

Audit of Financial Statements Report

City and County of Swansea

Audit year: 2014/15

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Purpose of this document

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

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Status of report

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

Contents

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

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Summary report

Introduction

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

Status of the audit

7. We received the draft financial statements for the year ended 31 March 2015 on 30 June 2015, which was in line with our agreed timetable. We have now substantially completed the audit work. At the date of our presentation of this report the following were outstanding:
 - a. Detailed testing of employment provisions
 - b. Receipt of bank confirmations
 - c. Review of assets recognised as held for sale
 - d. Final review of pension disclosures
 - e. Testing of expenditure transactions funded by government grants
 - f. Review of payroll disclosures, specifically the pay multiple disclosure
 - g. Review of contingencies and commitments
 - h. Finalisation of the termination benefits note
 - i. Review of compliance with laws and regulations
 - j. Review and detailed testing of whole of government accounts
 - k. Finalisation of the audit report and accounts

8. We are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. The audit team has already discussed these issues with the Head of Finance and Delivery.

Proposed audit report

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

Significant issues arising from the audit

Uncorrected misstatements

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

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

Nature of Correction	Comprehensive Income and Expenditure		Balance Sheet		Movement in Reserves	
	Debit (£'000)	Credit (£'000)	Debit (£'000)	Credit (£'000)	Debit (£'000)	Credit (£'000)
Property, Plant and Equipment				1,137		
Revaluation Reserve					1,137	
Landfill provision						
The provision for the capping and aftercare of the Tir John landfill site, includes costs which do not meet the definition of a provision. We also noted that the costs of ongoing aftercare had not been discounted						
Provisions			851			
Property, Plant and Equipment				851		
The split between long and short term provisions should be in line with the estimated cash flows.						
Long term provision			1,451			
Short term provision				1,451		
Investment properties						
Our work on the valuation of investment properties identified that the floor area used in the valuation of one asset did not agree to underlying base data and floor plans.						
Investment property			705			
Income		705				
We have extrapolated this error over the remaining untested population						
Investment property			599			
Income		599				

Nature of Correction	Comprehensive Income and Expenditure		Balance Sheet		Movement in Reserves	
	Debit (£'000)	Credit (£'000)	Debit (£'000)	Credit (£'000)	Debit (£'000)	Credit (£'000)
The Council uses the beacon approach when valuing investment properties. Errors were noted when applying the value of the beacon property to the remaining properties in the archetype group.						
Investment property				459		
Income	459					
Accounts payable From our testing of accounts payable transactions we noted that amounts had been recorded which relate to 2015/16.						
Account payable			38			
Expenditure		38				
We have extrapolated this error over the remaining untested population.						
Accounts payable			1,369			
Expenditure		1,369				
Deferred revenue From our testing of deferred revenue we noted that some elements of a transaction were not recognised as a deferred revenue balance at the balance sheet date.						
Income	20					
Deferred revenue				20		
We have extrapolated this difference over the remaining untested deferred revenue balance						
Income	409					
Deferred revenue				409		

Nature of Correction	Comprehensive Income and Expenditure		Balance Sheet		Movement in Reserves	
	Debit (£'000)	Credit (£'000)	Debit (£'000)	Credit (£'000)	Debit (£'000)	Credit (£'000)
Financial instruments We noted a number of cash balance have been recognised as short term investments.						
Cash			400			
Short term investments				400		
Assets held for sale From our review of assets held for sale we noted a number of assets where there is a low likelihood of sale before 31 March 2016. As such these assets should be recognised as property, plant and equipment until the sale is highly probable.						
Property, plant and equipment			3,960			
Assets held for sale				3,960		
Total	888	2,711	10,716	8,687	1,137	1,343

Significant and elevated audit risks

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

Significant audit risks	Proposed audit response
The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].	<p>My audit team has:</p> <ul style="list-style-type: none"> Understood and evaluated internal control processes and procedures as part of our planning work; Performed detailed testing of a sample of journal entries and other adjustments made in the underlying records, tracing the journal to appropriate supporting documentation in order to verify that the journal entry is appropriate;

