

# CITY AND COUNTY OF SWANSEA

## NOTICE OF MEETING

You are invited to attend a Special Meeting of the

## AUDIT COMMITTEE

**At:** Committee Room 5, Guildhall, Swansea

**On:** Tuesday, 20 September 2016

**Time:** 2.00 pm

**Chair:** Mr Alan M Thomas

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### Membership:

Councillors: C Anderson, R A Clay, T J Hennegan, P R Hood-Williams, L James, J W Jones, P M Meara, D Phillips, R V Smith, C Thomas, L V Walton and T M White

## AGENDA

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| 2 | Disclosures of Personal and Prejudicial Interests.<br><a href="http://www.swansea.gov.uk/disclosuresofinterests">www.swansea.gov.uk/disclosuresofinterests</a> |         |
| 3 | Wales Audit Office ISA 260 Report 2015/16 - City & County of Swansea.                                                                                          | 1 - 22  |
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**Next Meeting:** Tuesday, 25 October 2016 at 2.00 pm



**Huw Evans**  
Head of Democratic Services  
Tuesday, 13 September 2016

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**Contact: Democratic Services: - 636923**

Archwilydd Cyffredinol Cymru  
Auditor General for Wales



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

## Audit of Financial Statements Report **City & County of Swansea**

**Audit year:** 2015-16

**Issued:** September 2016

**Document reference:** 506A2016

# Status of report

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This document has been prepared as part of work performed in accordance with statutory functions.

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 the Wales Audit Office are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at [info.officer@audit.wales](mailto:info.officer@audit.wales).

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The Auditor General intends to issue an unqualified audit report on the City & County of Swansea's financial statements, however there are some issues to report to you prior to their approval.

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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 & County of Swansea (the Council) at 31 March 2016 and its income and expenditure for the year then ended.
2. We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might result in a reader of the financial statements being misled.
3. The quantitative level at which we judge such misstatements to be material for the Council is £8.7 million. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity.
4. International Standard on Auditing (ISA) 260 requires us to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action to be taken, should there be any required.
5. This report sets out for consideration the matters arising from the audit of the financial statements of the Council including the City & County of Swansea Group for 2015-16 which require reporting under ISA 260. A separate report has been issued for the City & County of Swansea Pension Fund.

## Status of the audit

6. We received the draft financial statements for the year ended 31 March 2016 a week before the deadline of 30 June 2016 and have now substantially completed our audit work. At the time of writing our audit was nearing completion but some areas of work remained outstanding.
7. Our Audit Plan for the Council issued in March 2016 sets out the audit risks which we considered to be significant. We have undertaken audit work to assess these risks and also considered any new risks which might have arisen. A summary of the audit risks, the audit work undertaken and our conclusions are shown in [Exhibit 1](#).

Exhibit 1: Audit risks, work undertaken and conclusion

| Audit risk                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Work undertaken and conclusion                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Risk of management override</b></p> <p>The risk of management override of controls is present in all organisations. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].</p>                                                                                                                                                                                                                      | <p>We have:</p> <ul style="list-style-type: none"> <li>• tested the appropriateness of journal entries and other adjustments made in preparing the financial statements;</li> <li>• reviewed accounting estimates for biases;</li> <li>• evaluated the rationale for any significant transactions outside the normal course of business; and</li> <li>• incorporated an element of ‘unpredictable audit work’, which varies each year.</li> </ul> <p>We have not identified any material issues although, as set out in <a href="#">Appendix 4</a>, we have concluded that the controls over journals need to be reviewed.</p> |
| <p><b>Risk of fraud in revenue recognition</b></p> <p>The level of income collected by the Council means that there is an inherent risk of material misstatement due to fraud in revenue recognition and as such is treated as a significant risk [ISA 240.26-27].</p>                                                                                                                                                                                                  | <p>We have:</p> <ul style="list-style-type: none"> <li>• tested the appropriateness of a sample of journals processed to income and non-pay expenditure ledger codes during the year;</li> <li>• reviewed the application of relevant accounting policies to ensure that they are in compliance with accounting standards; and</li> <li>• analysed the various income streams and perform substantive procedures on a sample basis to ensure that income and has been appropriately accounted for in the correct period.</li> </ul> <p>We do not have any significant matters to report.</p>                                   |
| <p><b>Risk of error with the valuation of property, plant and equipment (PPE) and investment properties</b></p> <p>The Council is required to ensure that for PPE and Investment Properties 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 changes in approach in 2015-16.</p> | <p>We have:</p> <ul style="list-style-type: none"> <li>• considered the appropriateness of the Council’s proposed approach to the valuation of PPE and Investment Properties; and</li> <li>• tested the valuation of such assets on a sample basis.</li> </ul> <p>The Council has made some progress with capital accounting arrangements during 2015-16 but, as set out below, further work is required in 2016-17.</p>                                                                                                                                                                                                       |

| Audit risk                                                                                                                                                                                                                                                                                                                                                                                        | Work undertaken and conclusion                                                                                                                                                                                                                                                                             |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Risk of provisions being materially misstated</b></p> <p>The Council's 2014-15 financial statements include a number of material provisions. These provisions will again be required in 2015-16 and, by their nature, they are uncertain and require a high degree of estimation. These include provisions for the future maintenance of land-fill sites and employee related expenses.</p> | <p>We have reviewed all material provisions to ensure that they are fairly stated. We do not have any significant matters to report.</p>                                                                                                                                                                   |
| <p><b>Disclosure risks</b></p> <p>My audit team has held initial planning discussions with the Council which have identified a number of areas for further work including:</p> <ul style="list-style-type: none"> <li>• whether or not the Council is required to compile Group Accounts; and</li> <li>• what staff exit costs are disclosed in the financial statements.</li> </ul>              | <p>We have discussed these issues with the Council and ensured disclosure requirements have been complied with.</p> <p>We do not have any significant matters to report although, as set out in <a href="#">Appendix 1</a>, we have made some disclosure amendments to the draft financial statements.</p> |

8. We are now reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. We have discussed these issues with Mike Hawes, the Director of Corporate Services.

## Proposed audit report

9. 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](#). The proposed audit report is set out in [Appendix 2](#).

## Significant issues arising from the audit

### Uncorrected misstatements

10. We identified one misstatement in the financial statements which we have discussed with management but which remains uncorrected. The misstatement and the reason for non-correction is set out in [Exhibit 2](#).

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## Exhibit 2: Uncorrected misstatements in the 2015-16 financial statements

| Uncorrected misstatement                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Reason for non-correction                                                                                                              |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|
| <p>During 2015-16, the Council purchased carbon credits under the Carbon Reduction Scheme. This expenditure should have been treated as an intangible asset and a corresponding creditor established to offset the asset rather than the purchase just being charged to expenditure. In addition, at the year-end the Council has calculated that the carbon credits purchased are some £43,000 more than is required to settle the liability in October 2016. As a result:</p> <ul style="list-style-type: none"><li>• net assets were understated by £563,000;</li><li>• net liabilities were understated by £520,000; and</li><li>• net expenditure was overstated by £43,000.</li></ul> | <p>The amendment is not material and has only a marginal impact on the net expenditure, net reserves and net worth of the Council.</p> |

## Corrected misstatements

11. There were a number of misstatements which 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](#). These amendments had no impact on the net expenditure or net assets of the Council.

## Other significant issues arising from the audit

12. 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:
- **We have no significant concerns about the qualitative aspects of your accounting practices and financial reporting.** This is the first year of the audit for the Wales Audit Office and we found the financial statements were compiled to a good standard. We found the information provided to be relevant, reliable, comparable, material and easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear. However, as set out below, further work is required to improve the Council's arrangements for accounting for fixed assets. We will hold a 'post project learning' meeting with the Finance Team later in the year to look at the financial statements compilation and audit processes. This meeting will also consider some of the challenges for next year such as the Highways Network Asset and earlier closure.
  - **We did not encounter any significant difficulties during the audit.** We generally 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.**



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- **There are no other matters significant to the oversight of the financial reporting process that we need to report to you.**
  - **We did not identify any material weaknesses in your internal controls although we have identified some significant issues to report to you.**  
**Appendix 4** set out our detailed findings and recommendations which are summarised as follows:
    - During 2015-16, the Council has made progress in improving its arrangements for capital accounting. This includes correctly revaluing Council Houses, revising its componentisation and indexation policies and reviewing its investment assets. However, there are a number of significant areas where further work is required in 2016-17 to ensure the correct treatment of non-enhancing capital expenditure, investment assets and council house land
    - Accountants currently have the facility to post and approve single journal entries up to a value of £250,000. Journal entries above £250,000 require manager approval. In our opinion this level is high and the Council should review its journal authorisation controls and limits and consider lowering the value at which journals require secondary approval.
    - The Council has a range of automated authorisation controls for its financial systems but some authorisation procedures are based on authorised signatories. A number of the authorised signatory lists we examined are out of date. Following the recent significant organisational restructure, the Council now needs to ensure its authorised signatory lists are up to date.
  - **There are no other matters specifically required by auditing standards to be communicated to those charged with governance.**

## Recommendations arising from our 2015-16 financial audit work

13. The key recommendations arising from our financial audit work are set out in **Appendix 4**. Management has responded to them and we will follow up progress on them during next year's audit. Where any actions are outstanding, we will continue to monitor progress and report it to you in next year's report.

