



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# Audit of Financial Statements Report – **City and County of Swansea**

Audit year: 2017-18

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The Auditor General intends to issue an unqualified audit report on the Council's 2017-18 financial statements. There are some issues to report to you prior to their approval.

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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 City and County of Swansea (the Council) and the City and County of Swansea Group (the Group) at 31 March 2018 and its income and expenditure for the year then ended.
- 2 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.
- 3 The quantitative levels at which we judge such misstatements to be material for the Council are £8.6 million. 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.
- 4 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.
- 5 This report sets out for consideration the matters arising from the audit of the Council's 2017-18 financial statements (including its Group), that require reporting under ISA260. A separate report has been issued for the City and County of Swansea Pension Fund.

## Status of the audit

- 6 We received the draft financial statements for the year ended 31 March 2018 on 4 June 2018 prior to the agreed deadline of 30 June 2018 and have now substantially completed our audit work.
- 7 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 Chief Finance Officer (the Section 151 Officer).

## Proposed audit report

- 8 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](#). The proposed audit report is set out in [Appendix 2](#).

## Significant issues arising from the audit

### Uncorrected misstatements

- 9 There are no misstatements identified in the financial statements, which have not been corrected by management.

### Corrected misstatements

- 10 There were a number of misstatements which 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. These are set out with explanations in [Appendix 3](#). There was no overall impact on the Council's net expenditure or net worth. The net worth of the Group has increased by £9.5 million.

### Other significant issues arising from the audit

- 11 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:
- **We have no concerns about the qualitative aspects of your accounting practices and financial reporting.** As was the case last year, we found the financial statements were compiled to a good standard. We found the information provided to be relevant, reliable, comparable, material and easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear. We will hold a post project learning meeting with the Council's Finance Team later in the year to improve the efficiency of the compilation and audit processes. A key challenge for the Council and us will be the statutory earlier deadline of 31 May and audit deadline of 31 July from 2020-21. Further information is detailed in paragraphs 15 to 18 below.
  - **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.** We planned and performed our audit to address the financial statement risks as reported within our 2018 Audit Plan. No significant issues were identified from the audit of these areas.
  - **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 although we have identified some significant issues to report to you.**

During 2017-18, the Council has continued to make progress in improving its arrangements for capital accounting. However, there are a number of areas where further work is required in 2018-19. [Appendix 4](#) sets out our detailed findings and recommendations.

- **There are not any other matters specifically required by auditing standards to be communicated to those charged with governance.**

## Recommendations arising from our 2017-18 financial audit work

- 12 The recommendations arising from our financial audit work are set out in [Appendix 4](#). Management has responded to them and we will follow up progress on them during next year's audit. Where any actions are outstanding, we will continue to monitor progress and report back to you in next year's report.

## Independence and objectivity

- 13 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 14 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 the Council that we consider to bear on our objectivity and independence.

## The financial statements and audit deadlines going forward

- 15 Under the Accounts and Audit (Wales) (Amendments) Regulations 2018<sup>1</sup>, in the future the Council and the Auditor General are required to meet earlier statutory deadlines. Under the amended regulations the new deadlines are due to change in stages, with the final change taking effect from 2020-21. [Exhibit 1](#) sets out the new dates.

<sup>1</sup> [www.legislation.gov.uk/wsi/2018/91/contents/made](http://www.legislation.gov.uk/wsi/2018/91/contents/made)

Exhibit 1: changes introduced by the amended regulations

Annual financial statements	Financial statements signed by the responsible finance officer (Section 151 Officer)	Financial statements approved by the Council and published (with the signed audit certificate or an explanation for its absence)
2017-18	30 June 2018	30 September 2018
2018-19	15 June 2019	15 September 2019
2019-20	15 June 2020	15 September 2020
2020-21 and thereafter	31 May 2021	31 July 2021

- 16 For the 2017-18 financial statements, management have made strong progress in producing the Council's draft financial statements earlier, without sacrificing their quality. After submitting the statements for audit, Council officers were present and available, and they engaged with us responsively and knowledgeably. These attributes were crucial in enabling us to conclude our main testing well before the end of August.
- 17 This year, management retained the Audit Committee date (to consider and recommend approval of the audited financial statements to Full Council) in September 2018. The rationale for this was that the preparation and audit of the financial statements may not have met the earlier target dates that had been set. Given this year's successful outcome, for next year management intend to provide us with draft financial statements by 31 May 2019 and to also bring the Audit Committee and Council meeting dates forward to August 2019.
- 18 This coming Autumn we will continue to work closely with officers to ensure that further improvements are made to the preparation and audit of the 2018-19 financial statements. A key aspect of these improvements will be to bring more of our audit work forward, so that where possible it is completed before we receive the draft financial statements.

# Appendix 1

## Final Letter of Representation

Auditor General for Wales  
Wales Audit Office  
24 Cathedral Road  
Cardiff  
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### Representations regarding the 2017-18 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 City & County of Swansea and City and County of Swansea Group for the year ended 31 March 2018 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; 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
  - 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 Council 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.

All material differences between the accounting policies applicable to the City and County of Swansea and the City and County of Swansea Group have been disclosed and accounted for appropriately.

The financial statements are free of material misstatements, including omissions and there are no uncorrected misstatements.

## Representations by the City & County of Swansea

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 Members of the City & County of Swansea on 20 September 2018.