	<ul style="list-style-type: none"> • Identified and assessed the accounting estimates included in the financial statements for appropriateness and any indication of bias. Our work with regard to employee provisions is currently ongoing. • Our audit procedures also include an unpredictable element that varies year on year. <p>Based on the work completed to date, we have not identified any matters to report to you.</p>
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<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 has:</p> <ul style="list-style-type: none"> • Tested a sample of transactions recognised within income and non-pay expenditure in order to verify that such transactions have been appropriately accounted for in the correct period; • reviewed the relevant accounting policies to ensure that they are in compliance with accounting standards; <p>We have not identified any matters to report to you.</p>
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Elevated audit risks	Proposed audit response
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<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 has:</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 • Performed testing of a sample of revalued assets; • Traced significant inputs into valuation calculations to appropriate supporting documentation, such as floor plans. • Assessed a range of assumptions included within the valuation models for reasonableness, using internal valuation specialists. <p>As noted above, errors were identified relating to the valuation of investment properties and council dwellings. These errors relate to the use of incorrect base data in the valuation of investment properties. Additionally, errors were noted in the application of the beacon approach methodology applied to other properties.</p> <p>The valuation for Council Dwellings was undertaken as at September 2014 and was based on the number of Council Dwellings maintained by the Council at this date rather than as at 31 March 2015. There are also a</p>
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	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.</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 has:</p> <ul style="list-style-type: none"> Discussed the current status of the provision for equal pay and job evaluation with the Head of Finance and Delivery. Formulated an approach to testing the provision in order to ensure the continued appropriateness of the methodology used to derive the overall estimate and the reasonableness of the assumptions therein. <p>Our approach involves reviewing a sample of payments made during 2014/15 and 2015/15, in order to ensure the accuracy and validity of such payments. We will also review and test the detailed schedule of costs identified by management that have been included in the provision. This will involve an assessment of the assumptions and judgements made in the preparation of the provision.</p> <p>This remains outstanding, however based on the work completed to date we have no matters to report to you.</p>

Corrected misstatements

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

Other significant issues arising from the audit

14. In the course of the audit, we consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you. There were no significant issues arising in these areas this year:
- In our view the qualitative aspects of your accounting practices are generally robust, however these may require improvement in order to deal with future challenges.** We concluded that accounting policies and estimates are generally appropriate and financial statement disclosures unbiased, fair and clear. However, there are a number of opportunities to improve your accounting practices in order to be better prepared to deal with future challenges.

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- **We did not encounter any significant difficulties during the audit.** We received information in a timely and helpful manner and were not restricted in our work.
 - **There were no significant matters discussed and corresponded upon with management which we need to report to you.**
 - **There are no other matters significant to the oversight of the financial reporting process that we need to report to you.**
 - **We did not identify any material weaknesses in your internal controls that we have not reported to you already.**
 - **There are not any other matters specifically required by auditing standards to be communicated to those charged with governance.**

Risk of Fraud

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

Your responsibility as part of your governance role is:

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

Recommendations arising from our 2014/15 financial audit work

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

Independence and objectivity

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

Appendix 1

Draft Letter of Representation

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

24 September 2015

Representations regarding the 2014/15 financial statements

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

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

Management representations

Responsibilities

We have fulfilled our responsibilities for:

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

Information provided

We have provided you with:

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

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

Financial statement representations

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

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

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

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

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

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

Representations by those charged with governance

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

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

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

Signed by:

Mike Hawes, Head of Finance and Delivery

Signed by:

Rob Stewart, Leading Member

Date:

Date:



Appendix 2

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

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

I have audited the accounting statements and related notes of:

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

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

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

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

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

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

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

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

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

Scope of the audit of the accounting statements

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

the responsible financial officer and the overall presentation of the accounting statements and related notes.

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

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

In my opinion the accounting statements and related notes:

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

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

In my opinion the accounting statements and related notes:

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

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

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

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

Opinion on other matters

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

Matters on which I report by exception

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

- adequate accounting records have not been kept;
- the accounting statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit;

-
- the Annual Governance Statement contains material misstatements of fact or is inconsistent with other information I am aware of from my audit.

Certificate of completion of audit

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

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

Appendix 3

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

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

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

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