



Audit of Financial Statements Progress Report

City and County of Swansea

Audit year: 2014-15

Issued: August 2015

Purpose of this document

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Introduction

1. The purpose of this report is to provide an update to Audit Committee on the progress of the audit of the financial statements of City and County of Swansea, for 2014-15.
2. The Auditor General's responsibilities were set out in our audit plan along with your responsibilities as those charged with governance; we do not repeat them in detail again here.
3. 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 City and County of Swansea at 31 March 2015 and its income and expenditure for the year then ended.
4. We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might result in a reader of the accounts being misled.
5. The quantitative levels at which we judge such misstatements to be material for City and County of Swansea are £6,381k. 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.

Status of the audit

6. We received the draft financial statements for the year ended 31 March 2015 on 30 June 2015 and have now completed a significant amount of audit work.
7. It is expected that our audit will be completed by 17 September 2015, when we will present our audit findings and management report to Cabinet in advance of the approval of the financial statements by Council on 24 September 2015.
8. The below table details the audit work completed in relation to the significant and elevated audit risks as detailed within the 2015 audit plan.

Significant audit risks	Proposed audit response
The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].	<p>My audit team have:</p> <ul style="list-style-type: none">• Selected an initial sample of journal entries and other adjustments made in preparing the financial statements;• Performed detailed testing on this sample, tracing the journal to appropriate supporting documentation to verify that the journal entry is appropriate;• Identified the accounting estimates included in the financial statements;• Commenced an assessment of these accounting estimates for appropriateness and an indication of bias.

	To date, we have no matters to communicate to you with regard to this work.
<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 have:</p> <ul style="list-style-type: none"> • Selected an initial sample of transactions recognised within income and non-pay expenditure in order to verify that such transactions have been appropriately accounted for in the correct period. • Commenced detailed testing of this sample; tracing each entry to invoice, bank statements or other supporting documentation as appropriate; • Reviewed the application of relevant accounting policies, ensuring that they are in compliance with accounting standards. <p>To date, we have no matters to communicate to you with regard to this work.</p>
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 have:</p> <ul style="list-style-type: none"> • Considered the appropriateness of the Council's proposed approach to the valuation of PPE and Investment Properties; and • Identified a sample of revalued assets for testing; • Traced significant inputs into valuation calculations to appropriate supporting documentation, such as floor plans. • Assessed a range of assumptions included within the valuation model for reasonableness, using internal valuation specialists. <p>To date, we have no matters to communicate to you with regard to the valuation of PPE and Investment Properties.</p> <p>We are currently finalising our work on the valuation of Council Dwellings. It is noted that the valuation was undertaken in September 2014 and therefore was based on the number of Council Dwellings maintained by the Council at this date rather than as at 31 March 2015. There are also a number of associated reconciling differences between the valuation model and the financial statements, which therefore impact upon the value of council dwellings reported.</p>

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

The Single Status Agreement committed authorities to undertake equal pay reviews and to introduce non-discriminatory pay structures, addressing the fact that local government employees were often employed on differing terms and conditions.

The Council has settled a number of equal pay claims to date and has undertaken a significant amount of work to develop a model to support the calculation of its provision for Equal Pay and Job Evaluation.

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

My audit team have:

- Discussed the current status of the provision for equal pay and job evaluation with the Head of Finance and Delivery.
- Formulated a proposed approach to testing the provision in order to ensure the continued appropriateness of the methodology used to derive the overall estimate and the reasonableness of the assumptions therein.

To date, we have no matters to communicate to you with regard to this work.

Key features of the financial statements

9. We have reviewed the draft financial statements and have set out below some of the key features identified.

Key feature	Commentary
Approach to the valuation of PPE for 2015	<p>The Council has completed a 100% valuation of operational land and buildings. In previous years the Council revalued all operational land and buildings over the course of a 5 year rolling programme, and completed an indexation exercise to ensure that the value of assets not revalued in any given year was properly considered. As a result our audit approach places more focus on substantively testing asset revaluations, rather than assessing the reasonableness of any indexation exercise.</p> <p>A discounted cash flow model continues to be used for the valuation of council dwellings, however it is noted that the Council intends to move towards a Beacon approach for 2015/16. This involves identifying a sample property as the "beacon", which is representative of a group of assets. The value of the beacon is then applied to the remainder of the properties with the group. The adoption of this approach may result in a significant movement in the value of council dwellings.</p>

Pension liability	The Councils net liability arising in respect of the local government pension scheme has increased by £85.39m. This is largely due to actuarial losses arising from changes in the assumptions used by the scheme actuary. These assumptions include mortality rates, salary levels and inflation rates, all of which contribute to the estimate of the pension liability that will be payable in future years. Our audit procedures will include an assessment of the reasonableness of such assumptions.
Movement in reserves	In the current environment where Councils are under pressure to make financial savings there is considerable stakeholder focus on the reserves available. The Council has a range of usable and unusable reserves and has also earmarks reserves for specific purposes. We review the entries for reasonableness and compliance with appropriate regulation.

Other issues arising from the audit

10. We will fully report to you all misstatements, other than those deemed to be clearly trivial, identified during our audit due to their relevance to your responsibilities over the financial reporting process in our audit findings and management report. We discuss misstatements with management as they arise, in order to confirm factual accuracy and the proposed accounting treatment. We are currently discussing a number of potential misstatements with management, and understand that a number of these will be corrected. We have not assessed these misstatements to be material either individual or in aggregate.

Independence and objectivity

11. As part of the audit process, we are required to provide you with representations concerning our independence.
12. 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 City and County of Swansea that we consider to bear on our objectivity and independence.

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