

## CITY AND COUNTY OF SWANSEA

### NOTICE OF MEETING

You are invited to attend a Special Meeting of the

### AUDIT COMMITTEE

**At:** Room 226, 2<sup>nd</sup> Floor, Civic Centre, Swansea

**On:** Monday, 21 September 2015

**Time:** 10.00 am

### AGENDA

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2 Disclosures of Personal and Prejudicial Interests.	1 - 2
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5 Audit Committee Annual Report 2014/15 - Follow Up. (Verbal)	
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7 Date of Next Meeting - 2 p.m. on Tuesday, 20 October 2015.	



**Patrick Arran**  
Head of Legal, Democratic Services & Procurement  
Monday, 14 September 2015

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Contact: Democratic Services - 01792 636016

## AUDIT COMMITTEE (12)

### Lay Member:

#### Name:

#### Term of Office:

Mr Alan M Thomas	27.11.12 – 04.05.2017
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### Councillors:

#### Labour Councillors: 8

Cyril Anderson	Robert V Smith
Bob A Clay	Des W W Thomas
Geraint Owens	Lesley V Walton
David Phillips	T Mike White

#### 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
Debbie Smith	Directorate Lawyer
Sharon Heys	Principal Lawyer
PricewaterhouseCoopers	External Auditors
Councillor M H Jones	Chair of Scrutiny Programme Committee
Archives	
Democratic Services	
Spares	

### Email Only:

Dave Mckenna	Overview & Scrutiny Manager
Richard Rowlands	Business Performance Manager
Patrick Fletcher	Communications

### Total Copies Needed:

26
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## 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.



## Audit of Financial Statements Report City and County of Swansea

**Audit year:** 2014/15

**Issued:** September 2015

**Document reference:** C15165-2

### **Purpose of this document**

This document is a draft supplied in confidence solely for the purpose of verifying the accuracy and completeness of the information contained in it and to obtain views on the conclusions reached.

### **Handling prior to publication**

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# Status of report

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This document was produced by PricewaterhouseCoopers LLP on behalf of the Auditor General. The team who delivered the work comprised Kevin Williams, Engagement Leader and Darragh Hanley-Crofts, Engagement Manager.

# Contents

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There are some areas of audit work that remain outstanding that are detailed within this report. Subject to satisfactory completion of this work, the Auditor General expects to issue an unqualified audit report on your financial statements.

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# Summary report

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## Introduction

1. The Auditor General is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of the City and County of Swansea as at 31 March 2015 and its income and expenditure for the year then ended.
2. This report has been prepared and presented by PricewaterhouseCoopers LLP (“PwC”), who undertake the audit work on behalf of the Auditor General for Wales.
3. We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might result in a reader of the accounts being misled.
4. The quantitative level at which we judge such misstatements to be material for the City and County of Swansea is £8,508,000. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity.
5. International Standard on Auditing (ISA) 260 requires us to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
6. This report sets out for consideration the matters arising from the audit of the financial statements of the City and County of Swansea, for 2014/15, that require reporting under ISA 260.

## Status of the audit

7. We received the draft financial statements for the year ended 31 March 2015 on 30 June 2015, which was in line with our agreed timetable. We have now substantially completed the audit work. At the date of our presentation of this report the following were outstanding:
  - a. Detailed testing of employment provisions
  - b. Final review of pension disclosures
  - c. Review of payroll disclosures, specifically the pay multiple disclosure
  - d. Finalisation of the termination benefits note
  - e. Review of compliance with laws and regulations
  - f. Review and detailed testing of whole of government accounts
  - g. Finalisation of the audit report and accounts
8. We are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. The audit team has already discussed these issues with the Head of Finance and Delivery.



## Proposed audit report

9. Provided we are able to complete the outstanding work to our satisfaction, it is the Auditor General's intention to issue an unqualified audit report on the financial statements once you have provided us with a Letter of Representation based on that set out in [Appendix 1](#).
10. The proposed audit report is set out in [Appendix 2](#).

