

Report of Deficiencies in Internal Controls

City and County of Swansea

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The team who delivered the work comprised Kevin Williams, Engagement Leader and Darragh E Hanley-Crofts, Engagement Manager of PricewaterhouseCoopers LLP.

Contents

As part of the 2014-15 audit, internal control deficiencies have been identified which merit reporting to Audit Committee.

Summary report

Introduction	4
No significant deficiencies in internal control have been identified, however recommendation have been raised for the Authority in order to further improve its control environment	4
The authority has made progress in enhancing its control environment and implementing recommendations raised last year	4
Acknowledgments	6

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 City and County of Swansea (“the Authority”) at 31 March 2015 and its income and expenditure for the year then ended. An unqualified opinion was issued by the Auditor General on 28 September 2015.
2. The Auditor General is required to obtain an understanding of the internal controls relevant to the audit when identifying and assessing the risks of material misstatement. The Authority’s internal controls were considered in order to design audit procedures, to provide sufficient assurance to allow the Auditor General to express an opinion on the truth and fairness of the financial statements. They were not considered for the purposes of expressing an opinion on the effectiveness of internal control.

No significant deficiencies in internal control have been identified, however recommendations have been raised in order for the Authority to further improve its control environment.

3. This work has identified 10 new opportunities to improve the Authority’s internal controls. The matters covered in this report are limited to those which, in the Auditor General’s opinion, are of sufficient importance to merit reporting to you in the context of your governance role. None of these matters are deemed to be of significant risk. These issues have already been discussed with the Head of Finance and Delivery.

The qualitative aspects of the Authority’s accounting practices are generally robust, however these may require improvement in order to deal with future challenges.

4. We have also followed up the recommendations raised in the prior year controls report, issued in November 2014. We have found that 12 of the 19 recommendations raised in the prior year have been implemented or are no longer applicable. None of the outstanding recommendations are deemed to be of significant risk.
5. The matters identified are set out in the table below.

System	No of recommendations in prior year	Implemented*	Not fully implemented	New recommendations	Total
General Ledger	1	1	0	0	0
Remuneration report and payroll	0	0	0	1	1
Capital accounting	8	5	3	6	9
Liabilities	2	1	1	1	2
Related party transactions	1	0	1	1	2
Financial Instruments	1	0	1	0	1
Treasury and cash management	2	2	0	1	2
Creditors and payments	1	1	0	0	0
Debtors and income	2	1	1	0	1
Internal Audit	1	1	0	0	0
Total	19	11	8	10	18

*This includes recommendations that are deemed to have been superseded or no longer applicable

6. Our report seeks to inform management of the matters arising from our review of the arrangements in place, and our recommendations for action. It is not intended to provide a complete overview of the financial systems and procedures of the Authority.

Acknowledgements

7. We would like to thank all staff involved for the co-operation and assistance provided to us during the course of our audit work.

Summary report

New recommendations

No	Observation	Implication	Recommendation	Management response
Remuneration report and payroll				
1	Payroll disclosures, such as termination benefit and pay multiple disclosures, are compiled using various system generated reports. Our testing of the disclosures identified that some elements of payroll data were incorrectly excluded from these reports. Additionally, a number of manual working papers are produced in order to compile the disclosures.	As a result of inaccurate reports and reliance on manual working papers there is an increased risk that payroll disclosures are neither complete nor accurate.	The process for compiling such disclosures should be reviewed and controls enhanced to ensure that system generated reports are accurate. Procedure in place should include a robust internal review process to maximise the chance that errors are identified.	New fields have been created in Oracle and a report has been developed to ensure we are able to produce the required information in an accurate and timely manner for future Audits. This is currently in the testing phase.
Capital accounting				
2	The number of assets and heritage assets held are disclosed in an "asset structure" note in the accounts. These numbers were determined prior to the year end and no procedures were subsequently performed to identify movements that took place before the balance	The number of assets disclosed may be incorrect as a result of a failure to recognise transactions occurring during the latter part of the year.	All acquisition and disposal transactions completed prior to the balance sheet date should be reflected within the financial statements and, therefore, work completed in advance of the reporting date should be flagged for review and updating.	Process has been revised for 2015/16 – actual outturn to be completed at year end.