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## Independence and objectivity

14. As part of the finalisation process, we are required to provide you with representations concerning our independence. As reported in our Audit Outline there is one independence issue for which we put in place additional audit controls. We have complied with ethical standards and in our professional judgment, we are independent and our objectivity is not compromised.

# Appendix 1

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## Final Letter of Representation

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

## Representations regarding the 2015-16 financial statements

This letter is provided in connection with your audit of the financial statements of the City & County of Swansea (the Council) for the year ended 31 March 2016 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.

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- 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 Council and involves:
    - management;
    - employees who have significant roles in internal control; or
    - others where the fraud could have a material effect on the financial statements.
  - Our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others.
  - Our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
  - We have informed you of any concerns raised or comments made by regulators about the pension fund, its fund managers and any assets/liabilities.
  - 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 and we agree that they should remain uncorrected.

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## Representations by the City & County of Swansea

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 Members of the City & County of Swansea on 22 September 2016.

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.

Director of Corporate Services

Chair of the Council

Date .....

Date .....

# Appendix 2

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

I have audited the accounting statements and related notes of:

- the City & County of Swansea;
- the City & County of Swansea Group; and
- the City & County of Swansea Pension Fund;

for the year ended 31 March 2016 under the Public Audit (Wales) Act 2004.

The City & 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 & County of Swansea Group's 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 & County of Swansea Pension Fund's 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 2015-16 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 187, the responsible financial officer is responsible for the preparation of the statement of accounts, including the City & County of Swansea's Group accounting statements and the City & 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 & County of Swansea and the City & County of Swansea Group and the City & County of Swansea Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the

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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 Narrative Report 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 & 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 & County of Swansea as at 31 March 2016 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 2015-16.

### **Opinion on the accounting statements of the City & 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 & County of Swansea Group as at 31 March 2016 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 2015-16.

### **Opinion on the accounting statements of the City & 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 & County of Swansea Pension Fund during the year ended 31 March 2016 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 2015-16.

### **Opinion on other matters**

In my opinion, the information contained in the Narrative Report 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 Governance Statement does not reflect compliance with guidance.

**Certificate of completion of audit**

I certify that I have completed the audit of the accounts of the City & 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

29 September 2016



# Appendix 3

## Summary of corrections made to the draft financial statements

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                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Reason for correction                                                                                               |
|--------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|
| 2015-16 £41,900,000<br>2014-15 £24,600,000 | <p><b>Council House Capital Expenditure</b></p> <p>The Council has written off non-enhancing Council House expenditure to the Capital Adjustment Account rather than the Revaluation Reserve. Although this is a technical accounting entry, it is not in accordance with the Code.</p> <p>This amendment had an impact on all of the primary statements and several notes but the impact on net expenditure and net worth in both years is nil.</p> <p>The draft financial statements were amended for this technical adjustment between unusable reserves.</p> | To correct a material technical misstatement.                                                                       |
| -                                          | <p><b>Bad Debt Provision</b></p> <p>The draft financial statements did not separately disclose the detail of the material bad debt provision.</p> <p>Note 16 was amended to disclose the bad debt provision.</p>                                                                                                                                                                                                                                                                                                                                                 | To include disclosure of the bad debt provision within the financial statements.                                    |
| -                                          | <p><b>Officers Remuneration over £60,000</b></p> <p>The Council did not include severance and redundancy payments when calculating the remuneration bandings in Note 28. This is not in accordance with the Code.</p> <p>Note 28 was amended to include all remuneration over £60,000, including severance and redundancy payments.</p> <p>This increased the total number of officers disclosed from 64 to 78 in 2014-15 and from 69 to 86 in 2015-16.</p>                                                                                                      | To include disclosure of all officers receiving over £60,000 of total remuneration within the financial statements. |

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| Value of correction | Nature of correction                                                                                                                                                                                                                                                                    | Reason for correction                                                                       |
|---------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|
| -                   | <p><b>Post Balance Sheet Event</b></p> <p>A post balance sheet events note was not included in the draft financial statements. This is a disclosure requirement.</p> <p>A note was added to the draft financial statement to disclose that there were no post balance sheet events.</p> | To include a disclosure note for post balance sheet events within the financial statements. |
| -                   | Various other minor presentational amendments were made to the draft financial statements.                                                                                                                                                                                              | To improve the readability of the financial statements.                                     |

# Appendix 4

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## Recommendations arising from our 2015-16 financial audit work

We set out all the recommendations arising from our audit with management's response to them. We will follow up these next year and include any outstanding issues in next year's audit report.

### Matter arising 1 – Journal approval

|                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|----------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Findings</b>                                    | Accountants have the facility to post and approve single journal entries up to a value of £250,000. Journal entries above £250,000 require manager approval.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>Priority</b>                                    | Medium                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>Recommendation</b>                              | The Authority should review its journal authorisation controls limits and consider lowering the value at which journals require secondary approval.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>Benefits of implementing the recommendation</b> | Implementation of the recommendation would improve the control environment by increasing the segregation of duties over journal processing.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>Accepted in full by management</b>              | Yes                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>Management response</b>                         | The Authority has restricted the processing of journals to Finance department staff to maintain control of the journals being processed in the General Ledger. The current limit ensures that all the material routine journals and technical year-end journals are approved by a manager. The Authority will review the journals posted in a financial year to try and reduce the number of journals processed by Finance staff. The Authority will review their journal approval limits to ensure they are at the appropriate limit for segregation of duty purposes and maintaining control. The Authority will need to consider the impact of reducing the journal approval limits on day to day operations. |
| <b>Implementation date</b>                         | 2016-17                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |

### Matter arising 2 – authorised signatory lists

|                       |                                                                                                                                                                                                                  |
|-----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Findings</b>       | The Council has a range of automated authorisation controls but some authorisation procedures are based on 'authorised signatory lists'. A number of the authorised signatory lists we examined are out of date. |
| <b>Priority</b>       | Medium                                                                                                                                                                                                           |
| <b>Recommendation</b> | Given there has been a significant recent restructure, the Council needs to ensure up to date signatory lists are in place across the Authority.                                                                 |

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### Matter arising 2 – authorised signatory lists

|                                                    |                                                                                                                                                                                                                                                                                                                                                                                      |
|----------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Benefits of implementing the recommendation</b> | Implementation of the recommendation would improve the control environment by improving authorisation controls.                                                                                                                                                                                                                                                                      |
| <b>Accepted in full by management</b>              | Yes                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>Management response</b>                         | <p>Whilst this is an important issue, the reality is that a significant number of authorisations are now undertaken electronically by workflow within the Councils ORACLE systems and, as such, manual authorisation lists become less important.</p> <p>It is essential however that the Council can evidence authorisation limits and we will work to get clarity around this.</p> |
| <b>Implementation date</b>                         | 2016-17                                                                                                                                                                                                                                                                                                                                                                              |

### Matter arising 3 – accounting for capital

|                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|----------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Findings</b>                                    | <p>During 2015-16 the Council has made some progress in improving its arrangements for capital accounting. This includes correctly revaluing Council Houses, revising its componentisation and indexation policies and reviewing its investment assets. However, there are a number of areas where further work is required in 2016-17 including:</p> <ul style="list-style-type: none"><li>• The Council's current approach for the treatment of non-enhancing capital expenditure is not fully compliant with CIPFA's Code. Further work will be required to ensure that the Council has a clear policy for non-enhancing expenditure and that this is complied with.</li><li>• The Council needs to review its policy for investment assets and, following this, determine whether assets currently held as investments assets are correctly categorised.</li><li>• The Council needs to re-examine its Council House valuation to identify a land value. The Council then needs to ensure that land is not depreciated.</li><li>• The Council's asset register is spreadsheet based which takes significant officer time to maintain. The Council should look at a more efficient solution.</li></ul> |
| <b>Priority</b>                                    | High                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>Recommendation</b>                              | The Council needs to continue to improve its capital accounting arrangements in 2016-17 across a number of areas.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>Benefits of implementing the recommendation</b> | Implementation of the recommendation would improve capital accounting arrangements.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>Accepted in full by management</b>              | Yes                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |

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### Matter arising 3 – accounting for capital

#### Management response

The method adopted by the Council for accounting for non-enhancing Capital expenditure has been unchanged over a number of years and was adopted with the full approval of the Council's previous operational Auditors, PwC LLP.