## Significant issues arising from the audit

### Uncorrected misstatements

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

Nature of Correction	Comprehensive Income and Expenditure		Balance Sheet		Movement in Reserves	
	Debit (£'000)	Credit (£'000)	Debit (£'000)	Credit (£'000)	Debit (£'000)	Credit (£'000)
<p><b>Council dwellings</b></p> <p>Our work on the valuation of council dwellings identified a discrepancy between the value as generated by the discounted cash flow model prepared by the Council's internal valuer, and the value as per the fixed asset register, on which the accounts are based.</p>						
Property, Plant and Equipment			1,343			
Revaluation Reserve						1,343
<p>We also noted that the number of council dwellings as at 30 September 2014 was used in the discounted cash flow model, rather than the number of council dwellings as at the balance sheet date of 31 March 2015.</p>						

Nature of Correction	Comprehensive Income and Expenditure		Balance Sheet		Movement in Reserves	
	Debit (£'000)	Credit (£'000)	Debit (£'000)	Credit (£'000)	Debit (£'000)	Credit (£'000)
Property, Plant and Equipment				1,137		
Revaluation Reserve					1,137	
<b>Landfill provision</b> The provision for the capping and aftercare of the Tir John landfill site, includes costs which do not meet the definition of a provision. We also noted that the costs of ongoing aftercare had not been discounted						
Provisions			850			
Property, Plant and Equipment				850		
<b>Investment properties</b> Our work on the valuation of investment properties identified that the floor area used in the valuation of one asset did not agree to underlying base data and floor plans.						
Investment property			705			
Income		705				
We have extrapolated this error over the remaining untested population						
Investment property			599			
Income		599				
The Council uses the beacon approach when valuing investment properties. Errors were noted when applying the value of the beacon property to the remaining properties in the archetype group.						
Investment property				459		
Income	459					

Nature of Correction	Comprehensive Income and Expenditure		Balance Sheet		Movement in Reserves	
	Debit (£'000)	Credit (£'000)	Debit (£'000)	Credit (£'000)	Debit (£'000)	Credit (£'000)
<b>Accounts payable</b> From our testing of accounts payable transactions we noted that amounts had been recorded which relate to 2015/16.						
Account payable			38			
Expenditure		38				
We have extrapolated this error over the remaining untested population.						
Accounts payable			1,823			
Expenditure		1,823				
<b>Deferred revenue</b> From our testing of deferred revenue we noted that some elements of a transaction were not recognised as a deferred revenue balance at the balance sheet date.						
Income	20					
Deferred revenue				20		
We have extrapolated this difference over the remaining untested deferred revenue balance						
Income	388					
Deferred revenue				388		
<b>Financial instruments</b> We noted a number of cash balances have been recognised as short term investments.						
Cash			400			
Short term investments				400		
<b>Assets held for sale</b>						

Nature of Correction	Comprehensive Income and Expenditure		Balance Sheet		Movement in Reserves	
	Debit (£'000)	Credit (£'000)	Debit (£'000)	Credit (£'000)	Debit (£'000)	Credit (£'000)
From our review of assets held for sale we noted a number of assets where there is a low likelihood of sale before 31 March 2016. As such these assets should be recognised as property, plant and equipment until the sale is highly probable.						
Property, plant and equipment			3,960			
Assets held for sale				3,960		
<b>Total</b>	<b>867</b>	<b>3165</b>	<b>9718</b>	<b>7214</b>	<b>1137</b>	<b>1343</b>

## Significant and elevated audit risks

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

Significant audit risks	Proposed audit response
The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].	<p>My audit team has:</p> <ul style="list-style-type: none"> <li>Understood and evaluated internal control processes and procedures as part of our planning work;</li> <li>Performed detailed testing of a sample of journal entries and other adjustments made in the underlying records, tracing the journal to appropriate supporting documentation in order to verify that the journal entry is appropriate;</li> <li>Identified and assessed the accounting estimates included in the financial statements for appropriateness and any indication of bias. Our work with regard to employee provisions is currently ongoing.</li> <li>Our audit procedures also include an unpredictable element that varies year on year.</li> </ul> <p>Based on the work completed to date, we have not identified any matters to report to you.</p>

There is a risk of material misstatement due to fraud in income and non-pay expenditure recognition and as such is treated as a significant risk (ISA 240.26-27).