No	Observation	Implication	Recommendation	Management response
	sheet date.			
3	The assets held for sale disclosure in the draft accounts included a number of assets that did not meet the accounting definition of assets held for sale eg unlikely that the sale of such assets would occur within 12 months of the balance sheet date.	A potential for assets to be inappropriately classified and consequently inappropriately valued.	All assets held for sale should be reviewed for full compliance with the classification criteria in order to confirm that the classification is appropriate.	Assets are reclassified during the financial year. Time constraints do not permit decisions to be reviewed as at 31 st March but they will be reviewed before the final draft is signed.
4	During the year the Authority received a grant for vibrant and viable places, which was accounted for as income within the draft accounts. The terms and conditions of the grant specify that the grant was to be applied to spend in future years and, therefore, confirmed that it was inappropriate to recognise the income in 2014/15.	The grant was incorrectly accounted for.	The terms and conditions of capital grants should be carefully reviewed to ensure that the correct accounting treatment is adopted.	The VVP grant was unique as WG paid the grant with the intention for it to be loaned to a third party social housing group for a year with repayment back to CCS in April 2016 to use on capital regeneration schemes in 2016-17. CCS' interpretation of the grant T&Cs was that the grant was income in the year which had been spent in 2014-15 and should be reflected as income, however the auditor's opinion was accepted and the grant was removed from income. Capital grant T&Cs will continue to be reviewed carefully to ensure the correct accounting treatment is used.

No	Observation	Implication	Recommendation	Management response
5	The number of council dwellings recorded in the fixed asset register had not been reconciled to the number of council dwellings included in the valuation model produced by the Council's in-house valuers.	The valuation of council dwellings may be misstated as it is not based on the actual number of council dwellings maintained by the Authority.	An exercise should be undertaken to reconcile the fixed asset register and the valuation model to reliable source data to ensure that the integrity of the records is maintained.	Agreed. An exercise is being undertaken in 2015/16 as all council dwellings are being revalued.
6	Capital working papers prepared by the Council for 2014/15, specifically regarding the Capital Finance Requirement and the Minimum Revenue Provision include an opening balance which differs to the figures included in the statement of account.	Unless resolved these differences could result to incorrect capital entries being recorded	All opening differences should be investigated and resolved during the current year.	Agreed – however the difference identified had an immaterial effect on the resultant CFR/MRP and erred on the side of prudence
7	The Beacon approach to valuing assets is used when valuing investment properties. This involves applying the movement in the value of a representative asset to other similar assets. Our testing identified an error in the application of the valuation movement for one asset. Additionally, for one item tested, there was limited documentation to support an assumption made regarding the asset's development potential	The inaccurate application of the Beacon valuation methodology may result in the misstatement of investment properties.	Controls should be enhanced to ensure the accurate application of the Beacon valuation methodology, to include the introduction of a robust review process.	Agreed