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:

Chief Finance Officer (S151 Officer)

20 September 2018

Signed by:

Chair of the Council

20 September 2018

# Appendix 2

## Proposed audit report of the Auditor General for Wales to the City and County of Swansea

### The independent auditor's report of the Auditor General for Wales to the Members of the City and County of Swansea

#### Report on the audit of the financial statements

##### Opinion

I have audited the financial statements of:

- City and County of Swansea; and
- City and County of Swansea Group

for the year ended 31 March 2018 under the Public Audit (Wales) Act 2004.

The City and County of Swansea's financial 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 and the related notes, including a summary of significant accounting policies.

The City and County of Swansea Group's financial 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 and the related notes, including a summary of significant accounting policies.

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 2017-18 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial position of City and County of Swansea and City and County of Swansea Group as at 31 March 2018 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18.

##### Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the council and its group in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

## **Conclusions relating to going concern**

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the responsible financial officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the council's or group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## **Other information**

The responsible financial officer is responsible for the other information in the annual report and accounts. The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated later in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information to identify material inconsistencies with the audited financial statements 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.

## **Report on other requirements**

### **Opinion on other matters**

In my opinion, based on the work undertaken in the course of my audit:

- the information contained in the Narrative Report for the financial year for which the financial statements are prepared is consistent with the financial statements and the Narrative Report has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18;
- The information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and the Governance Statement has been prepared in accordance with guidance.

### **Matters on which I report by exception**

In the light of the knowledge and understanding of the council and the group and its environment obtained in the course of the audit, I have not identified material misstatements in the Narrative Report or the Governance Statement.

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 financial 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.

## **Certificate of completion of audit**

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

## **Responsibilities**

### **Responsibilities of the responsible financial officer for the financial statements**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the responsible financial officer is responsible for the preparation of the statement of accounts, including the City and County of Swansea Group's financial statements, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of statements of accounts that are free from material misstatement, whether due to fraud or error.

In preparing the statement of accounts, the responsible financial officer is responsible for assessing the council's and group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

### **Auditor's responsibilities for the audit of the financial statements**

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my auditor's report.

Anthony J Barrett  
For and on behalf of the Auditor General for Wales  
25 September 2018

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# Appendix 3

## Summary of corrections made to the draft financial statements

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
£18.1 million	<p><b>Investments (Note 18 – Table 1 – Page 90)</b></p> <p>Short term investments within table 1 of Note 18 were overstated by £18.1 million. Cash and cash equivalents were understated by the same amount. The Balance Sheet, Note 18 and the Cashflow Statement were corrected for this misstatement. There was no overall impact on the net worth of the Council.</p>
£17.4 million	<p><b>Investment Properties (Note 16 – Page 87)</b></p> <p>There was a casting error of £17.4 million in the closing balance of Investment Properties categorised within level 3 as at 31 March 2017. There was no overall impact on the net worth of the Council.</p>
Various	<p><b>Borrowing (Note 18 – Table 6 – Page 96)</b></p> <p>Various amendments were made to the table as the figures included within the draft financial statements for 2017-18 excluded short term borrowing and the 2016-17 comparatives did not reflect audit adjustments identified in the 2016-17 ISA260 report. There was no overall impact on the net worth of the Council.</p>
Various	<p><b>Group Balance Sheet (Page 25)</b></p> <p>Within the Group's Balance Sheet is the Council's share of the Wales National Pool Swansea (the Pool) which is a subsidiary organisation. In previous years, the Council has consolidated the Pool into its Group accounts using the subsidiary's valuation basis which was at historic cost less depreciation. There is a requirement for the Council to include its share of the Pool based on its own accounting policy which values the Pool at depreciated replacement cost. This change of valuation methodology to align the accounting policies with the Council, results in an increase in value for the Council's share of the Pool from £2.5 million to £12 million. This increased the value of Property Plant &amp; Equipment in the Group Balance Sheet by £9.5 million with a corresponding increase in the Group's Revaluation Reserve.</p>
Various	<p>Various other minor presentational amendments were made to the draft financial statements.</p>

Value of correction	Nature of correction
	These included the disclosure of Returning Officer fees within Note 30. There was no overall impact on the net expenditure or net worth of the Council.

## Appendix 4

### Recommendation arising from our 2017-18 financial audit work

We set out the recommendation arising from our audit with management's response. We will follow up this up next year and include any outstanding issues in next year's audit report:

<b>Matter arising 1 – Capital Accounting</b>	
<b>Findings</b>	<p>During 2017-18, the Council has continued to make progress in improving its arrangements for capital accounting. However, there are a number of areas where further work is required in 2018-19 including:</p> <ul style="list-style-type: none"><li>• the Council is unable to fully reconcile its Revaluation Reserve to the net historical cost of its assets.</li><li>• the Council holds the deeds for a number of assets but these have yet to be registered with the Land Registry. These records should be systematically updated with the Land Registry in conjunction with the revaluation programme.</li><li>• the Council's asset registers are spreadsheet based which takes significant officer time to maintain. A more efficient approach to capital accounting needs to be implemented if early closure deadlines are to be met in future.</li></ul>
<b>Priority</b>	High
<b>Recommendation</b>	The Council needs to continue to improve its capital accounting arrangements in 2018-19 across a number of areas.
<b>Benefits of implementing the recommendation</b>	Implementation of the recommendation would improve capital accounting arrangements.
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	There is an accepted need to strengthen further still a number of aspects of capital accounting as set out above. The findings are accepted and steps will be taken to address these where practicable and proportionate to do so.
<b>Implementation date</b>	Throughout 2018-19 in time for 2018-19 Statement of Accounts compilation.





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