



2015 Audit Plan

City and County of Swansea

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2015 Audit Plan

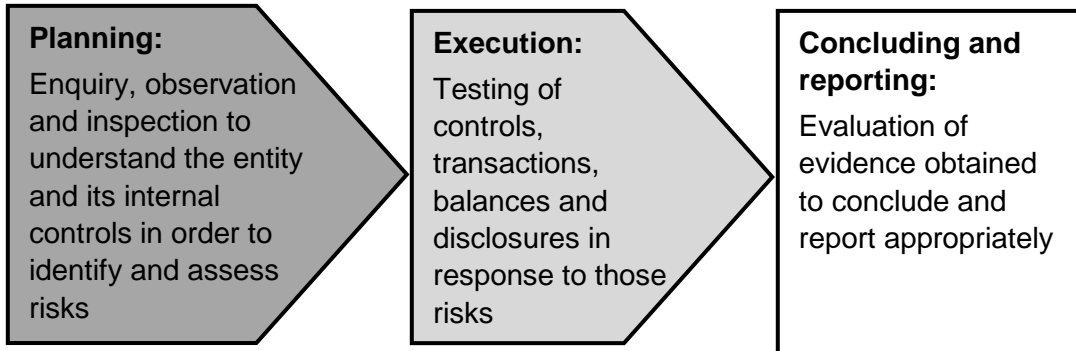
Summary

1. As your external auditor, my objective is to carry out an audit which discharges my statutory duties as Auditor General and fulfils my obligations under the Public Audit (Wales) Act 2004, the Local Government (Wales) Measure 2009 (the Measure), the Local Government Act 1999, and the Code of Audit Practice, namely to:
 - examine and certify whether your financial statements are ‘true and fair’;
 - assess whether you have made proper arrangements for securing economy, efficiency and effectiveness in the use of resources;
 - audit and assess whether you have discharged duties and met requirements of the Measure; and
 - undertake studies to enable me to make recommendations for improving economy, efficiency and effectiveness or for improving financial or other management arrangements.
2. The purpose of this plan is to set out my proposed work, when it will be undertaken, how much it will cost and who will undertake it.
3. There have been no limitations imposed on me in planning the scope of this audit.
4. My responsibilities, along with those of management and those charged with governance, are set out in [Appendix 1](#).

Financial audit

5. It is my responsibility to issue a certificate and report on the financial statements which includes an opinion on their ‘truth and fairness’.
6. I also consider whether or not City and County of Swansea has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and report by exception if the Annual Governance Statement does not comply with requirements.
7. [Appendix 1](#) sets out my responsibilities in full.
8. The audit work I undertake to fulfil my responsibilities responds to my assessment of risks. This understanding allows me to develop an audit approach which focuses on addressing specific risks whilst providing assurance for the financial statements as a whole. My audit approach consists of three phases as set out in [Exhibit 1](#).

Exhibit 1: My audit approach



9. The risks of material misstatement which I consider to be either significant or elevated, which therefore require special audit consideration, are set out in **Exhibit 2**, along with the work I intend to undertake to address them.

Exhibit 2: Financial audit risks

Significant audit risks	Proposed audit response
<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>My audit team will:</p> <ul style="list-style-type: none"> • test the appropriateness of a sample of journal entries and other adjustments made in preparing the financial statements; • review accounting estimates for evidence of bias; • evaluate the rationale for any significant transactions outside the normal course of business; and • incorporate an element of “unpredictable” audit work, which varies each year.
<p>There is a risk of material misstatement due to fraud in income and non-pay expenditure recognition and as such is treated as a significant risk (ISA 240.26-27).</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • test the appropriateness of a sample of journals processed to income and non-pay expenditure ledger codes during the year; • review the application of relevant accounting policies to ensure that they are in compliance with accounting standards; and • perform substantive procedures on a sample basis to ensure that income and non-pay expenditure has been appropriately accounted for in the correct period.

