

Audit of Accounts Report – City & County of Swansea

Audit year: 2022-23

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We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

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We intend to issue an unqualified audit report on your Accounts. There are some issues to report to you prior to their approval.

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Audit of Accounts Report

Introduction

- 1 We summarise the main findings from our audit of your 2022-23 Statement of Accounts in this report.
- 2 We have already discussed these findings with the Director of Finance.
- 3 Auditors can never give complete assurance that accounts are correctly stated. Instead, we work to a level of 'materiality'. This level of materiality is set to try to identify and correct misstatements that might otherwise cause a user of the accounts into being misled. We set this level at £11.1 million for this year's audit.
- 4 There are some areas of the accounts that may be of more importance to the reader and we have set a lower materiality level for these, as follows:
 - Senior Officer Remuneration £1,000
 - Related Party Transactions (relating to individuals) £10,000
- 5 The audit of accounts timetable is set out in **Exhibit 1**.

Exhibit 1 – Accounts timetable

Timetable	<ul style="list-style-type: none">• The Welsh Government required that draft 2022-23 accounts were prepared by 30 July 2023. The council's draft accounts were received on 27 October 2023. This is the second year in succession that the draft accounts have been received significantly later than the prescribed deadline.• The revised accounts will be presented to the Governance and Audit Committee on 14 March 2024 and to Council on the 21 March 2024.• We expect to be able to certify the accounts on 25 March 2024.
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- 6 We have now substantially completed this year's audit subject to final review of the audit work and revised accounts.
- 7 In our professional view, we have complied with the ethical standards that apply to our work; remain independent of yourselves; and our objectivity has not been compromised in any way. There are no relationships between ourselves and yourselves that we believe could undermine our objectivity and independence.

Impact of revised ISA315 on this year's audit

- 8 Our audits of your accounts for the year ended 31 March 2023 have been carried out under a revised auditing standard (ISA 315 (UK) Identifying and Assessing the Risks of Material Misstatement (Revised July 2020)). The revised standard has

had a significant impact this year on how auditors undertake audit risk assessments and our overall audit approach.

- 9 In planning our audit, we are now required to undertake more detailed and extensive risk assessment procedures to identify risks of material misstatement. The subsequent design and performance of our audit approach has been responsive to each assessed risk.

Proposed audit opinion

- 10 We intend to issue an unqualified audit opinion on this year's accounts once you have provided us with a Letter of Representation based on that set out in **Appendix 1**.
- 11 We issue a 'qualified' audit opinion where we have material concerns about some aspects of your accounts; otherwise we issue an unqualified opinion.
- 12 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards.
- 13 Our proposed audit report is set out in **Appendix 2**.

Significant issues arising from the audit

Uncorrected misstatements

- 14 There are no non-trivial misstatements identified in the accounts which remain uncorrected.

Corrected misstatements

- 15 There were initially misstatements in the accounts that have now been corrected by management. However, we believe that these should be drawn to your attention, and they are set out with explanations in **Appendix 3**.

Other significant issues arising from the audit

- 16 During the audit, we consider a number of matters relating to the accounts and report any significant issues arising to you. Issues we consider include:
- Concerns about the qualitative aspects of accounting practices and financial reporting.
 - Any significant difficulties during the audit.
 - Significant matters discussed and corresponded upon with management which we need to report to those charged with governance.
 - Any identified material weaknesses in internal controls.

17 There is one matter to bring to your attention.

Error in application of obsolescence factor in valuation of property assets

- In accordance with the Royal Institution of Chartered Surveyors (RICS) guidance, Councils are required to revalue appropriate properties by firstly establishing the replacement cost as a 'modern equivalent asset'. Included within this cost will be amounts relating to external works and professional fees. It is then necessary to adjust or depreciate all costs incurred to represent physical deterioration, functional obsolescence, and economic obsolescence. In practice, this translates to applying an obsolescence factor to the replacement cost.
- We identified that such an obsolescence factor had not been applied to external works and professional fees in the valuation of schools. This resulted in an over valuation of £39 million.
- The accounting entries to adjust for the error was to decrease the Revaluation Reserve by £35.2m (being the amount that reverses previous upward revaluations) with the balance being charged to the Comprehensive Income and Expenditure Account.