No	Observation	Implication	Recommendation	Management response
Financial Liabilities				
8	The financial model used to calculate the provision relating to the capping and aftercare of the Tir John landfill site has rolled forward from the previous year and has not been revisited. As a result, the errors identified in 2013/14 were repeated in 2014/15. Additionally, no discounting has been applied in the calculations and the split between long and short term provisions has not been accurately determined.	The provision determined does not represent a best estimate of the cost that will be incurred and the resulting disclosures are inaccurate.	The model used to calculate the provision should be revisited on an annual basis to confirm ongoing validity and/or amend for known or expected variations that may have become apparent. The model should include discounting and an appropriate split between long and short term provisions should be determined.	A revised business plan was prepared by the waste team in November 2014 and the resulting revised provision was included in the accounts. This will be reviewed as part of the 2015/16 accounts preparation
Treasury and cash management				
9	We noted that a reconciliation had not been performed for one school bank balance. The school closed in July 2012, however, the bank account remained open. Additionally, historical differences were noted on school bank reconciliations, which have yet to be fully investigated.	Timely reconciliation of bank accounts is a key control in the detection of fraud.	The unreconciled account should be reconciled and closed if no longer required. Historical differences should be investigated and fully resolved where appropriate.	Steps have been taken to transfer these monies to the Councils current bankers although the account has always been held under the name of CCS and has never been at risk.. Historical variances will be investigated further at 2015/16 closure and resolved at that point but are expected to be minimal.

No	Observation	Implication	Recommendation	Management response
Related parties				
10	Members and senior officers are required to complete declaration of interest returns. For some individuals the most recent declarations were submitted in 2012/13. The definition of related parties extends to close members of an individual's family. From our review of declaration of interest returns the extent to which close members of familiar are considered is unclear.	The Council's ability to recognise related party transactions for disclosure in the statement of account may be adversely impacted by out of date or incomplete records.	The process for compiling the list of related parties should be regularly reviewed in order to ensure the list is kept up to date. Further, guidance for the identification of related parties should be issued in order to ensure that the information provided is complete and in accordance with requirements.	Councillors and Chief Officers have a duty to amend their interests as required. Councillors are bound by the Code of Conduct that state they need to amend their interests within 28 days of any change taking place. Democratic Services e mail Chief Officers and Councillors every 2 months regarding related parties and this is clearly evidenced by e-mail trail and the personal experience of those involved..

Prior year recommendations

No	Observation	Recommendation	Current Status	Management response
1	<p>Review of investment and borrowing transactions</p> <p>We noted that a weekly summary of investment and borrowing transactions is prepared and the closing balance is agreed to the interest register. However, there is no evidence of the summary and reconciliation being reviewed by an officer independent of the preparer.</p>	<p>We recommend that evidence of review of the summary and reconciliation is recorded and retained for future reference.</p>	<p>Closed – Evidence of review of such reports has been noted.</p>	-
2	<p>Consideration of assets not formally revalued during the year</p> <p>The Code of Practice requires that land and buildings are included within the financial statements at fair value. Authority did not perform an assessment of the potential movement in value of land and building assets not formally revalued during the year.</p>	<p>For 2014/15 all land and building assets will be formally revalued. However, management should ensure that, in subsequent years, consideration is given to potential changes in the value of assets not formally revalued during the year in question.</p>	<p>Closed – During the year all operational land and building assets were revalued.</p>	-

No	Observation	Recommendation	Current Status	Management response
3	<p>Downward movements in fair value</p> <p>For four assets the full downward movement in fair value had been posted to the revaluation reserve where there were no previous upward revaluation movements available to be reversed. Negative revaluation reserve balances are not generally permitted; as such these movements should have been posted to the Comprehensive Income and Expenditure Statement.</p>	<p>It is recommended that controls are established to ensure that postings to the revaluation reserve are limited to the extent that there is a balance on the revaluation reserve for that asset to offset the downward movement. Any additional downward valuation should be posted to the Comprehensive Income and Expenditure Statement.</p>	<p>Closed – No errors found during our testing of the accounting entries related to downward movements in fair value.</p>	
4	<p>Discounted cash flow model for council dwellings</p> <p>The cost of loan finance is included within the discounted cash flow model used to value council dwellings. This treatment is considered to be unusual, in the context of similar valuations performed by other organisations.</p>	<p>Consideration should be given to whether including such costs within the discounted cash flow model is the most appropriate treatment.</p>	<p>Closed – finance costs have been treated correctly in the discounted cash flow model.</p>	