My audit team has:

- Tested a sample of transactions recognised within income and non-pay expenditure in order to verify that such transactions have been appropriately accounted for in the correct period;
- reviewed the relevant accounting policies to ensure that they are in compliance with accounting standards;

We have not identified any matters to report to you.

### Elevated audit risks

### Proposed audit response

Valuation of property, plant and equipment (PPE) and investment property

The Council is required to ensure that for PPE and Investment Property assets held on the Balance Sheet the carrying amount is not materially different from the fair value of these assets at the year end. This valuation process and the underlying assumptions adopted are subject to a number of judgements and as such an elevated risk has been assessed.

My audit team has:

- Considered the appropriateness of the Council's proposed approach to the valuation of PPE and Investment Properties; and
- Performed testing of a sample of revalued assets;
- Traced significant inputs into valuation calculations to appropriate supporting documentation, such as floor plans.
- Assessed a range of assumptions included within the valuation models for reasonableness, using internal valuation specialists.

As noted above, errors were identified relating to the valuation of investment properties and council dwellings. These errors relate to the use of incorrect base data in the valuation of investment properties. Additionally, errors were noted in the application of the beacon approach methodology applied to other properties.

The valuation for Council Dwellings was undertaken as at September 2014 and was based on the number of Council Dwellings maintained by the Council at this date rather than as at 31 March 2015. There are also a number of associated reconciling differences between the valuation model and the financial statements, which therefore impact upon the value of council dwellings reported.

Completeness and valuation of the provision for equal pay and job evaluation.

The Single Status Agreement committed authorities to undertake equal pay reviews and to introduce non-discriminatory pay structures, addressing the fact that local government

My audit team has:

- Discussed the current status of the provision for equal pay and job evaluation with the Head of Finance and Delivery.
- Formulated an approach to testing the provision in order to ensure the continued

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employees were often employed on differing terms and conditions.

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 calculation of this provision is subject to a number of judgements and as such an elevated risk has been assessed.

appropriateness of the methodology used to derive the overall estimate and the reasonableness of the assumptions therein.

Our approach involves reviewing a sample of payments made during 2014/15 and 2015/15, in order to ensure the accuracy and validity of such payments. We will also review and test the detailed schedule of costs identified by management that have been included in the provision. This will involve an assessment of the assumptions and judgements made in the preparation of the provision.

This remains outstanding, however based on the work completed to date we have no significant matters to report to you.

### Corrected misstatements

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

### Other significant issues arising from the audit

14. In the course of the audit, we consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you. There were no significant issues arising in these areas this year:
- **In our view the qualitative aspects of your accounting practices are generally robust, however these may require improvement in order to deal with future challenges.** We concluded that accounting policies and estimates are generally appropriate and financial statement disclosures unbiased, fair and clear. However, there are a number of opportunities to improve your accounting practices in order to be better prepared to deal with future challenges.
  - **We did not encounter any significant difficulties during the audit.** We received information in a timely and helpful manner and were not restricted in our work.
  - **There were no significant matters discussed and corresponded upon with management which we need to report to you.**
  - **There are no other matters significant to the oversight of the financial reporting process that we need to report to you.**
  - **We did not identify any material weaknesses in your internal controls that we have not reported to you already.**
  - **There are not any other matters specifically required by auditing standards to be communicated to those charged with governance.**

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## Risk of Fraud

- 15.** International Standards on Auditing (UK&I) state that we, as auditors, are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error.

