

# Audit of Accounts Report – City and County of Swansea – Draft

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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.

# Contents

We intend to issue a qualified audit report on your Accounts. There are some issues to report to you prior to their approval.

## Audit of accounts report

Introduction	4
Impact of COVID-19 on this year's audit	5
Proposed audit opinion	6
Significant issues arising from the audit	8
Additional report to the Audit and Governance Committee	9
Recommendations	11
Appendices	
Appendix 1 – Final Letter of Representation	12
Appendix 2 – Proposed audit report	15
Appendix 3 – Summary of corrections made	24

# Audit of accounts report

## Introduction

- 1 We summarise the main findings from our audit of your 2020-21 accounts in this report.
- 2 We have already discussed these issues with the Chief Finance Officer.
- 3 Auditors can never give complete assurance that accounts are correctly stated. Instead, we work to a level of 'materiality'. This level of materiality is set to try to identify and correct misstatements that might otherwise cause a user of the accounts into being misled.
- 4 We set this level at £9.3 million for this year's audit.
- 5 There are some areas of the accounts that may be of more importance to the reader and we have set a lower materiality level for these. We have summarised these below as follows:
  - Senior officers' remuneration £1,000
  - Related Parties for members and senior officers £10,000
- 6 Further details on how we have set materiality are included in our proposed audit report set out in **Appendix 2**.
- 7 Although we have completed the majority of our audit work at the time of drafting this report, we have yet to complete the following:
  - the audit of a number of account areas where we have queries outstanding with the Council;
  - the final review of our audit file;
  - our final review of the revised 2020-21 financial statements;
  - our review of the response from management and those charged with governance re: enquiries in relation to fraud, laws and regulations and related party transactions; and
  - an Engagement Quality Control Review (EQCR). For information, an EQCR is a second stage review undertaken by an independent Engagement Partner. An EQCR is required as the City and County of Swansea is classified as a Public Interest Entity (see further details in paragraphs 32 and 33). Public Interest Entities require an annual EQCR.
- 8 We will update the Audit and Governance Committee at its meeting on 24 August 2021. We will then update and finalise this report prior to the report being presented to Council at its meeting on 2 September 2021.
- 9 We would also like to draw to the attention of the Council that the date local government electors may exercise their rights under sections 30 and 31 of Public Audit (Wales) Act 2004 to question the Auditor General about or make objections to the accounts for the year ended 31 March 2020, is 9 August 2021. This could result in us receiving questions on the 2020-21 financial statements or an objection to an item of account. We will provide a verbal update on any potential

correspondence and the items reported in paragraph 7 above, to the Audit and Governance Committee at its meeting on 24 August 2021.

- 10 In our professional view, we have complied with the ethical standards that apply to our work; remain independent of yourselves; and our objectivity has not been compromised in any way. There are no relationships between ourselves and yourselves that we believe could undermine our objectivity and independence.

## Impact of COVID-19 on this year's audit

- 11 The COVID-19 pandemic has continued to have a significant impact on all aspects of our society. You have a statutory requirement to prepare financial statements and it is testament to the commitment of your finance team that you have succeeded in doing so, for a second year, in the face of the challenges posed by COVID-19. We are very grateful to the professionalism of the team in supporting us to complete our audit in such difficult circumstances.
- 12 COVID-19 has continued to affect our audit and we summarise in **Exhibit 1** the main impacts. The exhibit is provided for information purposes only, to help you understand COVID-19's impact on this year's audit process.

### Exhibit 1 – impact of COVID-19 on this year's audit

<b>Timetable</b>	<p>Given the continuing impact of COVID-19, the Welsh Government provided flexibility in terms of both the accounts preparation deadlines and the audit deadlines.</p> <p>The accounts preparation deadlines were extended to the end of August 2021 and the audit deadlines extended to the end of November 2021.</p> <p>Notwithstanding the above, the Council prepared its draft accounts by 27 May 2021. We expect our audit report to be signed on 7 September 2021.</p> <p>As stated previously, officers should be commended for the timely completion of the draft financial statements.</p>
<b>Electronic signatures</b>	<p>The Chief Finance Officer provided an electronic signature, along with a supporting e-mail to confirm that he had certified the statement of accounts. We will continue to accept the use of electronic signatures and electronic transfer of files during the approval and signing process.</p>