Appendix 1

Final Letter of Representation

[Audited body's letterhead]

Auditor General for Wales

Wales Audit Office

Capital Quarter

Tyndall Street

Cardiff

CF10 4BZ

21 March 2024

Representations regarding the 2022-23 financial statements

This letter is provided in connection with your audit of the financial statements (including that part of the Remuneration Report that is subject to audit) of City & County of Swansea for the year ended 31 March 2023 for the purpose of expressing an opinion on their truth and fairness and their proper preparation.

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

Management representations

Responsibilities

We have fulfilled our responsibilities for:

- the preparation of the financial statements in accordance with legislative requirements and CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom UK 2022-23; in particular the financial statements give a true and fair view in accordance therewith; and
- 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 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; and
- 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.

The methods, the data and the significant assumptions used in making accounting estimates, and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework.

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 aggregate, to the financial statements taken as a whole.

Representations by those charged with governance

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

We acknowledge our responsibility for ensuring that the Council maintains adequate accounting records.

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 Members of the City & County of Swansea on 21 March 2024.

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

Signed by:

Signed by:

Ben Smith
Director of Finance and S151 Officer

Rob Stewart
Leader of the Council

Date: 21 March 2024

Date: 21 March 2024

Appendix 2

Proposed Audit Report

The report of the Auditor General for Wales to the members of City & County of Swansea

Opinion on financial statements

I have audited the financial statements of:

- The City & County of Swansea; and
- The City & County of Swansea Group

for the year ended 31 March 2023 under the Public Audit (Wales) Act 2004.

The City & County of Swansea's financial statements comprise the Expenditure and Funding Analysis, 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, the Housing Revenue Account Income and Expenditure Statement and the related notes, including the significant accounting policies.

The City & County of Swansea's Group financial statements comprise the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet, the Group Cash Flow Statement and the related notes, including the significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2023.

In my opinion, in all material respects, the financial statements:

- give a true and fair view of the financial position of the City & County of Swansea and the City & County of Swansea Group as at 31 March 2023 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with legislative requirements and UK adopted international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2022-23.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report.

My staff and I are independent of the City & County of Swansea and the Group in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the City & County of Swansea and the Group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the responsible financial officer with respect to going concern are described in the relevant sections of this report.

Other Information

The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. The Responsible Financial Officer is responsible for the other information contained within the annual report. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon.

My responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Opinion on other matters

In my opinion, based on the work undertaken in the course of my audit:

- the information contained in the Narrative Report for the financial year for which the financial statements are prepared is consistent with the financial statements and is in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022-23;

- The information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and is in accordance with guidance.

Matters on which I report by exception

In the light of the knowledge and understanding of the City & County of Swansea and the Group and its environment obtained in the course of the audit, I have not identified material misstatements in the Narrative Report or the Annual Governance Statement.

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

- I have not received all the information and explanations I require for my audit;
- adequate accounting records have not been kept, or returns adequate for my audit have not been received from branches not visited by my team; or
- the financial statements are not in agreement with the accounting records and returns.

Responsibilities of the responsible financial officer for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 20, the responsible financial officer is responsible for:

- the preparation of the statement of accounts and the Group financial statements, which give a true and fair view and comply with proper practices;
- maintaining proper accounting records;
- internal controls as the responsible financial officer determines is necessary to enable the preparation of statements of accounts that are free from material misstatement, whether due to fraud or error;
- assessing the City & County of Swansea and the Group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the responsible financial officer anticipates that the services provided by the City & County of Swansea and the Group will not continue to be provided in the future.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit the financial statements in accordance with the Public Audit (Wales) Act 2004.

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to

issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

My procedures included the following:

- Enquiring of management, the City & County of Swansea's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the City & County of Swansea and the Group's policies and procedures concerned with:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- Considering as an audit team how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the following areas: revenue recognition, expenditure recognition, and posting of unusual journals.
- Obtaining an understanding of the City & County of Swansea and the Group's framework of authority as well as other legal and regulatory frameworks that the City & County of Swansea and the Group operate in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the City & County of Swansea and the Group.
- Obtaining an understanding of related party relationships.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Governance and Audit Committee and legal advisors about actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance; and

- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

I also communicated relevant identified laws and regulations and potential fraud risks to all audit team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the City & County of Swansea and the Group's controls, and the nature, timing and extent of the audit procedures performed.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other auditor's responsibilities

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Certificate of completion of audit

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

Adrian Crompton
Auditor General for Wales
25 March 2024

1 Capital Quarter
Tyndall Street
Cardiff
CF10 4BZ

Appendix 3

Summary of Corrections Made

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.