However, as these adjustments have no effect on the financial standing or financial performance of the Council, we will adopt them as a matter of course.

The accounting treatment of non-enhancing capital expenditure will be reviewed and the relevant changes implemented. All investment properties will be reviewed to ensure that they are in the appropriate asset category. The Authority will work with the auditors to ensure that there is an appropriate land value for council dwelling assets. By working with the auditors the Authority is hoping to simplify capital accounting so that we can automate processes and reduce the manual workload.

#### Implementation date

2016-17



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## Audit of Financial Statements Report **City & County of Swansea Pension Fund**

**Audit year:** 2015-16

**Issued:** September 2016

**Document reference:** 505A2016



# Status of report

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This document has been prepared as part of work performed in accordance with statutory functions.

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 the Wales Audit Office are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at [info.officer@audit.wales](mailto:info.officer@audit.wales).

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The Auditor General intends to issue an unqualified audit report on the City & County of Swansea Pension Fund's financial statements, however there are some issues to report to you prior to their approval.

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## Summary report

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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 & County of Swansea Pension Fund (the Pension Fund) at 31 March 2016 and its income and expenditure for the year then ended.
2. We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might result in a reader of the financial statements being misled.
3. The gross assets controlled by the Pension Fund amount to £1.5 billion. The quantitative level at which we judge such misstatements to be material for the Pension Fund is £15.1 million. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity.
4. International Standard on Auditing (ISA) 260 requires us to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action to be taken, should there be any required.
5. This report sets out for consideration the matters arising from the audit of the financial statements of the Pension Fund for 2015-16 which require reporting under ISA 260. A separate report has been issued covering the City & County of Swansea and the City & County of Swansea Group.

## Status of the audit

6. We received the draft financial statements for the year ended 31 March 2016 a week before the deadline of 30 June 2016 and have now substantially completed our audit work.
7. Our Audit Plan for the Pension Fund issued in March 2016 sets out the financial audit risks which we considered to be significant. We have undertaken audit to assess these risks and also considered any new risks which might have arisen. A summary of the financial audit risks, the audit work undertaken and our conclusion is shown in [Exhibit 1](#).

Exhibit 1: Financial audit risks, audit work undertaken and conclusion

| Financial audit risk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Audit work undertaken and conclusion                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Management override</b></p> <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 [ISA 240.31-33].</p>                                                                                                                                                                                                                                                                                                                                                             | <p>We have:</p> <ul style="list-style-type: none"> <li>• tested the appropriateness of journal entries and other adjustments made in preparing the financial statements;</li> <li>• reviewed accounting estimates for biases; and</li> <li>• evaluated the rationale for any significant transactions outside the normal course of business.</li> </ul> <p>We do not have any significant matters to report.</p>                                                                                                                                                                                                                                      |
| <p><b>Investment Managers</b></p> <p>The systems and records of the investment managers generate account entries made to the Pension Fund Account and Net Assets Statement. The investment managers provide internal controls reports on the investments held on behalf of the Pension Fund. These are independently audited and provide the Pension Fund with assurance on a wide range of controls eg, valuation of the investment portfolio held.</p> <p>There is a risk that the internal control reports will not be available for assurance purposes and/or cover all our requirements.</p> | <p>We have:</p> <ul style="list-style-type: none"> <li>• assessed the investment managers as a service organisation;</li> <li>• checked that investments have been made in accordance with the Statement of Investment Principles;</li> <li>• obtained direct confirmation from investment managers and custodians of year-end investment balances and holdings; and</li> <li>• assessed whether the investment managers' internal control reports for all investment managers provide assurance over a wide range of relevant controls, including valuation of investments held.</li> </ul> <p>We do not have any significant matters to report.</p> |
| <p><b>Private Equity Investments</b></p> <p>Year-end valuation of private equity investments are provided by investment managers which are based upon forward looking estimates and judgements. As there is no quoted market price, there is a greater risk for the reasonableness of valuation bases of these investments.</p>                                                                                                                                                                                                                                                                   | <p>We have:</p> <ul style="list-style-type: none"> <li>• confirmed the investment valuations to audited financial statements; and</li> <li>• sought additional assurance over the valuation basis from controls assurance reports, where available.</li> </ul> <p>We do not have any significant matters to report.</p>                                                                                                                                                                                                                                                                                                                               |
| <p><b>Pension Code</b></p> <p>A new Pension Code, incorporating International financial Reporting Standards, has been issued in the year. There are a number of changes to the 2015-16 financial statements to present information in line with the new Code and IFRS requirements.</p>                                                                                                                                                                                                                                                                                                           | <p>We have:</p> <ul style="list-style-type: none"> <li>• completed an early review of the financial statements and agreed any disclosure and presentational changes with management; and</li> <li>• provided an audit deliverables document to assist the Council in the preparation of relevant working papers in support of the financial statements.</li> </ul> <p>We do not have any significant matters to report.</p>                                                                                                                                                                                                                           |

- 
8. We are now reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. We have discussed these issues with Mike Hawes the Director of Corporate Services.

## Proposed audit report

9. 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](#). The Pension Fund is included within the Council's main financial statements and therefore the opinion shown is that proposed for the Council's main financial statements incorporating the Pension Fund.

## Significant issues arising from the audit

### Uncorrected misstatements

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

### Corrected misstatements

12. There were a number of misstatements which 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](#). These amendments had no impact on the Fund Account but the value of investments in the Net Assets Statement was increased by £1,513,000. There were also a number of other presentational amendments made to the draft financial statements arising from the audit.

### Other significant issues arising from the audit

13. 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:
- We have no concerns about the qualitative aspects of your accounting practices and financial reporting. We found the information provided to be relevant, reliable, comparable, material and easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear.
  - We did not encounter any significant difficulties during the audit. We received information in a timely and helpful manner and were not restricted in our work.
  - There were no significant matters discussed and corresponded upon with management which we need to report to you.

- 
- There 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. However, we have identified that controls over manual journals, the recording of pensioner numbers, year-end reconciliations between payroll and the pensions systems and compliance with the Statement of Investment Principles can be improved. Further details are set out in [Appendix 4](#).
  - There are no other matters specifically required by auditing standards to be communicated to those charged with governance.

## Recommendations arising from our 2015-16 financial audit work

14. The key recommendations arising from our financial audit work are set out in [Appendix 4](#). Management has responded to them and we will follow up progress on them during next year's audit. Where any actions are outstanding, we will continue to monitor progress and report it to you in next year's report.

## Independence and objectivity

15. As part of the finalisation process, we are required to provide you with representations concerning our independence. We have complied with ethical standards and, in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between the Wales Audit Office and the Pension Fund that we consider to bear on our objectivity and independence.

# Appendix 1

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## Final Letter of Representation

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

## Representations regarding the 2015-16 financial statements

This letter is provided in connection with your audit of the financial statements of the City & County of Swansea Pension Fund (the Pension Fund) for the year ended 31 March 2016 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 Pension Fund 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.
  - We have informed you of any concerns raised or comments made by regulators about the pension fund, its fund managers and any assets/liabilities.
  - 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.



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## Representations by the City & County of Swansea

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 Members of the City & County of Swansea on 22 September 2016.

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.

Director of Corporate Services

Date .....

Chair of the Council

Date .....

## Appendix 2

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

I have audited the accounting statements and related notes of:

- the City & County of Swansea;
- the City & County of Swansea Group; and
- the City & County of Swansea Pension Fund

for the year ended 31 March 2016 under the Public Audit (Wales) Act 2004.

The City & 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 & County of Swansea Group's 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 & County of Swansea Pension Fund's 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 2015-16 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 186, the responsible financial officer is responsible for the preparation of the statement of accounts, including the City & County of Swansea's Group accounting statements and the City & 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 & County of Swansea and the City & County of Swansea Group and the City & County of Swansea Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the

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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 Narrative Report 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 & 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 & County of Swansea as at 31 March 2016 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 2015-16.

### **Opinion on the accounting statements of the City & 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 & County of Swansea Group as at 31 March 2016 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 2015-16.