Elevated audit risks	Proposed audit response
<p>Valuation of property, plant and equipment (PPE) and investment property</p> <p>The Council is required to ensure that for PPE and Investment Property assets held on the Balance Sheet the carrying amount is not materially different from the fair value of these assets at the year-end. This valuation process and the underlying assumptions adopted are subject to a number of judgements and as such an elevated risk has been assessed.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> consider the appropriateness of the Council's proposed approach to the valuation of PPE and Investment Properties; and test the valuation of such assets on a sample basis using internal valuation specialists as appropriate.
<p>Completeness and valuation of the provision for equal pay and job evaluation</p> <p>The Single Status Agreement committed authorities to undertake equal pay reviews and to introduce non-discriminatory pay structures, addressing the fact that local government employees were often employed on differing terms and conditions.</p> <p>The Council has settled a number of equal pay claims to date and has undertaken a significant amount of work to develop a model to support the calculation of its provision for Equal Pay and Job Evaluation.</p> <p>The calculation of this provision is subject to a number of judgements and as such an elevated risk has been assessed.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> review the status of the equal pay and job evaluation exercise with officers and consider whether the proposed accounting treatment is appropriate; consider the continued appropriateness of the methodology used to derive the overall estimate and the reasonableness of the assumptions therein; perform sample testing on individual cases; and to the extent that the provision has been utilised after the year end, compare the payments made to the amounts provided in the accounts.

10. I do not seek to obtain absolute assurance on the truth and fairness of the financial statements and related notes, but adopt a concept of materiality. My aim is to identify material misstatements, that is, those that might result in a reader of the accounts being misled. The level of overall materiality has been determined to be based on one per cent of total expenditure. The levels at which I judge individual misstatements to be material will be reported to the Audit Committee prior to completion of the audit.
11. For reporting purposes, I will treat any misstatements below a 'trivial' level (the lower of five per cent of materiality or £100,000) as not requiring consideration by those charged with governance and, therefore, I will not report them.
12. My fees are based on the following assumptions:
 - information provided to support the financial statements is timely, to the quality expected and has been subject to quality assurance review; and
 - you have all the necessary controls and checks in place to enable the Responsible Financial Officer to provide all the assurances that I require in the Letter of Representation addressed to me.
13. In addition to my responsibilities in respect of the audit of City and County of Swansea's statutory financial statements set out above, I am also required to certify a

return to the Welsh Government which provides information about City and County of Swansea to support preparation of Whole of Government Accounts.

14. I am also responsible for the audit of the City and County of Swansea’s pension fund accounts, for which a separate audit plan has been issued.

Risk of fraud

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

Auditors' responsibility	Management's responsibility	Responsibility of those charged with governance
<p>My objectives are to:</p> <ul style="list-style-type: none"> • identify and assess the risks of material misstatement of the financial statements due to fraud; • obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and • respond appropriately to fraud or suspected fraud identified during the audit. 	<p>Management's responsibilities in relation to fraud are to:</p> <ul style="list-style-type: none"> • design and implement programmes and controls to prevent, deter and detect fraud; • ensure that the entity's culture and environment promote ethical behaviour; and • perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation. 	<p>Your responsibility as part of your governance role is to:</p> <ul style="list-style-type: none"> • evaluate management's identification of fraud risk, implementation of antifraud measures and creation of appropriate 'tone at the top'; and • ensure any alleged or suspected instances of fraud brought to your attention are investigated appropriately.

16. We enquire of those charged with governance:
- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
 - What fraud detection or prevention measures (eg whistleblower lines) are in place in the entity?
 - What role you have in relation to fraud?
 - What protocols/procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?

Performance audit

17. I am required by the Measure to carry out an improvement assessment for each improvement authority every year, to determine whether the authority is likely to comply with requirements to make arrangements to secure continuous improvement. I must also carry out audits of whether the authority has discharged its duties under the Measure. My improvement assessment work, combined with my work on financial matters, also discharges my responsibility to satisfy myself that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
18. I am also required under the Measure to undertake a corporate assessment at each improvement authority. Since 2013-14, I have undertaken this programme of corporate assessments on a cyclical basis. I undertook such an assessment of the City and County of Swansea during 2014-15 and anticipate publishing my report by June 2015.
19. I set out in this section the 12-month programme of performance audit work to be undertaken at City and County of Swansea. The content of the programme has been determined by a consideration of the risks and challenges facing City and County of Swansea, the extent of accumulated audit and inspection knowledge, including that of other external review bodies, as well as other available sources of information including City and County of Swansea's own mechanisms for review and evaluation.
20. The components of my performance audit work are shown in [Exhibit 4](#) and have been designed in order to help deliver the high-level objectives set out in our 2013-2016 corporate strategy (www.wao.gov.uk/publication/wales-audit-office-corporate-strategy-2013-2016).