No	Observation	Recommendation	Current Status	Management response
5	<p>Guildhall valuation</p> <p>Building works at the Guildhall have resulted in the reconfiguration of a number of rooms. The facilities team are in the process of measuring the rooms to provide new floor plans which will impact the valuer's assessment of the fair value of the property.</p>	<p>Upon completion of the floor plans the Guildhall should be revalued to take account of its new room configuration.</p>	<p>Closed – The valuation of the guildhall has been assessed as recommended.</p>	<p>-</p>
6	<p>Integrity of valuation working papers</p> <p>The age and obsolescence assumption used in the valuation of one asset (Abergelli Day Centre) had been altered without the valuer's knowledge.</p>	<p>We recommend that the valuer password protects valuation working papers to ensure that the risk unauthorised amendments is minimised.</p>	<p>Closed – The integrity of the valuation working papers has been deemed to be sufficient.</p>	<p>-</p>
7	<p>Review of outputs</p> <p>The valuation of assets included in the statement of accounts is not formally reviewed by an independent member of the valuations team.</p>	<p>The work of the valuer should be formally reviewed in order to minimise the risk that any errors remain undetected.</p>	<p>Outstanding – No formal review is performed by an independent member of the valuations team</p>	<p>Agreed. Will be considered in 2015/16</p>

No	Observation	Recommendation	Current Status	Management response
8	<p>Heritage assets</p> <p>Heritage assets need to be valued to an extent such that the cost of undertaking such valuations would be commensurate with the benefits to the users of the financial statements. A number of heritage assets, including some buildings, are held in the accounts at a nominal value.</p>	<p>Consideration should be given to including heritage assets within the rolling programme of valuing land and building assets as the cost of undertaking such valuations would be relatively low given that specialist knowledge already exists.</p>	<p>Outstanding – see 8 within current year points.</p>	<p>This expertise would have to be sourced externally. This can be market tested; however the expectation is that this would be at an uneconomic cost.</p>
9	<p>Infrastructure assets</p> <p>The Code of Practice on Local Authority Accounting is expected to require local authorities to account for their infrastructure assets in the statement of accounts in accordance with the Infrastructure Assets Code from 2016/2017. For older infrastructure assets the authority could not locate or provide supporting documentation to demonstrate ownership.</p>	<p>The Council should consider the requirement of the Infrastructure Asset Code at an early stage to maximise the opportunity to follow up information that is wrong</p>	<p>Outstanding – The authority has yet to fully implement procedures to ensure compliance</p>	<p>Procedure being revised in readiness for 2015/16 closure.</p>

No	Observation	Recommendation	Current Status	Management response
10	<p>Insurance provision</p> <p>The split between short term and long term provisions had been made on an estimate based on an analysis of claims and how long they take to settle. No supporting documentation was provided to support the estimates used.</p>	<p>It is recommendation that an exercise should be completed to analyse the Authority's claims to ensure that the provision is based upon the most up to date information.</p>	<p>Outstanding – The split between long and short term insurance provisions has been determined using data which is several years out of date.</p>	<p>The absolute provision for each claim is based on the professional opinion of a loss adjuster or solicitor handling the case. Cases are sometimes protracted legal cases without readily definable conclusion dates. The split between long term and short term provisions is therefore fluid.</p> <p>The consideration to the Authority should be the adequacy of the absolute provision- not how that is subsequently split between long term or short term which is desirable and will be undertaken as accurately as possible</p>

No	Observation	Recommendation	Current Status	Management response
11	<p>Early retirement / voluntary redundancy (ER / VR)</p> <p>No formal consideration has been given to whether any teacher related costs needed to be included in the ER/VR accrual in instances where approval has been given in 2013/14 but the departure date was not until 2014/15. The subsequent review undertaken at our request confirmed that no teacher costs should have been accrued in 2013/14.</p>	<p>The requirement to accrue for teacher related costs should be considered in the same way as it is for other Council employees.</p>	<p>Closed, no issues of this nature were identified in 2014/15.</p>	-
12	<p>Petty cash reconciliations</p> <p>Reconciliations of petty cash balances are not performed for every account as at 31 March. Reconciliations are performed on an ad hoc basis.</p>	<p>Petty cash reconciliations should be performed on a regular basis, including as at 31 March.</p>	<p>Closed.</p>	-