### **Opinion on the accounting statements of the City & 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 & County of Swansea Pension Fund during the year ended 31 March 2016 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 2015-16.

### **Opinion on other matters**

In my opinion, the information contained in the Narrative Report 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; and

- 
- the Governance Statement does not reflect compliance with guidance.

**Certificate of completion of audit**

I certify that I have completed the audit of the accounts of the City & 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

29 September 2016

# Appendix 3

## Summary of corrections made to the draft financial statements

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                                                                                                                                                                                                                                                                                                                                                                      | Reason for correction                                                                                                                                                 |
|-----------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| £1,458,000                                    | <p>The HarbourVest private equity fund was undervalued by £1,458,000 in the draft financial statements. Due to the HarbourVest 90 day reporting period, the Council used an estimated figure provided by HarbourVest.</p> <p>This amendment increases the value of investments in the Net Assets Statement by £1,458,000.</p>                                                             | To adjust the HarbourVest private equity fund valuation within the financial statements to that subsequently confirmed by the investment manager as at 31 March 2016. |
| £219,000                                      | <p>The Aegon AVC fund (which is not part of the Pension Fund), was overstated by £219,000 in the draft financial statements. Last year's valuation was used as the required information from Aegon was not received until after the draft financial statements were prepared.</p> <p>This amendment did not impact on the Net Assets Statement as it is not part of the Pension Fund.</p> | To adjust the figures for Aegon within the financial statements to that subsequently confirmed by the AVC provider as at 31 March 2016.                               |
| £13,105,000 (2015-16)<br>£2,622,000 (2014-15) | <p>Due to an error, the current and prior year Investment balances detailed within Note 22 of the draft financial statements for Property Unit Trusts and Property Funds did not agree with the analysis of investments in Note 11. Note 23 was also updated to reflect the correct figures.</p> <p>This amendment did not impact on the Net Assets Statement.</p>                        | To adjust the figures in Note 22 and Note 23 so that they agree with Note 11.                                                                                         |
| £407,000                                      | <p>As a result of an error, the Aberdeen investment purchases figure in Note 12 was overstated by £407,000 in the draft financial statements.</p> <p>This amendment did not impact on</p>                                                                                                                                                                                                 | To adjust the Aberdeen investment purchases figure within the financial statements to that confirmed by the Fund Manager as at 31 March 2016.                         |

| Value of correction | Nature of correction                                                                                                                                                                                                                               | Reason for correction                                                                                                               |
|---------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------|
|                     | the Net Assets Statement.                                                                                                                                                                                                                          |                                                                                                                                     |
| £66,019,000         | Cash funds, deposits and dividends due were not disclosed in Note 11 as required by the CIPFA guidance.                                                                                                                                            | To adjust Note 11 to include cash funds, deposits and dividends within the financial statements.                                    |
| Various             | The classification of the Pooled Investment Vehicles across Fair value Hierarchy levels was incorrectly disclosed within Note 22.                                                                                                                  | To adjust the classification of Pooled Investment Vehicles within the financial statements to bring it in line with CIPFA guidance. |
|                     | The investment asset allocation for overseas equities was identified as being above the upper threshold set out within the approved Statement of Investment Principles at 31 March 2016. Further detail is set out in <a href="#">Appendix 4</a> . | To include further narrative within the Note 23 detailing the rebalancing of asset allocations.                                     |
|                     | The actuarial present value of retirement benefits was not disclosed within the draft financial statements. This is a disclosure requirement.                                                                                                      | To include the actuarial present value of retirement benefits within the financial statements.                                      |
|                     | A post balance sheet events note was not included in the draft financial statements. This is a disclosure requirement.                                                                                                                             | To include a disclosure note for post balance sheet events within the financial statements.                                         |
| +£55,000            | Various other minor presentational amendments were made to the draft financial statements.<br>These amendments included an amendment to current assets which increased the Net Asset Statement by £55,000.                                         | To improve the readability of the financial statements.                                                                             |

# Appendix 4

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## Recommendations arising from our 2015-16 financial audit work

We set out all the recommendations arising from our audit with management's response to them. We will follow up these next year and include any outstanding issues in next year's audit report:

### Matter arising 1 – Journal approval

|                                                    |                                                                                                                                                              |
|----------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Findings</b>                                    | Accountants have the facility to post and approve single journal entries up to a value of £250,000. Journal entries above £250,000 require manager approval. |
| <b>Priority</b>                                    | Medium                                                                                                                                                       |
| <b>Recommendation</b>                              | The Authority should review its journal authorisation limits and consider lowering the value at which journals require secondary approval.                   |
| <b>Benefits of implementing the recommendation</b> | Implementation of the recommendation would improve the control environment by increasing the segregation of duties over journal processing.                  |
| <b>Accepted in full by management</b>              | Agreed                                                                                                                                                       |
| <b>Management response</b>                         | The Authority will undertake a review in 2016-17.                                                                                                            |
| <b>Implementation date</b>                         | June 2017.                                                                                                                                                   |

### Matter arising 2 – Membership numbers

|                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Findings</b> | There was a net difference of 1,640 member numbers between the closing 2014-15 balance as reported in last year's accounts and the opening 2015-16 balance as indicated by the membership numbers report produced from the pensions system (note 21). Information is received from admitted and scheduled bodies relating to the previous financial year throughout April and May. The membership numbers report detailing the 2015-16 opening balances was generated on 24 May 2016. The pension database is a 'live' system and the opening balances will have been updated with new information between 1 April 2016 and 24 May 2016 when the report was generated. This timing difference will have accounted for some of the movement in member numbers – for example 794 of the net difference related to an increase in deferred pensioners. Throughout 2015-16, admitted and scheduled bodies were encouraged to provide more up to date information on deferred pensioner membership numbers dating back to 2013 to ensure that membership numbers recorded on the pension database were accurate. |
| <b>Priority</b> | High                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |

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### Matter arising 2 – Membership numbers

|                                                    |                                                                                                                                                                                                                                                                                               |
|----------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Recommendation</b>                              | The Authority should remind all external bodies of the importance of providing accurate and timely information to the administration team to ensure the accuracy of the figures within the Pension Fund database.                                                                             |
| <b>Benefits of implementing the recommendation</b> | Implementation of the recommendation would improve the reconciliation, reporting of and monitoring of membership numbers within the Authority and associated bodies.                                                                                                                          |
| <b>Accepted in full by management</b>              | Agreed                                                                                                                                                                                                                                                                                        |
| <b>Management response</b>                         | The Authority already regularly liaises with employers regarding their responsibilities re the importance of flow of information re starters/leavers etc, and is reinforced with roadshows and workshops with employers and agreement of employers with the Pensions Administration Strategy. |
| <b>Implementation date</b>                         | Ongoing                                                                                                                                                                                                                                                                                       |

### Matter arising 3 – Reconciliation of the ALTAIR data base

|                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|----------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Findings</b>                                    | There have been delays in completing the year-end reconciliation of the ALTAIR (pensions) database to the payroll systems of some admitted bodies. The reconciliation work has been delayed this year for a number of reasons, including a slow response rate from admitted bodies, staff absences and issues arising from the introduction of I-Connect software to interface the payroll and pensions systems. At 1 September 2016, only the reconciliation for NPTC Group – Neath Port Talbot College was outstanding. |
| <b>Priority</b>                                    | High                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>Recommendation</b>                              | The Authority must complete the year-end reconciliation of the ALTAIR database to the various payroll systems as soon as possible. Differences need to be resolved with admitted bodies. The Authority also needs to reconcile its own records following the introduction of I-Connect.                                                                                                                                                                                                                                   |
| <b>Benefits of implementing the recommendation</b> | Implementation of the recommendation would resolve any differences between the Authority's records and those held by admitted bodies. This would improve the quality of the information held within the database.                                                                                                                                                                                                                                                                                                         |
| <b>Accepted in full by management</b>              | Agreed                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <b>Management response</b>                         | The Authority routinely undertakes the reconciliations identified. Enquiries with NPTC Group are ongoing.                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Implementation date</b>                         | September 2016                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |



