Corporate Risk Strategy and Framework and detailed in any reports requesting approval of the project.
- 8.5 The assessment of project risks should include any risks arising from Swansea being the lead sponsor if this is the case and the involvement of third sector partners where their financial viability may mean that additional risk has to be carried by the local government partners in the project.
- 8.6 Risks should be monitored during the course of the project and where necessary escalated to the Directorate Risk Register and Corporate Risk Register.

Report of the Head of Finance & Delivery

Audit Committee – 24 April 2014

AUDIT COMMITTEE – WORKPLAN

Purpose:	This report updates the Audit Committee Workplan to May 2014 and provides a draft Workplan for the following municipal year.
Report Author:	Paul Beynon
Finance Officer:	Paul Beynon
Legal Officer:	Sharon Heys
Access to Services Officer:	Sherill Hopkins

FOR INFORMATION

1. Introduction

- 1.1 An updated Workplan to May 2014 is attached in Appendix 1 for information
- 1.2 A draft Workplan for the following municipal year is also attached in Appendix 2

2. Equality and Engagement Implications

- 2.1 There are no equality and engagement implications associated with this report.

3. Financial Implications

- 3.1 There are no financial implications associated with this report.

4. Legal Implications

- 4.1 There are no legal implications associated with this report

Background Papers: None

Appendix 1 – Audit Committee Workplan

Appendix 2 – Draft Audit Committee Workplan 2014/15

AUDIT COMMITTEE – WORKPLAN

Date of Meeting	Reports
24 April 2014	Education Briefing PwC Annual Financial Audit Outline 2013/14 Internal Audit Annual Plan 2014/15 Audit Committee Performance Review Coastal – Investigation Report

DRAFT AUDIT COMMITTEE WORKPLAN 2014/15

Date of Meeting	Reports
June 2014	Internal Audit Charter Internal Audit Monitoring Report Q4 2013/14 Recommendations Tracker 2012/13 – Update PwC Performance Audit Work 2014/15 WAO National Report – Local Authority Review of Governance Risk Management
July 2014	Draft Statement of Accounts 2013/14
August 2014	Draft Annual Governance Statement 2013/14 Internal Audit Annual Report 2013/14 Annual Report of School Audits 2013/14 Internal Audit Monitoring Report Q1 2014/15
September 2014	Housing Benefit Investigation Team Annual Report 2013/14 Risk Management Half Yearly Review 2014/15 PwC Performance Audit – Mid Term Report
October 2014	Audited Statement of Accounts 2013/14 PwC ISA 260 Report 2013/14
November 2014	Internal Audit Monitoring Report Q2 2014/15 Recommendations Tracker Report 2013/14
December 2014	PwC Controls Report 2013/14 PwC Annual Audit Letter 2013/14
January 2015	Audit Committee Review of Performance 2014/15
February 2015	Internal Audit Monitoring Report Q3 2014/15
March 2015	Risk Management Annual Review 2014/15
April 2015	Internal Audit Annual Plan 2015/16 PwC Annual Financial Audit Outline 2014/15



CITY AND COUNTY OF SWANSEA
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Chair of Audit Committee
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Eich Cyf:
Date: 14th February 2014
Dyddiad:

Dear Mr Thomas

AUDIT COMMITTEE – IMPLEMENTATION OF RECOMMENDATIONS

Thank you for your letter dated 5th February 2014, sent to all Directors, concerning the timely implementation of audit recommendations.

I have discussed this with my colleague Directors and we want to reassure you that this is an issue that we do take seriously.

Consequently, we have agreed that we will add the implementation of audit recommendations to the monthly Directorate Performance and Finance Monitoring meetings. This will enable us to track, on an exception basis, live recommendations and our performance in meeting agreed timescales and take corrective action as required.

I hope that this action will give you the reassurance that you are seeking.

