

## 2021 Audit Plan – City and County of Swansea

Audit year: 2020-21

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# 2021 Audit Plan

## About this document

- 1 This document sets out the work I plan to undertake during 2021 to discharge my statutory responsibilities as your external auditor and to fulfil my obligations under the Code of Audit Practice.

## My duties

- 2 I complete work each year to meet the following duties:

## Audit of financial statements

- 3 Each year I audit the Council's financial statements to make sure that public money is being properly accounted for.

## Value for money

- 4 The Council has to put in place arrangements to get value for money for the resources it uses, and I have to be satisfied that it has done this.

## Continuous improvement

- 5 Under the Local Government (Wales) Measure 2009 (the Measure) the Council has to put in place arrangements to make continuous improvements, including related plans and reports, and the Auditor General has to assess whether the Council is likely to (or has) met these requirements. Some requirements of the Measure will cease during 2021-22 due to changes in legislation arising from the Local Government and Elections (Wales) Act 2021. However, I anticipate that during 2021-22 I will still be required to audit the council's published assessment of its performance that covers the 2020-21 year.

## Sustainable development principle

- 6 Public bodies need to comply with the sustainable development principle when setting and taking steps to meet their well-being objectives. The Auditor General must assess the extent to which they are doing this.

## Impact of COVID-19

- 7 The COVID-19 pandemic continues to have a significant impact across the United Kingdom and on the work of public sector organisations. As in 2020, it is likely to significantly impact on the preparation of the 2020-21 accounts and my financial audit and performance audit work.
- 8 Recent developments in relation to a vaccine programme indicate that the Welsh Government's restrictions on movement and anticipated sickness absence levels are expected to ease through 2021. However, I recognise that there remains significant uncertainty and I understand that many local authorities may not be able to prepare accounts in line with the timetable set out in the Accounts and Audit (Wales) Regulations 2014. As well as the delivery of my statutory responsibilities as the Auditor General, my priority is to ensure the health, safety and well-being of Audit Wales staff, their families and those of our partners elsewhere in the public service at this incredibly challenging time.
- 9 Audit Wales staff will continue to work flexibly to deliver the audit work set out in this plan. In response to the government advice and subsequent restrictions, we will continue to work remotely, building on the arrangements made in 2020, until such time that it is safe to resume on-site activities. I remain committed to ensuring that the work of Audit Wales staff will not impede the vital activities that public bodies need to do to respond to ongoing challenges presented by the COVID-19 pandemic.
- 10 Consequently, while this audit plan sets out an initial timetable for the completion of my audit work, the ongoing uncertainties around the impact of COVID-19 on the sector mean that some timings may need to be revisited. My audit team will discuss any amendments required to the proposed timetable with the authority as the 2021 position becomes clearer.

## Audit of financial statements

- 11 It is my responsibility to issue a certificate and report on the financial statements. This includes:
  - an opinion on the on the 'truth and fairness' of the Council's financial statements for the financial year ended 31 March 2021; and
  - an assessment as to whether the Council's Narrative Report and Annual Governance Statement is prepared in line with the CIPFA Code and relevant guidance and is consistent with the financial statements and with my knowledge of the Council.
- 12 In addition to my responsibilities for auditing the Council's financial statements, I also have responsibility for:
  - certifying a return to the Welsh Government which provides information about the Council to support preparation of Whole of Government Accounts;

- responding to questions and objections about the accounts from local electors (additional fees will be charged for this work, if necessary);
  - auditing the Council’s pension fund accounts (a separate audit plan has been prepared for the audit of the pension fund);
  - the independent examination of Swansea Bay Port Health Authority’s annual return; and
  - the certification of a number of grant claims and returns as agreed with the funding bodies.
- 13 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.
- 14 Any misstatements below a trivial level (set at 5% of materiality) I judge as not requiring consideration by those charged with governance and therefore will not report them.
- 15 There have been no limitations imposed on me in planning the scope of this audit.
- 16 I will also report by exception on a number of matters which are set out in more detail in our Statement of Responsibilities, along with further information about my work.