Your responsibility as part of your governance role is:

- to evaluate management's identification of fraud risk, implementation of antifraud measures and creation of appropriate "tone at the top"; and
  - to investigate any alleged or suspected instances of fraud brought to your attention.
- 16.** In presenting this report to you we ask for your confirmation that there have been no changes to your view of fraud risk and that no additional matters have arisen that should be brought to our attention. A specific confirmation in relation to fraud will be included in the final letter of representation.

## Recommendations arising from our 2014/15 financial audit work

- 17.** The opportunities to improve your internal control that we have identified during the completion of our work will be reported to Audit Committee in October.

## Independence and objectivity

- 18.** As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 19.** We have complied with ethical standards and in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between the Wales Audit Office or PricewaterhouseCoopers LLP and the City and County of Swansea that we consider to bear on our objectivity and independence.

# Appendix 1

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## Draft Letter of Representation

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

24 September 2015

## Representations regarding the 2014/15 financial statements

This letter is provided in connection with your audit of the financial statements (including that part of the Remuneration Report that is subject to audit) of the City and County of Swansea for the year ended 31 March 2015 for the purpose of expressing an opinion on their truth and fairness.

We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

## Management representations

### Responsibilities

We have fulfilled our responsibilities for:

- The preparation of the financial statements in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom; in particular the financial statements give a true and fair view in accordance therewith.
- The design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

### Information provided

We have provided you with:

- Full access to:
  - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;
  - additional information that you have requested from us for the purpose of the audit; and



- 
- unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
  - The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
  - Our knowledge of fraud or suspected fraud that we are aware of and that affects the City and County of Swansea and involves:
    - management;
    - employees who have significant roles in internal control; or
    - others where the fraud could have a material effect on the financial statements.
  - Our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others.
  - Our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
  - The identity of all related parties and all the related party relationships and transactions of which we are aware.

## Financial statement representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

The financial statements are free of material misstatements, including omissions. The effects of uncorrected misstatements identified during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

## Representations by those charged with governance

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

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by the City and County of Swansea on 24 September 2015.

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We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Signed by:

Mike Hawes, Head of Finance and Delivery

Signed by:

Rob Stewart, Leading Member

Date:

Date:

# Appendix 2

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## Proposed Audit report of the Auditor General to the City and County of Swansea

### **Auditor General for Wales' report to the Members of the City and County of Swansea**

I have audited the accounting statements and related notes of:

- The City and County of Swansea;
- The City and County of Swansea Group; and
- The City and County of Swansea Pension Fund

for the year ended 31 March 2015 under the Public Audit (Wales) Act 2004.

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

The City and County of Swansea's Group accounting statements comprise the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet and the Group Cash Flow Statement.

The City and County of Swansea Pension Funds' accounting statements comprise the Fund Account and the Net Assets Statement.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2014-15 based on International Financial Reporting Standards (IFRSs).

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

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 181, the responsible financial officer is responsible for the preparation of the statement of accounts, including the City and County of Swansea's Group accounting statements and the City and County of Swansea Pension Fund's accounting statements, which gives a true and fair view.

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

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

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements and related notes sufficient to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the City and County of Swansea's, the City and County of Swansea's Group and the City and County of Swansea Pension Fund's circumstances and have been consistently applied

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and adequately disclosed; the reasonableness of significant accounting estimates made by the responsible financial officer and the overall presentation of the accounting statements and related notes.

In addition, I read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited accounting statements and related notes and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

### **Opinion on the accounting statements of the City and County of Swansea**

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of the City and County of Swansea as at 31 March 2015 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014-15.

### **Opinion on the accounting statements of the City and County of Swansea Group**

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of the City and County of Swansea Group as at 31 March 2015 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014-15.

### **Opinion on the accounting statements of the City and County of Swansea Pension Fund**

In my opinion, the pension fund accounts and related notes:

- give a true and fair view of the financial transactions of the City and County of Swansea Pension Fund during the year ended 31 March 2015 and of the amount and disposition of the fund's assets and liabilities as at that date; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014-15.