<p><b>Audit evidence</b></p>	<p>As in previous years, we received the majority of audit evidence in electronic format. We have used various techniques to ensure its validity. Where we have been unable to obtain access to paper documents because of COVID-19 restrictions, we have devised alternative audit methodologies to obtain sufficient audit evidence. Specifically:</p> <ul style="list-style-type: none"> <li>• officers provided electronic working papers in accordance with our agreed Audit Deliverables Report;</li> <li>• officers provided audit evidence to the audit team via e-mail or the shared folder accessible by auditors through the C&amp;CS laptops;</li> <li>• officers were available by video conferencing for discussions, and for the sharing of on-screen information/evidence; and</li> <li>• Audit Wales also secured remote read-only access to the Oracle ledger and Northgate system which enabled the audit team to run reports and view evidence and hence reduce the burden on officers to provide this information.</li> </ul>
<p><b>Other</b></p>	<ul style="list-style-type: none"> <li>• Video conferencing has enabled the audit team to correspond effectively with officers throughout the audit.</li> <li>• Video-conference-based Audit and Governance Committee meetings have enabled us to proficiently discharge our responsibility for reporting to those charged with governance.</li> </ul>

- 13 We will be reviewing what we have learned for our audit process from the COVID-19 pandemic and whether there are innovative practices that we might adopt in the future to enhance that process.

## Proposed audit opinion

- 14 We intend to issue a qualified audit opinion on this year's accounts once you have provided us with a Letter of Representation based on that set out in **Appendix 1**.
- 15 We issue a 'qualified' audit opinion where we have material concerns about aspects of your accounts. The basis of our qualification is described below.
- 16 The City and County of Swansea and the City and County of Swansea Group's financial statements include **unusable reserves**, two of which are the revaluation reserve (Note 22) and the capital adjustment account (Note 22). The carrying amount of the revaluation reserve and capital adjustment account as at 31 March 2021 in the Council's single entity financial statements were £369,024,000 and £712,144,000 respectively. The sheer scale of the carrying values of these reserves means even proportionately small errors or estimation uncertainties, when compounded year on year, can rapidly exceed the materiality threshold set out in paragraph 4.

- 17 These reserves arise from either:
- statutory adjustments required to reconcile balances to the amounts chargeable to council tax (or rents) for the year, in order to comply with legislation; or
  - accounting gains or losses recognised in other comprehensive income and expenditure in accordance with accounting standards adopted by the Code, rather than in the surplus or deficit on the provision of services.
- 18 The CIPFA Code of Practice for Local Authority Accounting (the Code) defines the accounting for both of these unusable reserves.
- 19 One of the statutory accounting entries required by the Code is the transfer between the revaluation reserve and the capital adjustment account for revalued assets. This transfer represents the difference between depreciation based on the revalued carrying amount of the asset and the depreciation based on the asset's historical cost
- 20 The Council has incorrectly accounted for the historic cost depreciation transfer between the two reserves since at least 2011/12, resulting in both reserves being potentially materially misstated. The Council has undertaken an immediate review to seek to correct and improve the accuracy of the figures but have been unable to substantially assure me and thus accurately quantify the value of any misstatement (within the context of materiality between the two reserves) to enable an appropriate correcting entry to be made between the two reserves.
- 21 It should be noted that these are unusable reserves and are not used to support service delivery at the reporting date. **Unusable reserves are not resource-backed and cannot be used for any other purpose.**
- 22 Any adjustment required to correct the carrying values of both reserves **will have a nil impact on the overall unusable reserves**, i.e. any adjustment will effectively require a re-classification between the revaluation reserve and the capital adjustment account or vice versa. In addition to the adjustment having no impact on the overall usable reserves, we can confirm that there is also no impact on the City and County of Swansea and the City and County of Swansea Group's usable reserves which consist of the general fund and earmarked reserves.
- 23 To resolve the issue, the Council will need to further analyse their accounting records in respect of the revaluation reserve and re-calculate the adjustment for each year to assess the level of potential error. This will allow the Council to fully comply with the Code.
- 24 Our proposed audit report is set out in **Appendix 2**.
- 25 This audit report also includes an emphasis of matter paragraph. The aim of this paragraph is to draw the attention of the reader of the accounts to Note 14 and Note 16 in the financial statements. I draw attention to Note 14 and Note 16 of the financial statements, which describes the impact of a material valuation uncertainty regarding valuations of surplus city centre assets and investment property assets.