Exhibit 4: Components of my performance audit work



21. The performance work I propose to undertake is summarised in [Exhibit 5](#).

Exhibit 5: Contents of my 2015-16 performance audit work programme

	Specific projects
Improvement audit and assessment	<p>‘Improvement plan’ audit Audit of discharge of duty to publish an improvement plan.</p> <p>‘Assessment of performance’ audit Audit of discharge of duty to publish an assessment of performance.</p> <p>Financial management review Further work on financial management arrangements following up our 2014-15 review, and looking forward to 2016-17 budget setting and savings proposals. There will also be a focus on reserves position, policy and use of reserves.</p> <p>Governance review Details to be agreed following publication of my Corporate Assessment report.</p> <p>Performance management review Details to be agreed following publication of my Corporate Assessment report.</p> <p>Locally determined review(s) Details to be agreed following publication of my Corporate Assessment report.</p>
Follow-up work	Details to be agreed following publication of my Corporate Assessment report.
Local government studies	<p>The strategic approach of councils to income generation and charging for services.</p> <p>Council funding of third-sector services.</p> <p>The effectiveness of local community safety partnerships.</p>
Good practice	In line with the my commitment to identify and share good practice, I will continue to host shared learning seminars, identify relevant case studies and focus my work on identifying and promoting effective practice.

Fee, audit team and timetable

Fee

22. Your estimated fee for 2015 is set out in [Exhibit 6](#).

Exhibit 6: Audit fee

Audit area	Proposed fee (£) ¹	Actual fee last year (£)
Financial audit work ¹	262,000	262,000
Performance audit work: ²	104,188	107,550
Grant certification work (estimate) ³	100,565	106,615
Total fee	466,753	476,165

Notes:

¹ Payable November 2014 to October 2015.

² Payable April 2015 to March 2016.

³ Payable as work is undertaken.

23. Planning will be ongoing, and changes to my programme of audit work and therefore my fee, may be required if any key new risks emerge. I shall make no changes without first discussing them with City and County of Swansea.
24. The grant claim certification programme for 2013/14 is substantially complete with two claims currently being finalised (both received February 2015). I expect to provide you with a report summarising my key findings in the near future. In order to provide an indication of the likely cost of grant certification work, I have assumed that I will be required to provide certificates on a similar number of claims for 2015/16.
25. Further information on my fee scales and fee setting can be found on the Wales Audit Office website at: www.wao.gov.uk/about-us/fee-scales-and-fee-setting.

Audit team

26. The main members of my team, together with their contact details, are summarised in [Exhibit 7](#).

Exhibit 7: My team

Name	Role	Contact number	E-mail address
John Herniman	Engagement Director	029 2032 0500	John.herniman@wao.gov.uk
Jane Holownia	Engagement Lead – Performance Audit	029 2032 0500	Jane.holownia@wao.co.uk
Steve Barry	Performance Audit Manager	07786 190210	Steve.barry@wao.co.uk

¹ The fees shown in this document are exclusive of VAT, which is no longer charged to you.

Name	Role	Contact number	E-mail address
Samantha Spruce	Performance Assessment Lead	07879 848672	Samantha.spruce@wao.gov.uk
Kevin Williams	Engagement Leader – Financial Audit	029 2080 2161	kevin.a.williams@uk.pwc.com
Rebecca Nelson	Engagement Manager – Financial audit	029 2080 2692	rebecca.l.nelson@uk.pwc.com
Felicity Quance	Grant Manager	029 2080 2233	felicity.quance@uk.pwc.com
Darragh Hanley-Crofts	Financial Audit Manager – Financial Audit	07715 211 476	darragh.e.hanley-crofts@uk.pwc.com
Ellie Allchurch	Financial Audit Team Leader – Financial Audit	07917 154 380	eleanor.k.allchurch@uk.pwc.com

Independence

27. I can confirm that my team members are all independent of City and County of Swansea and your officers. In addition, I am not aware of any potential conflicts of interest that I need to bring to your attention.
28. At the beginning of the audit process my audit team is required to assess their independence as your external auditor. I have made enquiries of all audit teams providing services to you and I have set out below the relationships that, in my professional judgement, may be perceived to impact upon my independence and the objectivity of my audit team, together with the related safeguards.

