



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Audit of Financial Statements Report – City and County of Swansea

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We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

The team who delivered the work comprised Anthony Veale, Jason Garcia, David Williams and the City and County of Swansea audit team.

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The Auditor General intends to issue an unqualified audit report on your 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 the City and County of Swansea (the Council) and the City and County of Swansea Group (the Group) at 31 March 2019 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 City and County of Swansea is £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. We have defined both senior officer remuneration and related party disclosures as material by nature and have applied lower levels of materiality to these disclosures.
- 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 financial statements of City and County of Swansea (including its Group), for 2018-19, that require reporting under ISA 260.
- 6 A separate report will be issued in respect of the City and County of Swansea Pension Fund which will be presented to the Pension Fund Committee meeting on 12 September 2019.

Status of the audit

- 7 We received the draft financial statements for the year ended 31 March 2019 on 20 May 2019, 14 days prior to the agreed deadline of 3 June 2019. Although we have completed the majority of our audit work at the time of drafting this report, we have yet to complete:
 - our final review of the revised 2018-19 financial statements; and
 - some outstanding queries on our work on financial instruments.
- 8 We would also like to draw to the attention of the Audit Committee that an elector is in the process of corresponding with us. This could result in us receiving questions on the 2018-19 financial statements or an objection to an item of account. We will provide a verbal update on this correspondence and the items reported in paragraph 7 above, to the Audit Committee at its meeting on 13 August 2019.

- 9 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.

Proposed audit report

- 10 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](#).
- 11 The proposed audit report is set out in [Appendix 2](#).

Significant issues arising from the audit

Uncorrected misstatements

- 12 There are no misstatements identified in the financial statements, which remain uncorrected.

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 issues arising in these areas this year:

- **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.

For 2018-19, the statutory deadline for producing the financial statements was 15 June 2019. By 2020-21 this deadline will be revised to 31 May. In completing the 2018-19 draft financial statements by 20 May 2019, the Council is already delivering their accounts well ahead of the future deadline. We are aware of the significant challenges delivering to earlier deadlines places on Council staff. As noted above, the delivery to these earlier

deadlines has been achieved without any impact on the quality of the draft statements or the supporting documentation we have been provided. As such Council officers should be commended for this excellent achievement.

- **We did not encounter any significant difficulties during the audit.**
We generally received information in a timely and helpful manner and were not restricted in our work.
- **There was one significant matter discussed and corresponded upon with management which we need to report to you.**

Additional pension liability

In December 2018, the Court of Appeal ruled against the Government, holding the changes made to pension schemes discriminated against a group of public officers on the grounds of age. The changes surrounded a move from a final salary to a career average basis. On 27 June 2019, the Supreme Court denied the Government's application for leave to appeal the decision. This series of events is referred to as the McCloud judgement.

This judgement impacts on many public sector pension schemes and all of these schemes have had to consider the impact of this judgement on their 2018-19 financial statement disclosures. Where the impact has been considered to be material in value, amendments to the financial statements have been made.

The cost of providing a remedy to affected employees is likely to be significant. We have concluded that the McCloud judgement gives rise to a past service cost and liability within the scope of accounting for pensions within local authorities which should be accounted for as an increased liability where a reasonable estimate can be made.

The Council's actuary assessed the financial impact of this legal judgement as £26 million. The impact on the financial statements is an increase in gross expenditure in the Comprehensive Income and Expenditure Statement and an increase in long-term liabilities in the Balance Sheet. It also impacted on a number of other notes in the financial statements but had no impact on usable reserves. The actuary also provided a further assessment of the impact on the pension liability in respect of the Guaranteed Minimum Pension. This assessment further increased the pension liability by £6 million. The Council has made an adjustment of £32 million which is referenced within [Appendix 3](#) of this report.

- **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, but we have identified some areas for improvement.**

During 2018-19 the Council has continued to make progress in improving its arrangements for capital accounting. However, there are several areas where further work is required in 2019-20. We also identified some areas for

improvement in the preparation of the Annual Governance Statement and the annual completion of declaration of interest forms by senior officers.

[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 2018-19 financial audit work

- 15 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 it to you in next year's report.

Independence and objectivity

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

Appendix 1

Final Letter of Representation

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

29 August 2019

Representations regarding the 2018-19 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 and County of Swansea and City and County of Swansea Group for the year ended 31 March 2019 for the purpose of expressing an opinion on their truth and fairness and their proper preparation.

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 CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom UK 2018-19; in particular the financial statements give a true and fair view in accordance therewith; and
- 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 contingent liabilities have been identified and properly assessed. Contingent liabilities are considered to be not material to the financial statements.