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**Matter arising 4 – Compliance with the approved Statement of Investment Principles**

|                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|----------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Findings</b>                                    | At the year-end, the investment asset allocation for overseas equities was above the upper threshold set out in the approved Statement of Investment Principles. The Statement of Investment Principles allows up to 39% but, at the year-end, the balance was 39.24% of the total asset allocation. It is also likely that this threshold was exceeded during the year.                                                                                                                                        |
| <b>Priority</b>                                    | High                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <b>Recommendation</b>                              | The Council must ensure that arrangements are in place to ensure that the approved Statement of Investment Principles are complied with.                                                                                                                                                                                                                                                                                                                                                                        |
| <b>Benefits of implementing the recommendation</b> | Implementation of the recommendation would ensure that the approved investment strategy of the Pension Fund was complied with, so reducing over exposure to risk.                                                                                                                                                                                                                                                                                                                                               |
| <b>Accepted in full by management</b>              | Agreed                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>Management response</b>                         | <p>It should be recognised that, in times of volatile asset values, asset allocation parameters may be breached on a temporary basis. The merits of physically rebalancing should be weighed against the transactional costs of doing so when in the event of market reversion, the asset values would have normalised in any case.</p> <p>The physical rebalancing of the portfolio and the material costs involved can be mitigated when considered, when transitioning the passive assets later in 2016.</p> |
| <b>Implementation date</b>                         | Oct 2016                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |



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## Report of the Director of Resources

Audit Committee – 20 September 2016

### WALES AUDIT OFFICE REVIEW OF FINANCIAL RESILIENCE AT THE CITY & COUNTY OF SWANSEA

|                             |                                                                                                                                                                                                                                                                               |
|-----------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Purpose:                    | To report the findings by the Wales Audit Office on their Financial Resilience Assessment of the City & County of Swansea where they considered whether the Authority has appropriate arrangements to plan to secure and maintain its financial resilience in the medium term |
| Report Author:              | Mike Hawes                                                                                                                                                                                                                                                                    |
| Finance Officer:            | Paul Cridland                                                                                                                                                                                                                                                                 |
| Legal Officer:              | Debbie Smith                                                                                                                                                                                                                                                                  |
| Access to Services Officer: | Phil Couch                                                                                                                                                                                                                                                                    |

#### FOR INFORMATION

#### 1. Background

- 1.1 The WAO undertook a Financial Resilience Assessment of all Local Authorities across Wales including the City & County of Swansea. The Assessment considered whether the Authority has appropriate arrangements to plan to secure and maintain its financial resilience in the medium term (typically three to five years ahead), but focussed narrowly around the issue of achievement and allocation of Corporate savings rather than performance and ability to meet its financial targets as a whole.
- 1.2 The review concluded that the Council has improved medium-term financial planning, but the pace at which planned savings are being achieved is too slow and accountability for delivering all savings proposals has yet to be resolved.
- 1.3 The latter point referred to the non-allocation of Corporate Savings that were identified during the budget process to Directorate Budgets during the year. The result of that was non-allocation of some £2.194m of corporate savings for 2015/16. However, whilst the report is critical of that non-allocation, it also acknowledges that the Council has managed to achieve its overall savings requirement for 2014/15 and, indeed, were the report to be written now it would also acknowledge the achievement of the overall savings targets for 2015/16 as evidenced by the net outturn position for that year.

## 2. WAO conclusions & proposals for improvement

2.1 The WAO reached their overall conclusion as follows:

- Financial planning - The Council has improved medium-term financial planning arrangements and understands the overall financial savings required but is not achieving specific savings as quickly as planned. **The clear response from the Council on that point is that it has achieved a net underspend position for both 2014/15 and 2015/16 and. As such, savings are clearly being achieved.**
- Financial control - Controls are in place for managing the Council's financial activity but a lack of clarity about responsibility for delivering some savings targets weakens overall control. **The response of the Council to this is that for 216/17 the vast majority of savings have been allocated across Service Directorates, e.g. the management of the Social Services overspend through the Budget Performance Review Group process.**
- Work carried out by internal and external audit during the year did not identify any significant weaknesses in the key financial systems.
- Financial governance - Financial governance arrangements are in place but weakened by the lack of accountability for delivery of some savings targets. **This is clear restatement of the above points but again the Council would emphasise that collectively savings have been achieved across both of the last two financial years in excess of those originally budgeted**

2.2 Overall, the WAO review concluded that the City & County of Swansea financial planning, control and governance arrangements were at medium risk. This is entirely understandable in terms of medium term financial planning given that the Council:-

- Is subject annually to the effect of funding decisions on the overall funding level devolved to Wales from the Westminster Government.
- Is further subject to funding decisions made annually by Welsh Government.
- Has no indication of the level of core Welsh Government funding beyond the current year.

2.3 Medium risk means that there are some shortcomings in systems, processes or information that may affect the Authority's ability to deliver the desired outcomes of its financial plan.

2.4 The WAO make the following Proposals for Improvement:

- P1. Ensure timescales for the delivery of specific savings proposals are realistic and act to drive delivery. **This is clearly aspirational**

**as all savings plans are dependent on consultation outcomes and operational delivery.**

- P2. Ensure responsibility for delivery of planned savings is assigned to specific managers' services. **This has largely been achieved for 2016/17 but in reality is a book-keeping exercise. The real issue remains the difficult delivery of in year savings and the substantial effort and resource that is constantly being applied to service reform.**

### **3. Response and next steps**

- 3.1 More detail can be found in the report at Appendix A. The Corporate Director (Resources) will outline the Council's response to the Audit Committee.

### **4. Equality and Engagement Implications**

- 4.1 There are no direct equality and engagement implications.

### **5. Legal Implications**

- 5.1 There are no legal implications.

### **6. Financial Implications**

- 6.1 There are no financial implications other than those outlined within the proposals for improvement noted in para 2.4 of the report.

## **FOR INFORMATION**

**Background papers:** *None*

**Appendices:** Appendix A – WAO Financial Resilience Assessment City & County of Swansea



# Financial Resilience Assessment **City and County of Swansea**

**Audit year:** 2015-16

**Issued:** May 2016

**Document reference:** 261A2016

# Status of report

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This document has been prepared as part of work performed in accordance with statutory functions.

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 the Wales Audit Office are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at [info.officer@audit.wales](mailto:info.officer@audit.wales).

The team who delivered the work comprised Steve Barry, Samantha Clements and Janet Smith.



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# Summary report

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## Summary

1. Good financial management is essential for the effective stewardship of public money and the delivery of efficient public services. Good financial management:
  - helps authorities take the right decisions for the short, medium and long term;
  - helps authorities deliver services to meet statutory obligations and the needs of local communities;
  - is essential for good corporate governance;
  - is about managing performance and achieving strategic objectives as much as it is about managing money;
  - underpins service quality and improvement;
  - is the basis of accountability to stakeholders for the stewardship and use of resources; and
  - is a key management discipline.
2. Long-term financial management is not about predicting the future; it is about preparing for it. Authorities need to understand future demand, assess the impact of probable changes, review the gap between funding needs and possible income, and develop appropriate savings strategies.
3. Well-considered and detailed long-term financial strategies and medium-term financial plans can ensure the delivery of strategic priorities by enabling appropriate financial choices. Conversely, short-term annual budget planning alone encourages an incremental and process-driven approach that can be ineffective in a period of rapid external change.
4. Financial resilience is achieved when an authority has robust systems and processes to effectively manage its financial risks and opportunities, and to secure a stable financial position.
5. Given the continuing pressures on funding, in this review we have considered whether the authority has appropriate arrangements to plan to secure and maintain its financial resilience in the medium term (typically three to five years ahead). While there may be more certainty for the authority over an annual cycle, financial pressures impact beyond the current settlement period. We have considered evidence of the authority's approach to managing its finances in the recent past and over the medium term when reaching our view on the authority's financial resilience.
6. We undertook our assessment during the period May to October 2015, and followed up issues highlighted in the 2014-15 financial position work. The focus of the work was on the delivery of 2014-15 savings plans, and the 2015-16 financial planning period.

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7. The work focused on answering the following question: **Is the City and County of Swansea Council (the Council) managing budget reductions effectively to ensure financial resilience?** In this report, we also consider whether:
- financial planning arrangements effectively support financial resilience;
  - financial control effectively supports financial resilience; and
  - financial governance effectively supports financial resilience.
8. Overall we concluded: **‘The Council has improved medium-term financial planning, but the pace at which planned savings are being achieved is too slow and accountability for delivering all savings proposals has yet to be resolved.’** We came to this conclusion because:
- the Council has improved medium-term financial planning arrangements and understands the overall financial savings required but is not achieving specific savings as quickly as planned;
  - controls are in place for managing most of the Council’s financial activity but a lack of clarity about responsibility for delivering some savings targets weakens overall control; and
  - financial governance arrangements are in place but weakened by the lack of accountability for delivery of some savings targets.
9. This report gives a risk rating for each aspect: financial planning, financial control and financial governance. The descriptors for risk ratings are set out below.

|                    |                                                                                                                                                                                   |
|--------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Low risk</b>    | Arrangements are adequate (or better) with few shortcomings in systems, processes or information. Impact on the authority’s ability to deliver its financial plan may be minimal. |
| <b>Medium risk</b> | There are some shortcomings in systems, processes or information that may affect the authority’s ability to deliver the desired outcomes of its financial plan.                   |
| <b>High risk</b>   | There are significant shortcomings in systems, processes or information and/or there is a real risk of the authority’s financial plan not delivering the desired outcomes.        |

10. We rate the risk for each of these elements as follows.

|                    |                      |
|--------------------|----------------------|
| <b>Medium risk</b> | Financial planning   |
| <b>Medium risk</b> | Financial control    |
| <b>Medium risk</b> | Financial governance |

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## Proposals for improvement

P1 Ensure timescales for the delivery of specific savings proposals are realistic and act to drive delivery.