### **Opinion on other matters**

In my opinion, the information contained in the Explanatory Foreword is consistent with the accounting statements and related notes.

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

I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

- adequate accounting records have not been kept;
- the accounting statements are not in agreement with the accounting records and returns; or

- 
- I have not received all the information and explanations I require for my audit;
  - the Annual Governance Statement contains material misstatements of fact or is inconsistent with other information I am aware of from my audit.

**Certificate of completion of audit**

I certify that I have completed the audit of the accounts of the City and County of Swansea in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

**For and on behalf of  
Huw Vaughan Thomas  
Auditor General for Wales  
Wales Audit Office  
24 Cathedral Road  
Cardiff CF11 9LJ**

## Appendix 3

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

During our audit we identified the following misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

Value of correction	Nature of correction
£3,000k	<p>The Council has received a Viable and Vibrant Places grant from the Welsh Government. It was noted that in 2014/15 the Council received an advance of funding which, upon inspection of relevant grant documentation, was found to relate to future years. As such, management have decided to adjust the accounts to derecognise this amount as income.</p> <p>The correcting entries are therefore</p> <p>Debit Income: £3,000,000 Credit Receipts in Advance – Capital Grants: £3,000,000</p>
£2,234k	<p>As part of our review of employment provisions we have noted that the Council intends on funding some of the future costs from its reserve balances. As this obligation has arisen from past events these costs should be recognised as a provision.</p> <p>The correcting entries are therefore</p> <p>Debit Reserves: £2,234,000 Credit Provisions: £2,234,000</p>



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Gwefan: [www.wao.gov.uk](http://www.wao.gov.uk)



## Report of the Head of Finance & Delivery

Special Audit Committee – 21 September 2015

### DEBT WRITE OFFS - BRIEFING

**Purpose:** This report provides details of the debts written off by the Council in the last 3 financial years and an outline of the robust debt recovery procedures that are followed by services before a debt is submitted for write off.

**Report Author:** Paul Beynon

**Finance Officer:** Paul Beynon

**Legal Officer:** Sharon Heys

**Access to Services Officer:** Sherill Hopkins

#### FOR INFORMATION

#### 1. Introduction

1.1 PwC presented the Report on Deficiencies in Internal Controls 2013/14 report to the Audit Committee in November 2014. One of the issues raised in the report was a delay in writing off a small number of batches of invoices in excess of £10,000. The implication being that if write offs are not actioned promptly then the Council's debtors balance may be over stated.

1.2 Following the PwC report, the Audit Committee resolved that an update report be provided regarding bad debt write offs

1.3 This report provides details of the debts written off by the Council over the last 3 financial years and an outline of the robust debt recovery procedures followed by services before a debt is submitted for write off.

#### 2. Financial Procedure Rules

2.1 The authority to write off debts is contained in Financial Procedure Rule 11.6 which states the following

*'Debts which are not recoverable must be written off. The Chief Financial Officer must approve all write offs of debt up to £10,000. Debts above £10,000 may be written off with the approval of the Chief*

*Financial Officer, the Cabinet Member with responsibility for Finance and the Cabinet Member responsible for the relevant service'*

### 3. Debts Written Off 2012/13 – 2014/15

3.1 The following table shows the value of debts written off in the last 3 financial years broken down over the various types of income collected

Type of Income	2012/13 £	2013/14 £	2014/15 £
Council Tax	339,625.98	445,920.08	689,664.12
Business Rates	690,400.03	732,686.54	694,121.40
Business Improvement District	8,188.10	4,569.79	5,450.41
Housing Benefits Overpayments	131,782.13	142,229.71	117,434.49
Accounts Receivable	315,415.16	445,946.07	698,057.94
Housing Rent Former Tenant Arrears	292,850.47	295,899.03	376,395.83
Estate Rentals	71,596.85	16,224.43	97,837.50
Home/Domiciliary Care	25,847.47	0.00	0.00
Community Meals	10,461.31	0.00	0.00
Chief Cashiers Imprest	676.85	3,828.98	805.14
<b>Total</b>	<b>1,886,844.35</b>	<b>2,087,304.63</b>	<b>2,679,766.83</b>

3.2 The increase in Accounts Receivable write offs in 2014/15 was due to the write off of debts in excess of £10,000 many of which were raised prior to 2006. The total value of debts in excess of £10,000 written off in 2014/15 was just over £550,000 which included the debts referred to by PwC in their Deficiencies in Internal Controls report mentioned in 1.1 above. As such many these write offs are long standing and are not necessarily a reflection of current collection performance.