The Council has disclosed this material uncertainty and **my audit opinion is not modified in respect of this matter.**

- 26 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards – see **Appendix 1.**

## Significant issues arising from the audit

### Uncorrected misstatements

- 27 We set out below the one misstatement we identified in the accounts that is above our trivial level which has been discussed with management but remains uncorrected. After discussions with Council officers, we agreed that the value of the misstatement was not material and therefore the Council have not amended the financial statements.
- 28 The misstatement relates to donated personal protective equipment (PPE) received during 2020-21 that has not been accounted for and recognised in the financial statements. The value of PPE received totals £2.018 million, of which some has been retained and used by the Council and some has been issued to third parties.
- 29 The accounting requirements for these transactions are set out in the Code but the Council has omitted them from the financial statements. It should be noted that the impact of these transactions would have a net nil effect on both the balance sheet and the comprehensive income and expenditure statement.

### Corrected misstatements

- 30 There were initially misstatements in the accounts that have now been corrected by management. However, we believe that these should be drawn to your attention and they are set out with explanations in **Appendix 3.**

### Other significant issues arising from the audit

- 31 In the course of the audit, we consider a number of matters relating to the accounts and report any significant issues arising to you. There were some issues arising in these areas this year as shown in **Exhibit 2:**



## Exhibit 2 – significant issues arising from the audit

Significant issues arising from the audit	
<p><b>Proposed qualification in respect of two unusable reserves – the revaluation reserve and the capital adjustment account</b></p>	<ul style="list-style-type: none"> <li>• Paragraphs 16 to 19 above set out the context.</li> <li>• Paragraph 20 above sets out the issue.</li> <li>• Paragraphs 21 and 22 set out the impact of the qualification.</li> <li>• Paragraph 23 sets out the corrective action required.</li> </ul>
<p><b>Material uncertainty in relation to surplus city centre and investment property assets</b></p>	<p>This audit report includes an emphasis of matter paragraph. The aim of this paragraph is to draw the attention of the reader of the accounts to Note 14 and Note 16 in the financial statements.</p> <p>I draw attention to Note 14 and Note 16 of the financial statements, which describes the impact of a material valuation uncertainty regarding valuations of surplus city centre assets and investment property assets.</p> <p>The Council has disclosed this material uncertainty and <b>my audit opinion is not modified in respect of this matter.</b></p>
<p><b>Key audit matters</b></p>	<p>Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement.</p> <p>These matters are included within <b>Appendix 2 – proposed audit report – See section entitled ‘Key audit matters – our assessment of risks of material misstatement’.</b></p>

## Additional report to the Audit and Governance Committee

- 32 The City and County of Swansea is classified as a Public Interest Entity (PIE) as it has a small amount of debt which can be traded on the stock exchange. This debt is in the form of historic local bonds which are valued at £5,000.
- 33 For audits of financial statements of public interest entities, I have included an **additional report to the Audit and Governance Committee** of the City and County of Swansea explaining the results of the audit carried out.
- 34 This audit was led on behalf of the Auditor General for Wales by Anthony Veale.

