



## 2016 Audit Plan

# City and County of Swansea

**Audit year:** 2015-16

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# Status of document

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# 2016 Audit Plan

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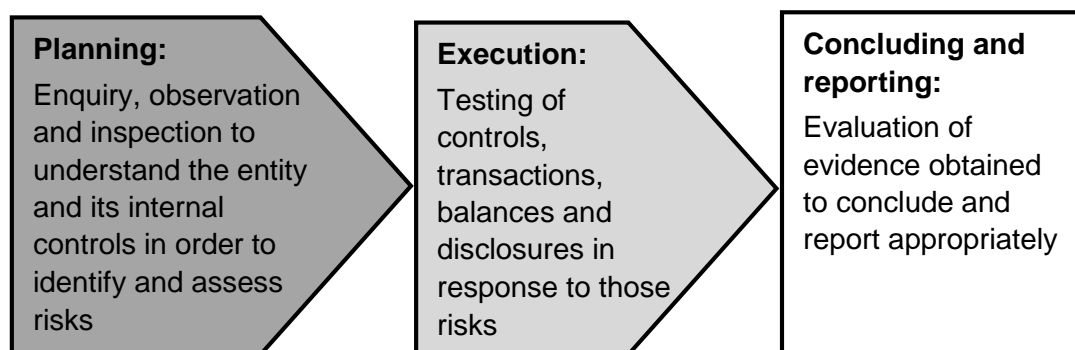
## Summary

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. There have been no limitations imposed on me in planning the scope of this audit.
3. My responsibilities, along with those of management and those charged with governance, are set out in [Appendix 1](#).

## Financial audit

4. It is my responsibility to issue a certificate and report on the financial statements which includes an opinion on their ‘truth and fairness’.
5. I also consider whether or not the City and County of Swansea (the Council) 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.
6. [Appendix 1](#) sets out my responsibilities in full.
7. 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



8. The risks of material misstatement and which therefore require audit consideration, are set out in **Exhibit 2** along with the work I intend to undertake to address them.

Exhibit 2: Financial audit risks

Financial audit risk	Proposed audit response
<p><b>Risk of management override</b></p> <p>The risk of management override of controls is present in all organisations. 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"> <li>• test the appropriateness of journal entries and other adjustments made in preparing the financial statements;</li> <li>• review accounting estimates for biases;</li> <li>• evaluate the rationale for any significant transactions outside the normal course of business; and</li> <li>• incorporate an element of ‘unpredictable audit work’, which varies each year.</li> </ul>
<p><b>Risk of fraud in revenue recognition</b></p> <p>The level of income collected by the Council means that there is an inherent risk of material misstatement due to fraud in revenue 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"> <li>• test the appropriateness of a sample of journals processed to income and non-pay expenditure ledger codes during the year;</li> <li>• review the application of relevant accounting policies to ensure that they are in compliance with accounting standards; and</li> <li>• analyse the various income streams and perform substantive procedures on a sample basis to ensure that income and has been appropriately accounted for in the correct period.</li> </ul>

Financial audit risk	Proposed audit response
<p><b>Risk of error with the valuation of property, plant and equipment (PPE) and investment properties</b></p> <p>The Council is required to ensure that for PPE and Investment Properties 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 changes in approach in 2015-16.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> <li>consider the appropriateness of the Council's proposed approach to the valuation of PPE and Investment Properties; and</li> <li>test the valuation of such assets on a sample basis using internal valuation specialists as appropriate.</li> </ul>
<p><b>Risk of provisions being materially misstated</b></p> <p>The Council's 2014-15 financial statements include a number of material provisions. These provisions will again be required in 2015-16 and by their nature they are uncertain and require a high degree of estimation. These include provisions for the future maintenance of land-fill sites and employee related expenses.</p>	<p>My audit team will review all material provisions to ensure that they are fairly stated.</p>
<p><b>Disclosure risks</b></p> <p>My audit team has held initial planning discussions with the Council which have identified a number of areas for further work including:</p> <ul style="list-style-type: none"> <li>whether or not the Council is required to compile Group Accounts; and</li> <li>what staff exit costs are disclosed in the financial statements.</li> </ul>	<p>My audit team will discuss these issues further with the Council ensuring disclosure requirements are complied.</p>

9. 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 levels at which I judge such misstatements to be material will be reported to the Audit Committee prior to completion of the audit.
10. 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.
11. 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;
  - appropriate accommodation and facilities are provided to enable my audit team to deliver the audit in an efficient manner;
  - all appropriate officials will be available during the audit; and

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- 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.
12. In addition to my responsibilities in respect of the audit of the Council's financial statements set out above, I am also required to certify a return to the Welsh Government which provides information about the Council to support preparation of the 'Whole of Government Accounts'.
  13. I am also responsible for the audit of the City and County of Swansea Pension Fund's financial statements for which a separate Audit Plan has been issued.
  14. Finally, we are also required to audit the financial statements of the Swansea Bay Port Health Authority. A separate Audit Plan and fee will be agreed for this work.