## Audit of financial statements risks

- 17 The following table sets out the significant risks I have identified for the audit of the Council.

### Exhibit 1: financial statement audit risks

This table summarises the key financial statement audit risks identified at the planning stage of the audit.

Audit risk	Proposed audit response
<b>Significant risks</b>	
<p>The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].</p>	<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> </ul>

	<ul style="list-style-type: none"> <li>• review accounting estimates for biases;</li> <li>• evaluate the rationale for any significant transactions outside the normal course of business.</li> </ul>
<p><b>Impact of COVID-19</b></p> <p>The COVID-19 national emergency continues and the pressures on staff resource and of remote working may impact on the preparation, audit and publication of accounts. There is a risk that the quality of the accounts and supporting working papers, eg around estimates and valuations, may be compromised leading to an increased incidence of errors. Quality monitoring arrangements may be compromised due to timing issues and/or resource availability.</p>	<p>We will discuss your closedown process and quality monitoring arrangements with the accounts preparation team and make arrangements to monitor the accounts preparation process. We will help to identify areas where there may be gaps in arrangements.</p>
<p>The COVID-19 pandemic will have a significant impact on the risks of material misstatement and the shape and approach to my audit. The Welsh Government has made available various funding streams to the Council. In some cases, these monies provide financial support to the Council itself. In other cases, the funds have been administered by the Council, making payments to third parties on behalf of the Welsh Government. The amounts involved are material to the accounts. There is a risk of incorrect accounting treatment for this funding depending on whether it constitutes a principal or agency arrangement.</p> <p>There are other audit risks specifically linked to COVID-19. These include:</p> <ul style="list-style-type: none"> <li>• potential year-end valuation uncertainty of property, plant and equipment;</li> <li>• estimation of accrued annual leave and bad debt provisions;</li> </ul>	<p>We will identify the key issues and associated risks and plan our work to obtain the assurance needed for our audit.</p>

- accounting treatment for the establishment of the Bay Studios field hospital; and
- verification of existence of property, plant and equipment.

### Other areas of audit attention

#### City deal

City deals are arrangements negotiated with government that give greater accountability for actions in return for new powers to help encourage growth and jobs. The Swansea Bay City Deal (the City Deal) involves 4 local authorities. The authorities have established a joint committee to oversee delivery of a range of programmes designed to increase connectivity and to improve physical and digital infrastructure over the course of 15 years. The City Deal includes total funding of £1.3 billion, of which £241 million is provided by Welsh Government, £637 million provided by private funding and £396 million provided by public funding. This significant programme will have financial, governance and delivery risks that need to be managed. Going forward, there will be a number of accounting issues to address.

Liaising closely with the external auditors of the other Local Authorities, my audit team will monitor progress with the City Deal project and carry out early work as necessary to assess the existing and proposed financial and governance arrangements.

#### McCloud judgement

In 2015 the Government introduced reforms to public sector pensions, meaning most public sector workers were moved into new pension schemes in 2015.

In December 2018, the Court of Appeal ruled that the ‘transitional protection’ arrangements amounted to unlawful discrimination.

Consultations on proposed remedies for the Local Government, Police and Fire

My audit team will review the provision previously made in relation to the McCloud judgement and will monitor progress on the outcome of the consultation to be applied in the LG pension schemes.



pensions schemes closed in October 2020. The Government recently announced its proposed remedy for this judgement and final details are expected to be published during 2021.

The impact of the judgement is likely to have a significant impact on the IAS 19 disclosed liabilities.

### **Capital expenditure on the Swansea Central Phase 1 project**

The Council has continued to progress the Swansea Central Phase 1 project over the past 12 months. This project will have incurred significant levels of capital expenditure at the reporting date with this expenditure being included in assets under construction (AUC).