No	Observation	Recommendation	Current Status	Management response
13	<p>School bank balances</p> <p>For school bank accounts, differences between the balance as per the bank reconciliation and the bank confirmation were noted because school accounts are shut down before 31 March. Whilst no manual payments could go through the accounts there were automated transactions which were not recorded within the cash books maintained.</p>	<p>All bank reconciliations should be completed as at 31 March of each year.</p>	<p>Outstanding – see 9 within current year points.</p>	<p>All bank accounts were reconciled centrally to the 31st March. This will continue to be standard practice.</p>
14	<p>Identification of related parties</p> <p>The current process for identifying related parties is reliant on management's knowledge. Whilst the prior year listing of related parties is reviewed, this process is somewhat informal.</p>	<p>A more formal approach for the identification of related parties should be established to ensure that the risk of omission is minimised.</p>	<p>Outstanding – see 10 within current year points.</p>	<p>A formal system has been in place since October 2009. Councillors are bound by the Code of Conduct that state they need to amend their interests within 28 days of any change taking place.</p>
15	<p>Journals</p> <p>Individuals within finance can create post and authorise their own journals if they are within their authorisation limits. We note however that there are mitigating controls through the monthly monitoring of budgets and the year-end closure procedures, which would help to identify any journals inappropriately posted.</p>	<p>Consideration should be given to implementing a process for reviewing all journals posted to the nominal ledger.</p>	<p>Closed – this has been reviewed by management, who deem the risk surrounding this to be low. A number of mitigating controls are in place, including the review and scrutiny of monthly budget and outturn reports, which reflect all journals posted during the period.</p>	<p>-</p>

No	Observation	Recommendation	Current Status	Management response
16	<p>Supporting documentation</p> <p>Supporting documentation for three payables balances that have been tested could not be obtained. It is noted that the Authority was subsequently able to support these balances.</p>	<p>It should be ensured that supporting documentation is available for creditor balances</p>	<p>Closed – No errors found in current year testing. Received supporting documentation for all balances tested.</p>	-
17	<p>Bad debt write off</p> <p>It was noted that six batches of invoices designated for write off date back to 2012. The value of each of these batches was in excess of £10k. Delays were noted in obtaining the necessary approvals for these write offs to be actioned.</p>	<p>It should be ensured that any balances identified for write off should be processed in a timely manner.</p>	<p>Closed – Balances identified through testing were written off on a timely basis.</p>	-
18	<p>Debtors listings</p> <p>A detailed listing of debtors from the estates rents system as at 31 March could not be provided. This is because the system is live and reports cannot be retrospectively created.</p>	<p>A report detailing all estates rent debtors at year end should be produced as part of year end procedures</p>	<p>Outstanding – The estates rental balance recorded in the nominal ledger differed from the balance derived from the estate rental system. Whilst it is apparent that the difference is due to timing differences, no reconciliation is performed.</p>	<p>Reports can now be provided from the system as at 31st March.</p>

No	Observation	Recommendation	Current Status	Management response
19	<p>Internal audit capacity</p> <p>The Internal Audit function consists of staff totalling 11.6 FTE. Approximately 300 days of planned internal audit work for 2013/14 were not delivered due to time spent on special investigations and vacant posts.</p>	<p>Consideration should be given to the way in which the work of internal audit is prioritised to focus on high risk areas. Sufficient allowances should be made within the programme to allow for a reasonable level of unplanned work or unplanned absence.</p>	<p>Closed – Internal audit has enhanced its risk based approach used to determine the internal audit programme for the year.</p>	-

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