## Certification of grant claims and returns

15. I have been requested to undertake certification work on the Council's grant claims and returns. The grant certificate programme for 2015-16 has not yet been finalised. In order to provide you with an indication of the likely cost of grant certification work I have based the audit fee on the 2014-15 programme. My estimated audit fee for this work is £100,000 as set out in [Exhibit 5](#).

## Performance audit

16. 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](#).

Exhibit 4: Components of my performance audit work



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17. Local government in Wales is going through an unprecedented period of change. Austerity continues to bite, audited bodies will be required to adopt the principle of sustainable development from April 2016, and the draft Local Government (Wales) Bill proposes fewer councils and a renewed performance framework. The Minister for Public Services has publicly stated that he would like to see a refreshed audit regime in advance of the legislative timetable with a view to supporting change. In January this year the minister advised me of a substantial reduction in the grant that subsidises my local government performance audit work under the Measure.
  18. However, for 2016-17 the Measure will still be in place, and I will still need to examine whether authorities will meet their duty to make arrangements for continuous improvement. The challenge for me in these uncertain times is to balance my existing, new and proposed statutory duties with the need to continue to undertake meaningful, risk-based and proportionate audits and assessments.
  19. In Spring 2016 I will be engaging in a consultation with public service bodies on how I can best discharge my various duties whilst striking the most appropriate balance and adding value by:
    - providing assurance on the governance and stewardship of public money and assets;
    - offering insight on the extent to which resources are used wisely in meeting people's needs; and
    - identifying and promoting ways by which the provision of public services may be improved.
  20. Taking all these factors into consideration, I am presently unable to be specific about my programme of performance audit work in local government. I am working through the practicalities of designing an appropriate programme of work, and examining the implications of the reduction in grant funding with a view to ensuring, as far as I am able, that there is little adverse impact on local authorities through fees.
  21. As soon as practical, I will write to confirm my 2016-17 programme of work.

## Fee, audit team and timetable

### Fee

22. The Wales Audit Office does not generate profits on fees. Legislation requires that the fees charged may not exceed the full cost of exercising the function to which the fee relates. The fee rates are set at a level to recover that full cost. My fee rates have been held static for 2016 and my audit teams will continue to look for efficiencies in their audits and welcome working with you constructively on this. Your estimated fee for 2016 is set out in [Exhibit 5](#).



### Exhibit 5: Audit fee

Audit area	Proposed fee (£)	Actual fee last year (£)
Financial audit work <sup>1</sup>	262,000	262,000
Performance audit work <sup>2</sup>	104,188	104,188
Grant certification work (estimate) <sup>3</sup>	100,000	100,565
<b>Total fee</b>	<b>466,188</b>	<b>466,753</b>

<sup>1</sup> Payable November 2015 to October 2016.

<sup>2</sup> Payable April 2016 to March 2017.

<sup>3</sup> 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 the Head of Finance & Delivery and the Audit Committee.
24. Further information on my [fee scales and fee setting can be found on the Wales Audit Office website](#).

### Audit team

25. The main members of my team, together with their contact details, are summarised in Exhibit 6.

#### Exhibit 6: My team

Name	Role	Contact number	E-mail address
John Herniman	Engagement Director and Engagement Lead – Financial Audit	02920 320500	<a href="mailto:john.herniman@audit.wales">john.herniman@audit.wales</a>
Jane Holownia	Engagement Lead – Performance Audit	02920 320565	<a href="mailto:jane.holownia@audit.wales">jane.holownia@audit.wales</a>
Geraint Norman	Financial Audit Manager	07810 056683	<a href="mailto:geraint.norman@audit.wales">geraint.norman@audit.wales</a>
David Williams	Financial Audit Team Leader	07812 670234	<a href="mailto:david.williams@audit.wales">david.williams@audit.wales</a>
Steve Barry	Performance Audit Manager	07786 190210	<a href="mailto:steve.barry@audit.wales">steve.barry@audit.wales</a>
Samantha Clements	Performance Audit Lead	07879 848672	<a href="mailto:samantha.clements@audit.wales">samantha.clements@audit.wales</a>

26. There is one independence issue to report to you. The Financial Audit Manager's spouse is employed as a Primary School Head Teacher by the Council and is an active member of the Teachers' Pension Scheme. I will ensure additional audit controls are put in place for the audit of the Education and Payroll Services. With this one exception, I can confirm that my team members are all independent of the Council and your officers and I am not aware of any further potential conflicts of interest that I need to bring to your attention.