Some of the expenditure may not satisfy the criteria of being capital expenditure and there is a risk that this expenditure is not classified correctly between capital and revenue in the financial statements.

The timing of the AUC valuations must also ensure that figures included in the financial statements reflect conditions as at 31<sup>st</sup> March 2021

My team will:

- undertake detailed audit testing of a sample of transactions to ensure that capital expenditure is correctly classified in the financial statements.
- review valuations of a sample of AUC to ensure these reflect conditions as at the reporting date

### **Consideration of related parties and senior officer remuneration disclosures**

We consider related party transactions and senior officer remuneration disclosures to be material by nature. As such, it is important that the Council maintains:

- an accurate register of declared interests' covering both the declarations made by relevant officers and Councillors; and
- Remuneration information covering senior officers.

There is a risk that not all relevant disclosures are included in the 2020-21 financial statements.

My audit team will assess the related party and senior officer remuneration disclosures to confirm they are accurate, complete and in accordance with the Code.

## Other matters

- 18 There are some further matters on which my audit team will undertake early work in preparation for the 2021-22 audit.

### Exhibit 2: Other matters

This table summarises the key financial statement audit risks identified at the planning stage of the audit.

Other matters	
<p>CIPFA/LASAAC has once again deferred the introduction of IFRS 16 until 1 April 2022. The authority will, however, need to undertake considerable work to identify leases, and the COVID-19 pandemic may pose implementation risks.</p>	<p>My team will undertake some early work to review the Council's preparedness for the introduction of IFRS 16 Leases.</p>
<p><b>Introduction of the Oracle Cloud based system</b></p> <p>The introduction of a new cloud based financial system in October 2021 will constitute a significant change to the management and reporting of financial information at the Council. The Council will be required to undertake considerable work to ensure the effective implementation of the new system.</p>	<p>My team will:</p> <ul style="list-style-type: none"> <li>continue to liaise with key officers to monitor the progress of the Oracle Cloud implementation ahead of its introduction.</li> <li>undertake some early work to test the effectiveness of the transition between financial systems including secure transfer of data</li> </ul>

## Performance audit

- 19 In addition to my Audit of Financial Statements I also carry out a programme of performance audit work to discharge my duties as Auditor General as set out on **page 4** in relation to value for money and sustainable development.
- 20 In response to the pandemic, I have adopted a flexible approach to my performance audit work both in terms of topic coverage and methodology. My work on recovery planning, COVID-19 learning and my assurance and risk assessment work are examples of this. This has enabled me to respond to the fast-moving external environment and provide more real-time feedback in a range of formats.

- 21 For 2021-22, I intend to build on this approach to help enable my work to be responsive and timely, and where possible to share learning more quickly. As part of this approach, I anticipate that a significant proportion of my local performance audit programme will be delivered through the Assurance and Risk Assessment Project, that will be ongoing throughout the year.
- 22 Given the high degree of commonality in the risks facing councils at this time I also intend to deliver a number of thematic projects examining risks common to all councils.
- 23 I have consulted public bodies and other stakeholders on how I will approach my duties in respect of the Wellbeing of Future Generations (Wales) Act 2015. This consultation was extended due to the pandemic.
- 24 In my consultation I have set out and sought views on proposals to:
- a) continue to undertake specific examinations to assess the setting of well-being objectives and how steps are being taken to meet them, respectively;
  - b) integrate the examination of steps alongside value for money studies and local audit work, wherever possible; and
  - c) strengthen and expand the co-ordination of work with the Future Generations Commissioner.
- 25 I will be writing to the 44 public bodies designated under the Act setting out the results of the consultation and how I intend to approach this work over the reporting period 2020-2025.
- 26 In view of the above factors I intend to retain a high degree of flexibility in my local performance audit programme at the Council and will continue to update the Council as the audit programme changes.
- 27 For 2020-21 this work is set out below.