- 35 As confirmed in paragraph 10, we remain independent of yourselves; and our objectivity has not been compromised in any way.
- 36 We communicated our Audit Plan to the Audit and Governance Committee at its meeting dated 20th April 2021. The Audit Plan set out the key audit risks, as well as an outline of our proposed timescales for the audit. We will report the outcomes of our audit to the Audit and Governance Committee at its meeting on 24 August 2021. We will then report to the Council meeting scheduled to meet on 2 September 2021 where the financial statements are scheduled for approval.
- 37 My audit has been performed in accordance with the Code of Audit Practice of the Auditor General for Wales. Our audit approach is defined within Audit Wales guidance. We have followed this approach and adopted a substantive audit approach which has been used to verify material balances and classes of transactions.
- 38 Our quantitative level of materiality applied to perform the audit for the financial statements is summarised in paragraph 5. Further details on materiality are included in our proposed audit report set out in **Appendix 2**.
- 39 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.
- 40 With the exception of the proposed audit qualification reported in paragraphs 16 to 23, there are no significant deficiencies in the Council or Group's internal financial control system or in the accounting system. With regards to the deficiency, the Council has incorrectly accounted for the historic cost depreciation transfer between the two reserves since at least 2011/12, resulting in both reserves being potentially materially misstated. As stated in paragraph 20, the Council has undertaken an immediate review to seek to correct and improve the accuracy of the figures but have been unable to substantially assure me and thus accurately quantify the value of any misstatement (within the context of materiality between the two reserves) to enable an appropriate correcting entry to be made between the two reserves. The Council will need to further analyse their accounting records in respect of the revaluation reserve and recalculate the adjustment for each year to assess the level of potential misstatement.
- 41 There are no significant matters involving actual or suspected non-compliance with laws and regulations which were identified in the course of the audit, in so far as they are considered to be relevant in order to enable the Audit and Governance Committee to fulfil its tasks.

- 42 The valuation methodologies applied to the various items in the financial statements are reported in the accounting policies and supporting notes within the financial statements. No changes have been made to these methodologies in 2020-21.
- 43 Group accounts have been prepared to consolidate the Wales National Pool Swansea and the National Waterfront Museum Swansea.
- 44 We can confirm that all requested explanations and documents were provided by the Council.
- 45 There were no significant difficulties arising during the audit.
- 46 Significant matters encountered during the audit have been reported in **Exhibit 2**.
- 47 There were no other matters arising from the audit that in our professional judgment, were significant to the oversight of the financial reporting process.

## Recommendations

- 48 Following audit certification by the Auditor General, we will issue a separate report setting our audit recommendations and management's responses.

# Appendix 1

## Final letter of representation

[Audited body's letterhead]

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

2 September 2021

## Representations regarding the 2020-21 financial statements

This letter is provided in connection with your audit of the financial statements of City and County of Swansea and its group for the year ended 31 March 2021 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 2020-21; 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.
- With the exception of the issue reported in the qualified audit opinion, 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. The one item that remained uncorrected relates to donated personal protective equipment received during 2020/21, totalling £2.018 million. This has not been

accounted for or disclosed in the financial statements. After discussion with the audit team, it was concluded that the amount was not material and therefore we have not amended the financial statements.

**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 2 September 2021.

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:

Signed by:

Chief Finance Officer (S151 Officer)

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

Date: 2 September 2021

Date: 2 September 2021

# Appendix 2

## Proposed audit report

### 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

##### Qualified opinion on financial statements

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 2021 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 2020-21 based on International Financial Reporting Standards (IFRSs).

In my opinion, except for the possible effects of the matter described in the basis for qualified opinion section of our report, 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 2021 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 2020-21.

##### Basis for qualified audit opinion

The City and County of Swansea and the City and County of Swansea Group have incorrectly recorded in its accounting records historical cost depreciation adjustments between its revaluation reserve (Note 22) and its capital adjustment account (Note 22) since at least 2011-2012 resulting in both being potentially materially misstated. The Council is currently analysing its accounting records to correct for this matter but to date

has been unable to quantify the full value of the misstatement. Consequently, I am unable to determine the level of adjustment necessary to correct for this matter.

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report.

My audit appointment is made via statute. 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 have communicated my estimated audit fee to the Audit and Governance Committee at its meeting on the 20<sup>th</sup> April 2021. I can confirm that no non-audit services prohibited by the Ethical Standard have been provided to the Council. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion. My audit opinion is consistent with the additional report to the Audit and Governance Committee.

## **Emphasis of Matter**

I draw attention to Note 14 and Note 16 of the financial statements, which describe the impact of a material valuation uncertainty regarding valuations of surplus city centre assets and investment property assets. My audit opinion is not modified in respect of this matter.