Exhibit 2: summary of corrections made

Value of correction	Nature of correction	Reason for correction
£15.0m	<p>Balance Sheet Provisions (Note 21) Contingent Liabilities (Note 36)</p> <p>Our audit work concluded that the Contingent Liability for Employee Benefit originally disclosed within Note 36 should be re-classified as a provision within Note 21. The provision has been funded from Reserves and hence an amendment has been made to Note 10.</p>	<p>To ensure the correct accounting and disclosure of the provision in accordance with IAS37 Provisions.</p>
£39.0m	<p>CIES Balance Sheet Property, Plant & Equipment (Note 14)</p> <p>An obsolescence factor was not applied to external works and fees in the valuation of the council's schools. This resulted in schools being over-valued by £39m. The corrections decrease the net book value of the schools by £39m. The impact on the CIES was an</p>	<p>To ensure the correct valuation of schools in accordance with RICS guidance and the CIPFA Code.</p>

	<p>additional charge of £3.8m, with a decrease to the Revaluation Reserve of £35.2m.</p>	
£1.1m	<p>Balance Sheet Property, Plant & Equipment (Note 14) An additional exercise was completed by the Council post draft accounts to assess the carrying value of assets not included in the annual valuation, to reflect their current value. This resulted in a net decrease of £1.1m to the net book value of PPE comprising of: £14.0m increase to Council Dwellings; £1.7m increase to Surplus Assets; and £16.8m decrease to Other Land and Buildings.</p> <p>This valuation movement also impacted the Revaluation Reserve and Capital Adjustment Account disclosures within Note 22.</p>	<p>To ensure the carrying value of PPE assets are not materially misstated.</p>
£2.7m	<p>Balance Sheet Property, Plant & Equipment (Note 14) Our sample testing of Assets Under Construction identified a surplus asset, hence a reclassification amendment was actioned on the Balance Sheet, PPE Note 14 and Note 32 Capital Expenditure and Financing.</p>	<p>To correctly classify the asset as Surplus.</p>

<p>£634,000</p>	<p>Balance Sheet Financial Instruments (Note 17) Short Term debtors (Note 18) Our audit testing identified a misclassification overstating Short Term Debtors in Note 18 by £634,000. This is now correctly reflected as a Long-Term Debtor within Note 17.</p>	<p>To correctly classify the debtor as long term.</p>
<p>£271m (Disclosure only no overall effect on the primary statements)</p>	<p>Property, Plant & Equipment (Note 14) The Council has now included the net book value disclosures required for infrastructure assets in Note 14 to comply with the and the 2022 amendments to the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003.</p>	<p>To ensure the completeness of the disclosures made in accordance with the CIPFA Code.</p>
<p>£23.6m (Disclosure only no overall effect on the primary statements)</p>	<p>Capital Commitments (Note 14) Our audit testing identified that Capital Commitments were understated by £23.6m due the omission of costs committed as at 31 March 2023.</p>	<p>To ensure accuracy of the capital commitments disclosures made.</p>
<p>Various (Disclosure only no overall effect on the primary statements)</p>	<p>Defined Benefit Pension Schemes (Note 35) Amendment to the disclosure for the Local Government Pension Scheme Assets has been made to correctly reflect</p>	<p>To ensure accuracy of the pension disclosures made.</p>

	the Council's share of the Assets from the City & County of Swansea Pension Fund.	
Various (Disclosure only no overall effect on the primary statements)	Related Parties (Note 29) Amendments were made to the related parties disclosures to ensure completeness and accuracy of the note.	To ensure accuracy and completeness of the disclosures made.
Various (Disclosure only no overall effect on the primary statements)	A number of minor amendments were made to the financial statements relating to either revisions to disclosures of information or narrative changes.	To ensure accuracy of the financial statements and completeness of the disclosures made in accordance with the CIPFA Code.



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We welcome correspondence and telephone calls in Welsh and English.
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