3.3 The figures above relate to the year in which the debt was actually written off – not the year in which it was raised.

3.4 Debts may be deemed to be irrecoverable for many reasons e.g. debtor deceased, debtor bankrupt or in liquidation, debtor cannot be traced, value of debt too small to justify further recovery action, advice from Head of Legal, Democratic Services and Procurement, insufficient evidence to enforce debt, genuine dispute over liability, all avenues of recovery exhausted.

3.5 Before a debt is considered to be irrecoverable and submitted for write off, every effort is made to collect the debt via the services established debt recovery procedures. A brief description of the debt recovery

procedures for the most significant types of income is shown in paragraph 4 below.

- 3.6 A review of service debt recovery procedures is made as part of each internal audit of the service to confirm that they are robust and effective.
- 3.7 Schedules of debts for write off are submitted to the Internal Audit Section and before being submitted to the Head of Finance and Delivery, the schedules have to be signed by the service manager, Head of Legal, Democratic Services and Procurement and the Chief Auditor to confirm that all avenues of recovery have been exhausted.
- 3.8 Where a debt has been written off due to the debtor not being traced, should the whereabouts of the debtor subsequently become known then the debt will be re-instated
- 3.9 The important point to make is that the write off of debt is always the last resort and all other available avenues of recovering the debt will have been fully exhausted before a debt is submitted for write off.
- 3.10 In reviewing the Council's annual debtor position as part of the annual Statement of Accounts process, our external auditors will wish to be satisfied that the figures stated are realistic in terms of collection. It is important, therefore, that regular reviews are undertaken of debt outstanding and appropriate write off action is taken where appropriate.
- 3.11 While the overall figures would appear to be substantial in value, they have to be read in the context of the value of overall debt raised – for example in excess of £100million annually for Council Tax. As an example during 2014/15 the Council collected 97.2% of all Council Tax due in year which is spot on the all Wales average with the expectation that, over the following years, the overall collection rate will exceed 98%.
- 3.12 Appropriate provision has consistently been made in the closing of accounts process on an annual basis to account for debt write offs.

#### **4. Debt Recovery Procedures**

- 4.1 A brief outline of the debt recovery procedures for the most significant types of debt is shown below

##### **Council Tax**

- 4.2 A demand notice is followed by a reminder notice and then a request to the Magistrates Court to issue a liability order. If the debtors does not pay or make an agreement to pay then the Council will seek an attachment of earnings or attachment of benefits order to collect the

debt. Further action will include referral to external bailiffs for collection and if that is not successful other options are considered in appropriate circumstances such as imprisonment via a committal order, bankruptcy or a charging order against the debtor's property.

### **Business Rates**

- 4.3 A demand notice is followed by a reminder notice and then a request to the Magistrates Court to issue a liability order. If the debtor does not pay or make an agreement to pay, the debt is sent to the Council's external bailiffs. If recovery is still unsuccessful then applying for bankruptcy or winding up order is considered in appropriate cases.
- 4.4 There have been recent changes to bankruptcy thresholds which may make this option less effective in future for the recovery of Council Tax and Business Rates debt. With effect from October 2015 a creditor must be owed a minimum of £5,000 before bankruptcy proceedings can commence, the current limit is £750. This is more likely to impact on Council Tax where the total debt owed is likely to be less than £5,000.