Yours sincerely

Dean Taylor
Director Corporate Services



CITY AND COUNTY OF SWANSEA
DINAS A SIR ABERTAWE

Mr Alan Thomas
Chair of Audit Committee
c/o Members Support
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Ein Cyf:
Your Ref:
Eich Cyf:
Date: 11th March 2014
Dyddiad:

Dear Alan

I refer to your letter dated 5/2/14 in relation to implementation of audit recommendations.

I can confirm the following position in respect of items that you forwarded:-

Accounts Receivable Ref: 2.3.9.

This system error arose as a result of R12 issues and had to be referred to Oracle to address. The system fix has now been tested and is nearing completion to production. There have been data issues which have caused delays.

Accounts Receivable Ref: 3.1.1

I understand that the revised AI has been produced – it will be placed on the intranet after final agreement with Internal Audit.

Accounts Receivable Ref 3.7.4

This has been overtaken by events. We are currently assuming responsibility for collection and administration of Social Services debt which will involve implementing elements of the ORACLE advanced collections module.

As part of that implementation we will review debt write off levels for all categories of debt.

FINANCE DEPARTMENT
ADRAN GYLLID

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Capital Accounting Ref: 06

Each person in the Capital team obtained access to the Fixed Asset folders following submission of the change request dated September 2013. In November 2013 there were changes to the finance server and access was no longer provided, however this was corrected on 04/02/14 allowing full access again.

I hope you find this satisfactory.

Yours sincerely

Mike Hawes FCCA
Head of Financial Services & Section 151 Officer



CITY AND COUNTY OF SWANSEA
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Mr Alan Thomas
Chair of Audit Committee
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Eich Cyf:
Date: 10th March 2014
Dyddiad:

Dear Alan

Audit Committee – Partnerships

I refer to your letter dated 5th February 2014 relating to concerns expressed by Members of the Audit Committee over governance arrangements for partnerships that the Council is involved in.

In terms of partnership working, the subject matter is very wide both in terms of Service Coverage, and, more importantly, in terms of the definition and range of partnership arrangements that the Council has in place at any one time.

For example, the Council will be engaged in many ‘informal’ partnerships which will not necessarily involve the use of Council Funds or assets. These partnerships are generally designed to foster working relationships at an operational level in terms of service delivery involving Community and Third Sector partners.

There will be more formal partnership arrangements, usually involving Council or external Grant funding, where one Local Authority will act as ‘banker’, usually for grant monies, and will reimburse participant Authorities for expenditure incurred in service delivery against the specific grant criteria. Recent examples include the South West Wales Integrated Transport Partnership (SWWITCH) and the safer Swansea Partnership.

Where grant funds are involved financial governance is usually evidenced through an externally audited grant claim.

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I am conscious that recent discussion at the Audit Committee has focussed on three main areas:-

- Local Service Boards, for which Dave McKenna gave a presentation at the last Audit Committee
- Western Bay
- Swansea Stadium Management Company Limited

In respect of the first two above it is important to note that neither partnership has the ability to commit Council Funds to any scheme without specific approval from each Council's Cabinet and, where necessary, the Local Health Board and others.

In respect of the Stadium Management Company, this forms one of a number of partnerships formed within Leisure Services, mostly involving the Council's participation in arms length Companies either limited by Guarantee or shareholding.

The Council's participation in each Company is subject to an annual report to Council (the Leisure Partnerships Annual report) which details Council participation and representation on each body together with a summary of performance in respect of each activity supported.

I am mindful that Councillor Clay is intending to submit a letter outlining particular concerns around the Stadium Management Company. However, as I reported verbally at the last Audit Committee the circumstances surrounding the current legal agreements to which the Council is tied in have been extensively reported in the past and have not changed.

There is clearly no one Officer who would have the expertise to give anything other than a general overview of partnerships across the Council and I would suggest that we explore and respond to specific issues as they arise in future.

Yours sincerely

Mike Hawes FCCA
Head of Financial Services & Section 151 Officer