### Exhibit 3: Performance Audit Programme 2021-22

This table summarises the performance audit programme for 2021-22

Performance audit programme	Brief description
Well-being of Future Generations Act (Wales) 2015 (WFG Act) examinations	Further details to follow
Improvement reporting audit	Audit of discharge of duty to publish an assessment of performance

<p>Assurance and Risk Assessment</p>	<p>Project to identify the level of audit assurance and/or where further audit work may be required in future years in relation to risks to the Council putting in place proper arrangements to secure value for money in the use of resources.</p> <p>At Swansea Council the project is likely to focus in particular on:</p> <ul style="list-style-type: none"> <li>• Financial position</li> <li>• Self-assessment arrangements</li> <li>• Recovery planning</li> <li>• Implications of the Local Government and Elections (Wales) Act</li> <li>• Carbon reduction plans</li> </ul>
<p>Springing Forward – Examining the building blocks for a sustainable future</p>	<p>As the world moves forward, learning from the global pandemic, this review looks at how effectively councils are strengthening their ability to transform, adapt and maintain the delivery of services, including those delivered in partnership with key stakeholders and communities.</p>
<p>Review of the Transformation Project</p>	<p>We will work alongside the Council in the review of its Transformation Project to provide critical friend challenge at key milestones.</p>

## Certification of grant claims and returns

- 28 I have been requested to undertake certification work on the Council's grant claims and returns as set out in **Exhibit 4**.

#### Exhibit 4: summary of grant claim certification work

This table summarises my 2020-21 programme of grant claim certification work

Name of scheme	Period of scheme
Housing Benefit Subsidy	2020-21
Teacher's Pension Return	2020-21
Non-Domestic Rates return	2020-21
Pooled Budget Memorandum Account	2020-21
Social Care Wales Workforce Development Programme	2020-21

## Statutory audit functions

29 In addition to the audit of the accounts, I have statutory responsibilities to receive questions and objections to the accounts from local electors. These responsibilities are set out in the Public Audit (Wales) Act 2004:

- Section 30 Inspection of documents and questions at audit; and
- Section 31 Right to make objections at audit.

30 As this work is reactive, I have made no allowance in the fee table below. If I do receive questions or objections, I will discuss potential audit fees at the time.

## Fee, audit team and timetable

- 31 My fees and planned timescales for completion of the audit are based on the following assumptions:
- the financial statements are provided in accordance with a timescale to be agreed taking into account the impact of COVID-19, to the quality expected and have been subject to a robust quality assurance review;
  - information provided to support the financial statements is in accordance with the agreed audit deliverables document;
  - 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;
  - 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;
  - Internal Audit's planned programme of work is complete and management has responded to issues that may have affected the financial statements; and

## Fee

- 32 Your estimated fee for 2021 is set out in **Exhibit 5**. This represents a 1% increase compared to your actual 2020 fee.
- 33 Our audit of accounts fee for last year was estimated at £237,000. We delivered the audit of accounts for a fee of £229,000 and therefore presented a refund of circa £8000 to the Council. Given the extent of the audit risks relating to COVID-19 as presented in Exhibit 1, our fee estimate is to maintain the fee for the audit of accounts at £237,000 for the audit of the 2020-21 financial statements.

### Exhibit 5: audit fee

This table sets out the proposed audit fee for 2021, by area of audit work, alongside the actual audit fee for last year.

Audit area	Proposed fee (£) <sup>1</sup>	Actual fee last year (£)
Audit of accounts <sup>2</sup>	237,000	229,000

<sup>1</sup> Notes: The fees shown in this document are exclusive of VAT, which is not charged to you.

<sup>2</sup> Payable November 2020 to October 2021.

Performance audit work <sup>3</sup>	99,310	99,310
Grant certification work <sup>4</sup>	30,000	34,234
Other financial audit work <sup>5</sup>	1,887	1,887
<b>Total fee</b>	<b>368,197</b>	<b>364,431</b>

34 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 Council.