P2 Ensure responsibility for delivery of planned savings is assigned to specific managers' services.

# Detailed report

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The Council has improved medium-term financial planning, but the pace at which planned savings are being achieved is too slow and accountability for delivering all savings proposals has yet to be resolved

## Financial planning

The Council has improved medium-term financial planning arrangements and understands the overall financial savings required but is not achieving specific savings as quickly as planned

11. The Council has a corporate planning framework which supports the delivery of its priorities. The Corporate Plan 2015-17 provides the overall vision and aims of the Council which will be delivered through its strategic framework Sustainable Swansea – fit for the future. The Council’s Statement of Medium Term Budget Priorities sets out its views on service and budget priorities in the context of the delivery of Sustainable Swansea and the Medium Term Financial Plan (MTFP).
12. The MTFP covers the period 2016-17 to 2018-19. It is rolled forward annually and a mid-year update is also provided to take account of revised assumptions. The funding gap for this period is estimated to be £110.6 million. The MTFP includes an overview of the financial planning environment for future years, detailed spending and resources forecasts based on best and worst-case scenarios, the reserves position, budget risks and the revised future savings requirements.
13. The MTFP is comprehensive and identifies the total cash value of savings required. However, when setting the annual budget not all savings proposals, indicating the specific action necessary to achieve a saving, had been identified. In 2014-15 approximately £3 million of savings proposals were not delivered.
14. The Council has a track record of balancing its budget but not necessarily by means of delivering the specific in-year savings originally planned. In 2014-15 the shortfall of £3 million (13 per cent of the savings requirement) mainly related to cross-cutting savings targets set as part of the work stream savings within the Sustainable Swansea programme which were not sufficiently well developed when the budget was set.
15. The Council took in-year remedial action to mitigate this and compensating in-year savings were identified. The overall budget was subsequently balanced through a combination of savings in other activities, one-off savings, or income received together with a moratorium on in-year spend. Whilst this was achievable in 2014-15, it may not be the case in future years. Where feasible, the Council rolls forward unachieved in-year savings to future years.

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16. For 2015-16, the Council identified the need for cash value savings of £21 million. These savings are intended to be achieved from service-specific savings of £14.1 million (70 per cent), efficiencies in delegated schools budgets of £4.1 million and £3 million to be met from delivery strands within the Sustainable Swansea Delivery Programme. However, the £3 million from delivery strands was not allocated to specific service areas when setting the budget because work stream commissioning reviews had either not been started or completed.
  17. The first quarter budget monitoring report for 2015-16 forecast a net overspend on directorate budgets of £8.056 million which included a forecast that £6.5 million of planned in-year savings may not be achieved. Whilst the projected net overspend on directorate budgets for quarter three had reduced to £2.517 million, the forecast for unachieved planned savings was £6.870 million. The projected savings shortfall mainly relates to assumed work stream savings targets which had not been fully costed or allocated to specific service areas when the budget was approved and under developed savings plans.
  18. Given the scale of the financial challenges which lie ahead, the delivery of savings proposals will be key to the Council achieving a balanced MTFP. Whilst the Council has made improvements to its financial planning arrangements, it now needs to increase the pace of completing the proposed reviews in the Sustainable Swansea programme to ensure that savings targets are disaggregated and allocated to specific service areas which are underpinned by robust action plans to support delivery of the planned savings.

## Financial control

### Controls are in place for managing the Council's financial activity but a lack of clarity about responsibility for delivering some savings targets weakens overall control

19. The Council has a clear framework for managing the Council's financial affairs. The Council's constitution sets out the policies on financial and budget management, which define the roles and responsibilities of members and officers.
20. Budgets are prepared in a timely manner, and are monitored at an officer and member level and subject to scrutiny. Financial forecasting is well developed and forecasts are subject to regular review together with the level and planned use of general and earmarked reserves. The Budget Review Steering Group that comprises the Chief Executive Officer, Leader of the Council, Head of Finance, Director of Corporate Resources and Cabinet portfolio holder for Finance considers budget monitoring and savings reports on a monthly basis. Directorate management teams also receive monthly budget monitoring reports, and quarterly budget monitoring reports are presented to Cabinet. The Budget Review Steering Group also meets weekly between September and March to determine the forthcoming annual budget and MTFP.

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- 21.** The Council has a budget tracking framework which provides monthly reports on the progress of savings plans. The savings tracker also provides an indicative forecast of likely achievement before the year-end or, in the case of longer-term proposals, the appropriate timescale. Savings proposals, other than those relating to savings targets in the Sustainable Swansea programme, where reviews have not been completed, are assigned to service areas, and accountability for delivery rests with heads of service and ultimately directors.
  - 22.** It has been suggested that specific savings targets cannot be identified within the Sustainable Swansea programme until certain reviews are completed. It is our view that financial control would be strengthened by fully allocating all in-year savings proposals to specific service areas at an early stage.
  - 23.** Performance monitoring reports are used alongside financial budget monitoring reports, and there is some evidence that the impact of financial decisions on performance is considered. However, performance and financial reporting mechanisms are not yet integrated to routinely illustrate a whole-authority view of both performance and finance. For example, for each directorate the range and trend of performance indicators, and scale and achievement of financial savings targets. Doing so would promote a clear understanding of the impact of financial decisions/performance on service performance for the Council.
  - 24.** The Council does not use any explicit key performance indicators to monitor the MTFP and associated performance. The Council does not report and monitor key financial comparators for current, past and future years. Examples of such indicators used by other councils include working capital and gearing ratios. The Council does not formally benchmark its financial performance with other councils.
  - 25.** Whilst the Council does not have a reserves policy its planned use of reserves is clearly set out in its MTFP, mid-term MTFP updates and budget monitoring reports. The Council holds earmarked reserves for specific purposes, together with a level of general reserves available to support overall Council expenditure. The holding or release of reserves is in accordance with the principles underpinning best practice as issued by the Chartered Institute of Public Finance and Accountancy and based on the advice from the S151 officer. The Council is of the view that due to the nature, size and complexity of the Council's operations, and in particular the potential for short-term volatility in terms of elements of income and expenditure, that it is prudent for the Council to maintain a level of general reserves sufficient to meet anticipated and known financial risks. The Council Fund balance reduced from £13.1 million to £12.3 million between 2013-14 and 2014-15. The 2015-16 budget assumes that £1.2 million of general reserves will be used to fund the budget but no further use is planned beyond this to fund the MTFP.
  - 26.** The Council has an overarching Income Generation and Charging Policy which is one element of the income and trading delivery strand in the Sustainable Swansea Strategy. Its objectives are to increase/maximise/introduce charges, full cost recovery (including services to schools), reduce public subsidy, and create and utilise surplus capacity.

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## Work carried out by internal and external audit during the year did not identify any significant weaknesses in the key financial systems

### Financial governance

#### Financial governance arrangements are in place but weakened by the lack of accountability for delivery of some savings targets

27. The Council's Corporate Management Team clearly grasps the financial climate and the challenges the Council faces. The Council's Section 151 Officer provides briefings and budget strategy updates to directors and members on the financial challenges facing the Council, and financial planning is led by the Budget Review Steering Group and formalised departmental meetings. The Budget Review Steering Group provides a challenge forum and reports to Cabinet.
28. Directors are ultimately responsible for the financial performance of their services, and are accountable through the various reporting and scrutiny processes. Progress against budget and savings plans is reviewed regularly. The Council manages its finances transparently and takes proactive steps to deal with potential budget issues. For example, in September 2015, the S151 Officer reported to Cabinet that £6.5 million of savings for 2015-16 were at risk and spending restrictions were put in place to mitigate this alongside increased challenge of progress on savings proposals.
29. In spite of the monitoring arrangements in place, accountability for achieving the delivery strand savings in the Sustainable Swansea programme is less clear. The third quarter revenue monitoring report on the 2015-16 savings states that: 'Much stronger work needs to be done challenging and assuring the Delivery Strands (the cross authority streams not yet built into service budgets) in terms of taking cash off budgets. This continues to be progressed but is not yet complete. There have been delays in assuring and validating savings in the Delivery Strands. Delivery Strands are identifying opportunities particularly in third-party spend, but only in-year, cashable, non-Housing Revenue Account and non-schools savings can actually be 'banked'. Total efficiencies unequivocally identified by procurement amount to over £3 million, but no more than £700,000 is cashable and just over £400,000 is currently considered firm. Many savings are proving to be only cost avoidance or contributing only to existing service savings strategies.' This has been an issue since the inception of the Sustainable Swansea programme in July 2014 which the Council has not resolved.