### **Housing Benefits Overpayments**

- 4.5 Where a debtor is still in receipt of ongoing benefit then the overpayment is recovered from the ongoing benefit. Where there is no ongoing benefit, an invoice is sent followed by a reminder notice and if no payment is made the debt is referred to Legal for recovery action via the County Court

### **Accounts Receivable**

- 4.6 Invoices are followed by reminder letters and a court warning notice if the invoice remains unpaid. Attempts are made to contact the debtor by telephone or e-mail and a further warning letter is sent prior to the debt being referred to Legal for court action. A full range of debt recovery methods are used including instalment plans, securing the debt using voluntary or forced charging orders, Third Party Debt Orders as well as obtaining County Court judgements and using the High Court Enforcement Office. All debts over 60 days old are referred to the relevant Head of Service on a quarterly basis. The Accounts Receivable Section uses a full range of management reports to monitor outstanding debt levels and to alert Heads of Service to any issues in their service area, and levels of outstanding debt are reported to monthly Directorate Performance and Financial Monitoring meetings.

### **Housing Rent – Former Tenant Arrears**

- 4.7 Former tenant recovery procedures are in place and all efforts to recover debts are taken. Where a forwarding addresses is available

then recovery action is taken, this will include letters, home visits, texts and e-mails. Various payment methods are offered and when appropriate this will include DWP direct payments. Both Experian and the Prisoner Location service are used to locate forwarding addresses.

### **Estate Rentals**

- 4.8 Once an account is identified as in arrears, a reminder letter is sent to the tenant. If payment is not forthcoming a 'stronger' reminder is issued giving a payment deadline. If payment is still not received, instructions are passed to the Debt Recovery team within Legal. The instructions, depending on the level of debt may be to pursue payment, secure a charging order or instruct High Court enforcement agents. Debts are written off only after the legal process has been exhausted and either the tenant cannot be traced, has gone into liquidation/receivership or there is no realistic prospect of securing payment.

### **5. Equality and Engagement Implications**

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

### **6. Financial Implications**

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

### **7. Legal Implications**

- 7.1 There are no legal implications associated with this report

**Background Papers:** None.

**Appendices:** None.

# Agenda Item 6

## Report of the Head of Finance & Delivery

Special Audit Committee – 21 September 2015

### AUDIT COMMITTEE – WORKPLAN

<b>Purpose:</b>	This report details the Audit Committee Workplan to May 2016.
<b>Report Author:</b>	Paul Beynon
<b>Finance Officer:</b>	Paul Beynon
<b>Legal Officer:</b>	Sharon Heys
<b>Access to Services Officer:</b>	Sherill Hopkins

#### FOR INFORMATION

#### 1. Introduction

- 1.1 The Audit Committee's Workplan to May 2016 is attached in Appendix 1 for information

#### 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 2015/16**

## AUDIT COMMITTEE WORKPLAN 2015/16

Date of Meeting	Reports
21 September 2015	Audited Statement of Accounts 2014/15 - PwC ISA 260 Report Bad Debt Write Offs – Briefing Audit Committee Annual Report 2014/15 – follow up
20 October 2015	Corporate Governance Review – Update Chair of Scrutiny Programme Committee Wales Audit Office Performance Audit – Mid Term Report Housing Benefit Investigation Team Annual Report 2014/15 Annual Report of School Audits 2014/15
15 December 2015	WLGA Peer Review – Progress Update PwC Controls Report 2014/15 PwC Annual Audit Letter 2014/15 Risk Management Half Yearly Review 2015/16 Internal Audit Monitoring Report Q2 2015/16 Recommendations Tracker Report 2014/15
16 February 2016	Wales Audit Office Performance Audit Update Internal Audit Monitoring Report Q3 2015/16 Internal Audit Plan 2016/17 - Methodology Audit Committee Review of Performance 2015/16
19 April 2016	External Auditor Annual Financial Audit Outline 2015/16 Internal Audit Charter 2016/17 Internal Audit Annual Plan 2016/17 Risk Management Annual Review 2015/16 Draft Audit Committee Annual Report 2015/16