35 Further information on my [fee scales and fee setting](#) can be found on our website.

## Audit team

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

### Exhibit 6: my audit team

This table lists the members of the local audit team and their contact details.

Name	Role	Contact number	E-mail address
Huw Rees	Engagement Director	02920 320599	Huw.rees@audit.wales
Anthony Veale	Engagement Lead (Financial Audit)	02920 320585	Anthony.veale@audit.wales
Jason Garcia	Audit Manager (Financial Audit)	02920 829313	Jason.garcia@audit.wales
Daniel King	Audit Lead (Financial Audit)	02920 829373	Daniel.king@audit.wales

<sup>3</sup> Payable April 2021 to March 2022.

<sup>4</sup> Payable as work is undertaken.

<sup>5</sup> Independent examination of Swansea Bay Port Health Authority's annual return

Non Jenkins	Audit Manager (Performance Audit)	02920 320595	Non.jenkins@audit.wales
Justine Morgan	Audit Lead (Performance Audit)	02920 320567	Justine.morgan@audit.wales

## Timetable

- 37 The key milestones for the work set out in this plan are shown in **Exhibit 7**. As highlighted earlier, there may be a need to revise the timetable in light of developments with COVID-19.
- 38 The Public Audit (Wales) Act 2004 provides electors with the right to ask questions and to make objections to the Authority's accounts to the Auditor General. The rights to ask questions and make objections at audit are linked to electors' rights to inspect the accounts that are also set out in the 2004 Act. The current COVID restrictions may impose restrictions on the Authority's ability to facilitate the inspection of accounts. Therefore, we have not yet set a date for the exercise of electors' rights and will continue to monitor the situation before confirming a date with you. We anticipate that we will be in a position to agree a date with you in late May 2021.

### Exhibit 7: Audit timetable

Planned output	Work undertaken	Report finalised
2021 Audit Plan	April 2021	April 2021



<p><b>Audit of Financial statements work:</b></p> <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>	<p>January 2021 – August 2021</p>	<p>July 2021</p> <p>July 2021</p> <p>November 2021</p>
<p><b>Performance audit work:</b></p> <ul style="list-style-type: none"> <li>• Annual Audit Summary</li> <li>• Well-being of Future Generations</li> <li>• Assurance and risk assessment</li> <li>• Thematic Work – Springing Forward – Examining the Building Blocks for a Sustainable Future</li> <li>• Review of the Transformation Project</li> <li>• Local Projects TBC</li> </ul>	<p>Timescales for individual projects will be discussed with you and detailed within the specific project briefings produced for each study.</p>	
<p><b>Grants certification work</b></p> <ul style="list-style-type: none"> <li>• Housing Benefit</li> <li>• Non-Domestic rates</li> <li>• Teacher’s Pension</li> <li>• Pooled Budget Memorandum Account</li> <li>• Social Care Wales Workforce Development Programme</li> </ul>	<p>October – December 2021</p>	<p>November – December 2021</p>
<p><b>Other financial audit work</b></p> <ul style="list-style-type: none"> <li>• Whole of Government Accounts submission review</li> <li>• Swansea Bay Port Health Authority – Review of annual return</li> </ul>	<p>September 2021</p> <p>August – September 2021</p>	<p>October 2021</p> <p>September 2021</p>
<p>Annual Audit Summary</p>	<p>December 2021</p>	<p>December 2021</p>

2022 Audit Plan

February 2022

February 2022

- 39 I can confirm that my team members are all independent of the Council and your officers. In addition, I am not aware of any potential conflicts of interest that I need to bring to your attention.





Audit Wales  
24 Cathedral Road  
Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

E-mail: [info@audit.wales](mailto:info@audit.wales)

Website: [www.audit.wales](http://www.audit.wales)

We welcome correspondence and telephone calls in Welsh and English.  
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