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# Agenda Item 6

## Report of the Chief Auditor

Special Audit Committee – 20 September 2016

### AUDIT COMMITTEE – ACTION TRACKER

|                                    |                                                                                              |
|------------------------------------|----------------------------------------------------------------------------------------------|
| <b>Purpose:</b>                    | This report details the actions recorded by the Audit Committee and response to the actions. |
| <b>Report Author:</b>              | Paul Beynon                                                                                  |
| <b>Finance Officer:</b>            | Paul Beynon                                                                                  |
| <b>Legal Officer:</b>              | Sandie Richards                                                                              |
| <b>Access to Services Officer:</b> | Sherill Hopkins                                                                              |

#### FOR INFORMATION

#### 1. Introduction

- 1.1 During the course of Audit Committee meetings various actions may be decided which are recorded on the minutes of the meetings.
- 1.2 Until now, the Committee has had no transparency over the outcomes of the actions minuted by the Committee.
- 1.3 Therefore, an Action Tracker has been created which records the decisions taken by the Audit Committee and provides an outcome for each action.
- 1.4 The Action Tracker for the 2015/16 and 2016/17 municipal years are attached in Appendix 1 and 2.
- 1.5 The Action Tracker will be regularly updated and any completed actions will be marked 'CLOSED' and coloured in grey.
- 1.6 The Action Tracker will be reported to each Audit Committee meeting 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** – Action Tracker 2016/17

**Appendix 2** – Action Tracker 2015/16

| <b>AUDIT COMMITTEE ACTION TRACKER 2016/17</b>                                                                                                                                                                            |                                                                                                                                                                                                                         |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Action</b>                                                                                                                                                                                                            | <b>Outcome</b>                                                                                                                                                                                                          |
| <b>21/07/16 Min 18 – Internal Audit Monitoring Report Quarter 4 2015/16</b>                                                                                                                                              |                                                                                                                                                                                                                         |
| In future, any delays in receiving a response from a service to a draft internal audit report be reported to the Committee.                                                                                              | Any delay in receiving a response to a draft internal audit report will be included in the quarterly Internal Audit Monitoring Report - CLOSED                                                                          |
| <b>21/07/16 Min 18 – Internal Audit Monitoring Report Quarter 4 2015/16</b>                                                                                                                                              |                                                                                                                                                                                                                         |
| The Chief Auditor contacts the Head of Human Resources and Organisational Development in order to discuss the procedure regarding de-activating flexi-cards when an employee ends employment with the Authority          | When an employee leaves, the line manager is required to complete an exit interview checklist. One of the items on the checklist is to re-cover the employee's flexi card and return it to HR for cancellation - CLOSED |
| <b>21/07/16 Min 18 – Internal Audit Monitoring Report Quarter 4 2015/16</b>                                                                                                                                              |                                                                                                                                                                                                                         |
| The Chair writes to the Head of Service where an audit has received a moderate level of assurance for a second audit to express the Committee's concern that there has been no improvement in the controls in operation. | Letters sent 05/08/16 and copies reported to Audit Committee on 30/08/16 for information - CLOSED                                                                                                                       |
| <b>28/06/16 Min 8 – Corporate Governance Review Report</b>                                                                                                                                                               |                                                                                                                                                                                                                         |
| The recommendations contained within the report be regularly monitored and where appropriate feedback be provided by the Deputy Head of Legal and Democratic Services                                                    |                                                                                                                                                                                                                         |
| <b>28/06/16 Min 9 - Certification of Grants and Returns 2013/14 and 2014/15</b>                                                                                                                                          |                                                                                                                                                                                                                         |
| All Responsible Officers be advised and reminded of the external auditors findings and the obligation to maintain at all times adequate and complete records to support future grant certification claims                | E-mail sent to all Heads of Service by Chief Finance and Deputy Section 151 Officer on 30/06/16. The e-mail; highlighted the relevant issues and the external auditor's grants report was attached - CLOSED             |
| <b>28/06/16 Min 9 - Certification of Grants and Returns 2013/14 and 2014/15</b>                                                                                                                                          |                                                                                                                                                                                                                         |
| A letter be circulated to schools highlighting the need to retain relevant paperwork in relation to grants claimed in order to prove if the funding was used appropriately.                                              | The Chair wrote to Chief Education Officer on 05/08/16 asking for the issues to be brought to the attention of schools. Awaiting confirmation that letter has been sent to schools following the summer holidays.       |
| <b>28/06/16 Min 11 – YGG Lon Las Draft Response to Cabinet</b>                                                                                                                                                           |                                                                                                                                                                                                                         |
| Additional comments be forwarded to the Chair/Chief Auditor                                                                                                                                                              | No further comments were received - CLOSED                                                                                                                                                                              |
| <b>28/06/16 Min 11 – YGG Lon Las Draft Response to Cabinet</b>                                                                                                                                                           |                                                                                                                                                                                                                         |
| The updated report be forwarded to Cabinet                                                                                                                                                                               | Report is on the agenda for the Cabinet meeting on 20/10/16                                                                                                                                                             |

| <b>Action</b>                                                                                                          | <b>Outcome</b>                                              |
|------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------|
| <b>28/06/16 Min 12 – Final Audit Committee Annual Report 2015/16</b>                                                   |                                                             |
| The Audit Committee Annual Report 2015/16 be approved and be presented to Council in July/August 2016                  | Report is on agenda for Council meeting on 22/09/16         |
| <b>14/06/16 Min 5 – Audit Committee Training</b>                                                                       |                                                             |
| The training presentations regarding risk management and counter fraud be deferred to a future Audit Committee meeting | On Workplan for special meeting to be held in December 2016 |

| <b>AUDIT COMMITTEE ACTION TRACKER 2015/16</b>                                                                                                                 |                                                                                                                                       |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|
| <b>Action</b>                                                                                                                                                 | <b>Outcome</b>                                                                                                                        |
| <b>19/04/16 Min 79 – Internal Audit Charter 2016/17</b>                                                                                                       |                                                                                                                                       |
| The Chief Auditor investigates the success of Housing Benefit prosecutions since the service was transferred to the DWP                                       | Response provided to Committee on 14/06/16 - CLOSED                                                                                   |
| <b>22/03/16 Min 72 – New Build for YGG Lon Las – Referral from Cabinet</b>                                                                                    |                                                                                                                                       |
| The Chair/Chief Auditor draft a report summarising the key lessons to be learned for consideration by the Audit Committee prior to being submitted to Cabinet | Draft report presented to Committee on 28/06/16 - CLOSED                                                                              |
| <b>16/02/16 Min 63 - Risk Management Update</b>                                                                                                               |                                                                                                                                       |
| The Chair and Head of Finance and Delivery draft a response to the Welsh Government regarding the late announcement of funding                                | Not pursued as the impact of the late announcement had been strongly made to the Welsh Government by the WLGA - CLOSED                |
| <b>16/02/16 Min 63 - Risk Management Update</b>                                                                                                               |                                                                                                                                       |
| The Head of Legal and Democratic Services be requested to consider Councillor access to the risk register in the forthcoming Governance Review Report         | Corporate Director (Resources) to prepare report on Councillor access to risk register for consideration by Corporate Management Team |
| <b>16/02/16 Min 64 – Recommendations Tracker Report 2014/15</b>                                                                                               |                                                                                                                                       |
| An update report on the level of write offs be added to the Workplan                                                                                          | Included in Workplan for meeting on 25/10/16                                                                                          |
| <b>16/02/16 Min 65 – Internal Audit Monitoring Report Quarter 3 2015/16</b>                                                                                   |                                                                                                                                       |
| The impact of high sickness levels for Internal Audit compared to previous years be provided to the Committee                                                 | Included in Quarter 4 Monitoring Report to meeting on 21/07/06 - CLOSED                                                               |
| <b>16/02/16 Min 67 – Audit Committee Self-Assessment of Good Practice Questionnaire</b>                                                                       |                                                                                                                                       |
| The completed Questionnaire be used as the basis for the Audit Committee Annual Report 2015/16                                                                | Questionnaire was used for Annual Report 2015/16 presented to Committee on 28/06/16 - CLOSED                                          |
| <b>16/02/16 Min 70 – YGG Lon Las Lessons Learned – Referral from Cabinet</b>                                                                                  |                                                                                                                                       |
| Item be deferred to a Special Meeting of the Audit Committee                                                                                                  | Report presented to Special Meeting held on 22 March 2016 - CLOSED                                                                    |
| <b>15/12/15 Min 52 – Briefing Cabinet Advisory Committee</b>                                                                                                  |                                                                                                                                       |
| The Leader be invited to a future meeting in order to provide an update report                                                                                | Update scheduled for October 2016 meeting of Committee                                                                                |