Services provided	Fee (estimate)	Threats to independence and safeguards in place
Certification of grant claims and returns	TBC	<p>Self-Review Threat: my audit team will conduct the grant certification. There is no self-review threat as the audit team are certifying management completed grant returns and claims.</p> <p>Self-Interest Threat: my audit team has no financial or other interest in the results of the Council. I have concluded that this work does not pose a self-interest threat.</p> <p>Management Threat: my audit team is not required to take any decisions on behalf of management as part of this work.</p> <p>Advocacy Threat: I will not be acting for, or alongside, management and I have therefore concluded that this work does not pose an advocacy threat.</p> <p>Familiarity Threat: Work complements my audit team's</p>

Services provided	Fee (estimate)	Threats to independence and safeguards in place
		external audit appointment and does not present a familiarity threat.

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

Timetable

31. I will provide reports, or other outputs as agreed, to City and County of Swansea covering the areas of work identified in this document. My key milestones are set out in [Exhibit 8](#).

Exhibit 8: Timetable

Planned output	Work undertaken	Report finalised
2015 Audit Plan	March 2015	April 2015
Financial accounts work: <ul style="list-style-type: none"> Audit of Financial Statements Report Opinion on Financial Statements Financial Accounts Memorandum 	July – September 2015	September 2015
Performance work: <ul style="list-style-type: none"> Improvement plan audit Assessment of performance audit Financial management review Governance review Performance management review 	June 2015 November 2015 October 2015 September 2015 October 2015	Estimated* June 2015 November 2015 December 2015 November 2015 December 2015
Annual Improvement Report	June – December 2015	March 2016
Annual Audit Letter 2014	October 2014	November 2014

* Subject to timely clearance of draft findings with City and County of Swansea.

Appendix 1

Respective responsibilities

Financial audit

As amended by the Public Audit (Wales) Act 2013, the Public Audit (Wales) Act 2004 sets out my powers and duties to undertake your financial audit. It is my responsibility to issue a certificate and report on the financial statements, which includes an opinion on:

- Their 'truth and fairness', providing assurance that they:
 - are free from material misstatement, whether caused by fraud or error;
 - comply with the statutory and other applicable requirements; and
 - comply with all relevant requirements for accounting presentation and disclosure.
- The consistency of information in the Annual Report with the financial statements.

I must also state by exception if the Annual Governance Statement does not comply with requirements, if proper accounting records have not been kept, if disclosures required for remuneration and other transactions have not been made or if I have not received all the information and explanations I require.

The Public Audit (Wales) Act 2004 requires me to assess whether City and County of Swansea has made proper arrangements for securing economy, efficiency and effectiveness in the use of resources. To achieve this, I consider:

- the results of the audit work undertaken on the financial statements;
- City and County of Swansea's system of internal control, as reported in the Annual Governance Statement and my report thereon;
- the results of other work carried out including work carried out under the Local Government (Wales) Measure 2009 (the Measure), certification of claims and returns, and data-matching exercises;
- the results of the work of other external review bodies where relevant to my responsibilities; and
- any other work that addresses matters not covered by the above, and which I consider necessary to discharge my responsibilities.

The Public Audit (Wales) Act 2004 sets out the rights of the public and electors to inspect City and County of Swansea's financial statements and related documents, to ask me, as the Appointed Auditor questions about the accounts and, where appropriate, to challenge items in the accounts. I must also consider whether in the public interest, I should make a report on any matter which comes to my notice in the course of the audit.

My audit work does not relieve management and those charged with governance of their responsibilities which include:

- the preparation of the financial statements and Annual Report in accordance with applicable accounting standards and guidance;
- the keeping of proper accounting records;
- ensuring the regularity of financial transactions; and

-
- securing value for money in the use of resources.