## **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.

## **Key audit matters – our assessment of risks of material misstatement**

In addition to the matter described in the basis for qualified opinion section, I have determined the matters described below to be the key audit matters to be communicated in my report.

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the



most significant assessed risks of material misstatement (whether or not due to fraud) we identified.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. All of these key audit matters relate to the City and County of Swansea and the City and County of Swansea Group's financial statements.

### Key audit matters – assessment of risks

Risk	Audit team's response
<p><b>Management override</b></p> <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:</p> <ul style="list-style-type: none"> <li>• tested the appropriateness of journal entries and other adjustments made in preparing the financial statements;</li> <li>• reviewed accounting estimates for biases; and</li> <li>• evaluated the rationale for any significant transactions outside the normal course of business.</li> </ul> <p>I found the resulting audit work to be satisfactory therefore addressing the risk of management override.</p>
<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, e.g. 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>My audit team:</p> <ul style="list-style-type: none"> <li>• discussed and monitored the Council's accounts closedown process and quality monitoring arrangements; and</li> <li>• assessed the quality of working papers provided to support the audit.</li> </ul> <p>I found the arrangements to prepare both the accounts and supporting were satisfactory and no further risks were identified in this respect.</p>
<p><b>Impact of COVID-19</b></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</p>	<p>My audit team:</p> <ul style="list-style-type: none"> <li>• reviewed and assessed the various funding streams made available by Welsh Government and assessed how the Council has accounted for these monies; and</li> <li>• undertook audit work in respect of property, plant and equipment valuations, material</li> </ul>

Risk	Audit team's response
<p>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> <li>• accounting treatment for the establishment of the Bay Studios field hospital; and</li> <li>• verification of existence of property, plant and equipment.</li> </ul>	<p>accounting estimates, the accounting arrangements for the establishment of the Bay Studios field hospital and the verification of property, plant and equipment.</p> <p>I found that:</p> <ul style="list-style-type: none"> <li>• the additional monies received from Welsh Government in relation to COVID-19 had been accounted for correctly within the statement of accounts.</li> <li>• via discussions with the Council's internal valuer, I was able to confirm which non-current assets were subject to year-end valuation uncertainty. Additional disclosure was included in this respect and I draw attention to this in my audit report.</li> <li>• the Council's estimation of accrued leave and bad debt provision was acceptable.</li> <li>• the accounting arrangements to support the Bay Studios field hospital were appropriate.</li> <li>• I was able to undertake verification of existence for property, plant and equipment with no issues arising.</li> </ul>
<p><b>McCloud judgement</b></p> <p>In 2015 the Government introduced reforms to public sector pensions, meaning most public sector workers were moved into new pension schemes in 2015.</p> <p>In December 2018, the Court of Appeal ruled that the 'transitional protection' arrangements amounted to unlawful discrimination.</p> <p>Consultations on proposed remedies for the Local Government, Police and Fire pensions schemes closed in October 2020.</p> <p>The impact of the judgement is likely to have a significant impact on the IAS 19 disclosed liabilities.</p>	<p>My audit team reviewed how the treatment of the McCloud judgement was appropriately included within the pension amounts disclosed in the financial statements.</p> <p>I found that the impact of McCloud judgement had been appropriately included in the year-end IAS 19 pension liability provided by the actuary.</p>
<p><b>Capital expenditure on the Swansea Central Phase 1 project</b></p> <p>The Council has continued to progress the Swansea Central Phase 1 project over the</p>	<p>My team:</p> <ul style="list-style-type: none"> <li>• undertook audit testing of a sample of transactions to ensure that capital expenditure is</li> </ul>