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 the City and 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 and County of Swansea on 29 August 2019.

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)

Date: 29 August 2019

Signed by:

Chair of the Council – signed on behalf
of those charged with governance

Date: 29 August 2019

Appendix 2

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

The independent auditor's report of the Auditor General for Wales to the members of 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 2019 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's Group 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 2018-19 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 2019 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 2018-19.

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 12 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 statement of accounts. The other information comprises the Narrative Report and Annual Governance statement included in the financial statements. 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 2018-19; and
- 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:

- proper 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 City and County of Swansea's Group 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. This description forms part of my auditor's report.

Anthony J Barrett
For and on behalf of the Auditor General for Wales
30 August 2019

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 the City and County of Swansea

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.

Exhibit 1: summary of corrections made to the draft financial statements

Value of correction	Nature of correction
£32,310,000	Pension Fund Liability - Various The pension liability figure was increased by £32,310,000 on the advice of the actuary to reflect the estimated impact of the McCloud judgement on pension fund age discrimination and the Guaranteed Minimum Pension adjustment. These adjustments increased gross expenditure in the Comprehensive Income and Expenditure Statement and increased long term liabilities in the Balance Sheet. It had no impact on usable reserves.
£32,908,000	Short Term Debtors - Note 18 – classification adjustment Other receivable amounts of £32,908,000 were incorrectly classified as prepayments. There was no overall impact on the net assets of the Council.
£5,500,000	Liquidity Risk – Note 38 – classification adjustment Loans outstanding between 2 and 5 years at 31 March 2018 were incorrectly classified. There was no overall impact on the net worth of the Council.
Narrative disclosure in Annual Governance Statement	There were some narrative adjustments made to the Annual Governance Statement included in the Council's financial statements.
Various presentational amendments	Various other minor presentational amendments were made to the draft financial statements. These included an amendment to pension disclosure of the Chief Education Officer in the remuneration report and enhanced disclosure of the change in MRP policy. There was no overall impact on the net expenditure or net assets of the Council.

Appendix 4

Recommendations arising from our 2018-19 financial audit work

We set out all the recommendations arising from our audit with management's response to them. We will follow up these next year and include any outstanding issues in next year's audit report:

Exhibit 2: Matter arising 1

Matter arising 1 – Capital Accounting	
Findings	During 2018-19, the Council has continued to make progress in improving its arrangements for capital accounting. However, there are some areas where further work is required in 2019-20 including: <ul style="list-style-type: none">• the Council is unable to fully reconcile its Revaluation Reserve to the net historical cost of its assets.• the Council's asset registers are spreadsheet based which takes significant officer time to maintain. A more efficient approach to capital accounting would help to streamline the production of the Council's financial statements.
Recommendation	The Council needs to continue to improve its capital accounting arrangements in 2019-20 in the above areas.
Benefits of implementing the recommendation	Implementation of the recommendation would improve capital accounting arrangements.
Accepted in full by management	Yes
Management response	To be completed.
Implementation date	To be completed.

Exhibit 3: Matter arising 2

Matter arising 2 – Preparation of the Annual Governance Statement	
Findings	On receipt of the draft financial statements, the Annual Governance Statement was not fully completed. The Internal Audit and Audit Committee sections were blank. The Council has also been refining its processes for producing its annual governance statement over the last couple of years and improvements have been made. However, a further improvement would be to incorporate a member of the audit committee as an observer onto the governance group. This would give audit committee members an independent form of assurance as to the ongoing work being carried out during the year to produce the annual governance statement.
Recommendations	The Annual Governance Statement needs to be fully completed at the same time as the draft financial statements. A member of the audit committee should be invited to join the governance group as an observer.
Benefits of implementing the recommendation	Implementation of the recommendation would improve the reporting of governance arrangements and help to facilitate early closure.
Accepted in full by management	Yes
Management response	To be completed.
Implementation date	To be completed.

Exhibit 4: Matter arising 3

Matter arising 3 – Declaration of Interests	
Findings	We identified that senior officers are not required to complete a declaration of interest form on an annual basis. Officers are only required to update their declaration of interest form following a change in circumstances. Eleven officers had not initially submitted a form in 2018-19.
Recommendation	We recommend that Senior Officers are required to complete a declaration of interest form on an annual basis even if they have no disclosures to be made.
Benefits of implementing the recommendation	Implementation of the recommendation would improve internal controls and ensure that any conflicts of interest that should arise can be actively managed.
Accepted in full by management	Yes
Management response	To be completed.
Implementation date	To be completed.

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