Management agrees to provide me with:

- access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- additional information that I may request from management for the purpose of the audit; and
- unrestricted access to persons within City and County of Swansea from whom I determine it necessary to obtain audit evidence.

Management will need to provide me with written representations to confirm:

- that it has fulfilled its responsibilities for the preparation of the financial statements;
- that all transactions have been recorded and are reflected in the financial statements;
- the completeness of the information provided to me for the purposes of the audit; and
- to support other audit evidence relevant to the financial statements or specific assertions in the financial statements if I deem it necessary or if required by ISAs.

Performance audit

The Measure places a general duty on improvement authorities to 'make arrangements to secure continuous improvement in the exercise of [their] functions'. It also places specific requirements on authorities to set improvement objectives, and to publish annual improvement plans and assessments of performance. Improvement authorities are defined as county and county borough councils, national park authorities, and fire and rescue authorities.

The Measure also requires me to carry out an improvement assessment for each improvement authority every year, to determine whether the authority is likely to comply with its general duty and requirements of the Measure. The Auditor General must also carry out an audit of whether the authority has discharged its improvement planning and reporting duties.

The Auditor General may also in some circumstances carry out special inspections (under section 21), in respect of which he will provide a report to the relevant authorities and Ministers, and which he may publish (under section 22). The Auditor General will summarise audit and assessment reports in his published Annual Improvement Report (under section 24). This will also summarise any reports of special inspections.

Electronic communication

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

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

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

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

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

Quality arrangements

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

If you are not satisfied with the way your complaint has been dealt with, you can contact the Complaints Investigation Manager at the Wales Audit Office by phone on 029 2032 0500, or by email at complaints@wao.gov.uk. Further details about the complaints process are available at www.wao.gov.uk/complaints

Appendix 2

National value-for-money studies

City and County of Swansea may also be interested in the national value-for-money examinations which I undertake, some of which will be of particular relevance to, and may involve evidence gathering across, local government. These studies are funded by the National Assembly and are presented to the National Assembly's Public Accounts Committee to support its scrutiny of public expenditure.

The table below covers all of the value-for-money studies work currently programmed, although some of this work is still at an early stage of development. The programme includes all-Wales summaries of audit work undertaken locally in the NHS and reactive examinations into specific issues of public concern that have been raised with me. I will shortly be considering and consulting on potential topic areas for future value-for-money studies to start, and potentially in some cases to be reported, in 2015-16.

Further updates on my programme of value-for-money studies will be provided to you within the regular progress reports prepared by my team.

Topic	Anticipated publication timeframe
GP prescribing	April to June 2015
Welsh Government investment in next generation broadband infrastructure	April to June 2015
Regional education consortia	April to June 2015
Welsh Government acquisition of Cardiff Airport	April to June 2015
Rail services	April to June 2015
Orthopaedic services	April to June 2015
NHS clinical coding	Summer 2015
NHS waiting lists and private practice	Summer 2015
Picture of public services	Autumn 2015
Development of Natural Resources Wales	Autumn 2015
Regeneration Investment Fund for Wales ²	To be confirmed
Wales Life Sciences Investment Fund ³	To be confirmed
Flood and erosion risk management (likely to focus on coastal flooding)	To be confirmed

² While in clearance, the timescale for publication is uncertain for reasons specific to the project.

³ While in clearance, the timescale for publication is uncertain for reasons specific to the project.

Topic	Anticipated publication timeframe
Early intervention and public behaviour change ⁴	To be confirmed
Welsh Government interventions in local government ⁵	To be confirmed
Welsh Government responses to audit recommendations	To be confirmed
Public procurement and the National Procurement Service	To be confirmed

⁴ In the short-term, development of a new picture of public services report will take priority over this work. However, the picture of public services report is likely to reflect on these themes in some way. Wales Audit Office staff will also be exploring opportunities to take forward work in this area as part of our good practice exchange programme.

⁵ Plans for this work are being revisited in light of the Welsh Government commissioned review of the Anglesey intervention by the Public Policy Institute for Wales and to take into account any wider implications arising from the local government reform programme.

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