| <b>Action</b>                                                                                                                            | <b>Outcome</b>                                                                                                  |
|------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|
| <b>15/12/15 Min 53 – Chair Scrutiny Programme Committee</b>                                                                              |                                                                                                                 |
| The Chair of the Scrutiny Programme Committee be invited to a future meeting in order to provide an update report                        | Included in Workplan for meeting on 25/10/16                                                                    |
| <b>15/12/15 Min 56 – Risk Management Update</b>                                                                                          |                                                                                                                 |
| A more detailed report be presented to a future meeting                                                                                  | The Head of Finance and Delivery provided a more detailed report to the meeting on 16/02/16 - CLOSED            |
| <b>15/12/15 Min 56 – Risk Management Update</b>                                                                                          |                                                                                                                 |
| The Chief Auditor circulates the link to access the risk procedure details on the Council website                                        | See 16/02/16 Min 63 Risk Management Update below - CLOSED                                                       |
| <b>17/11/15 Min 47 – Housing Benefit Investigation Team Annual Report 2014/15</b>                                                        |                                                                                                                 |
| An interim report be provided in 6 months                                                                                                | Corporate Fraud Team Annual Report was presented to Audit Committee on 30/08/16 - CLOSED                        |
| <b>17/11/15 Min 48 – Internal Audit Monitoring Report Quarter 2 2015/16</b>                                                              |                                                                                                                 |
| The Chair writes to the Chief Social Services Officer regarding the 4 moderate audit ratings in Adult Services                           | Letter sent 30/11/15 and Chair met Head of Adult Services on 16/12/15 - CLOSED                                  |
| <b>17/11/15 Min 48 – Internal Audit Monitoring Report Quarter 2 2015/16</b>                                                              |                                                                                                                 |
| The Chair writes to the Head of Transportation and Highways regarding the Streetworks audit which received a moderate level of assurance | Letter sent 30/11/15 and Chair met Head of transportation and highways on 22/12/15 - CLOSED                     |
| <b>17/11/15 Min 48 – Internal Audit Monitoring Report Quarter 2 2015/16</b>                                                              |                                                                                                                 |
| The Chief Auditor circulates the details of the Section 106 Agreements follow up audit to the Committee                                  | Details circulated 19/11/15 - CLOSED                                                                            |
| <b>17/11/15 Min 48 – Internal Audit Monitoring Report Quarter 2 2015/16</b>                                                              |                                                                                                                 |
| The Chief Auditor circulates the link to the Section 106 Agreements database to the Committee                                            | Link circulated 22/12/15 - CLOSED                                                                               |
| <b>20/10/15 Min 37 – Chair of Scrutiny Programme Committee</b>                                                                           |                                                                                                                 |
| The Chair of the Scrutiny Programme Committee be invited to the Audit Committee meeting scheduled for 15 December 2015                   | The Chair of the Scrutiny Programme Committee attended the Audit Committee meeting on 15 December 2015 - CLOSED |
| <b>20/10/15 Min 38 – Corporate Governance Review – Update</b>                                                                            |                                                                                                                 |
| Rod Alcott be invited to attend the Special Audit Committee on 17 November 2015 in order to present the draft report                     | Report presented to Committee on 28/06/16 - CLOSED                                                              |
| <b>20/10/15 Min 39 – Annual Report of School Audits 2014/15</b>                                                                          |                                                                                                                 |
| A review be undertaken to ensure that school audit reports are placed upon school governor meeting agendas                               | To be included in Annual Report of School Audits 2015/16 to be presented to the meeting on 25/10/16             |



| <b>Action</b>                                                                                                      | <b>Outcome</b>                                                                           |
|--------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|
| <b>20/10/15 Min 40 – Audit Committee Annual Report 2014/15 Follow Up</b>                                           |                                                                                          |
| The Chief Auditor circulates the Audit Committee Knowledge and Skills Framework questionnaire to the Committee.    | Framework circulated 19/11/15 - CLOSED                                                   |
| <b>18/08/15 Min 17 - Presentation Corporate Fraud Team</b>                                                         |                                                                                          |
| The Corporate Fraud Team Manager provides a future update report to the Committee                                  | Corporate Fraud Team Annual report was presented to Audit Committee on 30/08/16 - CLOSED |
| <b>18/08/15 Min 20 - WAO Audit of Financial Statements Progress Report</b>                                         |                                                                                          |
| A Special Audit Committee be scheduled between 17 and 24 September 2015 in order to discuss the Final Audit Report | Special meeting held on 21/09/15 - CLOSED                                                |
| <b>16/06/15 Min 9 - Internal Audit Monitoring Report Quarter 4 2014/15</b>                                         |                                                                                          |
| An update report regarding Section 106 Agreements be provided at the next scheduled meeting                        | Head of Economic Regeneration and Planning provided a report on 18/08/15 – CLOSED        |

## Report of the Chief Auditor

Special Audit Committee – 20 September 2016

### AUDIT COMMITTEE – WORKPLAN

|                                    |                                                               |
|------------------------------------|---------------------------------------------------------------|
| <b>Purpose:</b>                    | This report details the Audit Committee Workplan to May 2017. |
| <b>Report Author:</b>              | Paul Beynon                                                   |
| <b>Finance Officer:</b>            | Paul Beynon                                                   |
| <b>Legal Officer:</b>              | Sandie Richards                                               |
| <b>Access to Services Officer:</b> | Sherill Hopkins                                               |

#### FOR INFORMATION

#### 1. Introduction

- 1.1 The Audit Committee's Workplan to May 2017 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 2016/17**

## AUDIT COMMITTEE WORKPLAN 2016/17

| Date of Meeting                     | Reports                                                                                                                                                                                                                                                                        |
|-------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 20 September 2016 – Special Meeting | Audited Statement of Accounts 2015/16<br>WAO ISA 260 Report 2015/16 – City & County of Swansea<br>WAO ISA 260 Report 2015/16 – Pension Fund<br>WAO Financial Resilience Assessment Report<br>Audit Committee Action Tracker Report                                             |
| 25 October 2016                     | Cabinet Advisory Committees – Update Report<br>Chair of Scrutiny Programme Committee<br>Wales Audit Office Update Report<br>Annual Report of School Audits 2015/16<br>Bad Debt Write Offs – Update<br>Audit Committee Action Tracker Report                                    |
| 13 December 2016 – Special Meeting  | Audit Committee Training – Risk Management and Counter Fraud<br>Head of Commercial Services – Commercialism Strategy<br>Risk Management Half Yearly Review 2016/17<br>Wales Audit Office Update Report<br>Audit Committee Action Tracker Report                                |
| 3 January 2017                      | Wales Audit Office Financial Statements Report 2015/16<br>Wales Audit Office Annual Audit Letter 2015/16<br>Wales Audit Office Update Report<br>Internal Audit Monitoring Report Q2 2016/17<br>Recommendations Tracker Report 2014/15<br>Audit Committee Action Tracker Report |
| 14 March 2017                       | Wales Audit Office Grants Report 2015/16<br>Wales Audit Office Update Report<br>Internal Audit Monitoring Report Q3 2016/17<br>Internal Audit Plan 2017/18 - Methodology<br>Audit Committee Review of Performance 2016/17<br>Audit Committee Action Tracker Report             |
| 28 March 2017 – Special Meeting     | Wales Audit Office Annual Plan 2017<br>Wales Audit Office Update Report<br>Internal Audit Charter 2017/18<br>Internal Audit Annual Plan 2017/18<br>Draft Audit Committee Annual Report 2016/17<br>Audit Committee Action Tracker Report                                        |