## Timetable

27. 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 7](#).

### Exhibit 7: Timetable

Planned output	Work undertaken	Report finalised
<b>2016 Audit Plan</b>	January – February 2016	March 2016
<b>Financial accounts work:</b> <ul style="list-style-type: none"> <li>• Audit of Financial Statements Report</li> <li>• Opinion on Financial Statements</li> <li>• Financial Accounts Memorandum</li> </ul>	March – September 2016	September 2016 September 2016 October 2016
<b>Performance work:</b> I am presently unable to be specific about my programme of performance audit work in local government	April 2016 - March 2017	As soon as practical, I will write to confirm my 2016-17 programme of work
<b>2017 Audit Plan</b>	October – December 2017	January 2017

## Future developments to my audit work

28. The Well-being of Future Generations (Wales) Act 2015 (the Act) requires me to have undertaken an examination in each of the public bodies specified within the Act and to have provided a report to the National Assembly, by 2020.
29. I will be consulting on my proposed response to the Act in spring 2016. This consultation will feature a commitment to engage and work collaboratively with public bodies in developing an audit approach which is rigorous, meaningful and proportionate. I propose using 2016-17 as a transition year during which my teams work with a limited number of public bodies to develop and test my approach.
30. As we confirm our audit approaches and respond to continuing consultation from the Welsh Government, we will be talking to audited bodies about the implications for their fees from 2017-18 onwards and will be exploring alternative funding models with the next National Assembly's Finance Committee.

# Appendix 1

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## 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

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- 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.

# Appendix 2

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## National value-for-money studies

The Council 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. Reports are presented to the National Assembly's Public Accounts Committee to support its scrutiny of public expenditure and potentially support scrutiny by other National Assembly committees.

The table below covers all of the value-for-money studies work currently programmed. 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. In addition to the work outlined below, I may decide during the year to prepare other national reports summarising local audit work or based on the findings of reactive examinations.

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	Actual or anticipated publication timeframe
Welsh Government acquisition and ownership of Cardiff Airport	February 2016
The development of Natural Resources Wales	February 2016
Operating theatres	February 2016
Impact of private practice on NHS provision	February 2016
Wales Life Sciences Investment Fund	March 2016
Welsh Government responses to audit recommendations (memorandum for the Public Accounts Committee)	Spring 2016
Coastal flood and erosion risk management	Spring 2016
Rail services	Spring 2016
Governance of the National Library of Wales	Spring 2016
Welsh Government oversight of further education institutions' finances and delivery	Autumn 2016
Public procurement (including development of the National Procurement Service)	Winter 2016

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Topic	Actual or anticipated publication timeframe
Early intervention and behaviour change	Spring/summer 2017 <sup>1</sup>
Welsh Government interventions in local government	TBC <sup>2</sup>

I have been considering over recent months the inclusion in my programme of a number of new studies on:

- The NHS Wales Informatics Service;
- Capital investment in schools (21st Century schools programme) and school places;
- Further education finances;
- Waste management;
- The Supporting People programme; and
- Access to public services for people whose first language may not be English or Welsh and those who may be disadvantaged without access to specialist interpretation services.

With the exception of the further education study, referred to in the table above, firm plans for these new studies are yet to be confirmed, although initial scoping work is underway.

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<sup>1</sup> My programme of good practice work includes a project that will aim to explore the range of behaviour change work across Welsh public services and opportunities to improve practice, deliver better outcomes for citizens, and achieve better value for money. The project will include a range of engagement events and the development of a community of practice to share learning and experience. I anticipate that the information and evidence gathered through this work will support the production of a report on this topic, although this is unlikely to be a traditional audit report and it would not be prepared until the first half of 2017.

<sup>2</sup> Plans for this work have been under review in light of the Welsh Government commissioned review of the Anglesey intervention by the Public Policy Institute for Wales, and also to consider the implications for the work of plans for local government reform.



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