Risk	Audit team's response
<p>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).</p> <p>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.</p>	<p>correctly classified in the financial statements; and</p> <ul style="list-style-type: none"> <li>reviewed valuations of a sample of AUC to ensure these reflect conditions as at the reporting date.</li> </ul> <p>I found the capital expenditure relating to the Swansea Central Phase 1 project had been correctly accounted for and treated appropriately as capital expenditure.</p>
<p><b>Consideration of related parties and senior officer remuneration disclosures</b></p> <p>We consider related party transactions and senior officer remuneration disclosures to be material by nature. As such, it is important that the Council maintains:</p> <ul style="list-style-type: none"> <li>an accurate register of declared interests, covering both the declarations made by relevant officers and Councillors; and</li> <li>remuneration information covering senior officers.</li> </ul> <p>There is a risk that not all relevant disclosures are included in the 2020-21 financial statements.</p>	<p>My audit team assessed the related party and senior officer remuneration disclosures to confirm they are accurate, complete and in accordance with the Code.</p> <p>I found the related party and senior officer remuneration disclosures to be accurate, complete and in accordance with the Code.</p>

## My application of materiality

- Materiality for the City and County of Swansea's financial statements, as a whole, was set at £9.3 million (2019-20: £9.0 million). This was determined by setting materiality at a level of 1% of expenditure.
- Materiality for the group financial statements, as a whole, was set at a marginally higher level than the City and County of Swansea's financial statements - £14,000 higher. Overall, the materiality for the Group, when rounded, was £9.3 million (2019-20: £9.0 million).
- I consider the following amounts to be material by nature and therefore set a lower value of materiality:
  - values reported in the officers' remuneration report – £1,000
  - values reported in the related parties note relating to officers and members - £10,000.

- I report to the Audit and Governance Committee all corrected and uncorrected identified misstatements exceeding £467,000 (2019-20: £449,000). This was determined by setting a reporting level of 5% of materiality. Any misstatements below this trivial level I judge as not requiring consideration by those charged with governance and therefore will not report them.

## **Other Information**

The responsible financial officer is responsible for the other information in the statement of accounts. The other information comprises the information included in the Narrative Report and Annual Governance Statement. 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 2020-21; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and the Annual 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 Annual Governance Statement.

As I explain in the basis for our qualified audit opinion paragraph the Council's accounting records incorrectly record the historical cost depreciation adjustment between its revaluation reserve and its capital adjustment account.

Except for this issue, 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, or returns adequate for my audit have not been received from branches not visited by my team;
- 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.

## **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 except for the possible effects of the matter described in the basis for qualified opinion section of our report, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

My procedures included the following:

- Enquiring of management, the Council's Head of Internal Audit and those charged with governance, including obtaining and reviewing supporting documentation

relating to the City and County of Swansea's policies and procedures concerned with:

- identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- Considering, as an audit team, how and where fraud might occur in the financial statements and any potential indicators of fraud.
  - Obtaining an understanding of the City and County of Swansea's framework of authority, as well as other legal and regulatory frameworks that the City and County of Swansea and its Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the City and County of Swansea and the Group.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit and Governance Committee and legal advisors about actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the Council; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

I also communicated relevant identified laws and regulations and potential fraud risks to all audit team and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the City and County of Swansea's controls, and the nature, timing and extent of the audit procedures performed.

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.

## Certificate of completion of audit

I certify that I have completed the audit of the accounts of City and Council 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.

Adrian Crompton  
Auditor General for Wales  
7 September 2021

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# Appendix 3

## Summary of corrections made

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 4: summary of corrections made

Value of correction	Nature of correction	Reason for correction
£12.633 million	<p>Note 28 Grant Income required amendment to remove grant funding for schemes where the Council were operating as an Agent. This has resulted in:</p> <ul style="list-style-type: none"><li>• removal of the Bus Emergency Support Grant line totalling £7,452,000;</li><li>• reducing the Bus Services Support Grant line by £4,943,000; and</li><li>• reducing the other grants line by £238,000.</li></ul> <p>It should be noted that there was no overall impact on the Council's Comprehensive Income and Expenditure Statement.</p>	<p>To ensure only grant income credited to the Comprehensive Income and Expenditure Statement was included in Note 28.</p>
Various presentational amendments	<p>Various other minor presentational amendments were made to the narrative report and draft statement of accounts. There was no overall impact on the net expenditure or net assets of the Council.</p>	<p>To ensure accuracy of the financial statements.</p>







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We welcome correspondence and telephone calls in Welsh and English.  
Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.