



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Audit of Financial Statements Report – **City & 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.

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Summary report

Introduction

- 1 The Auditor General is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of City & County of Swansea (the Council) at 31 March 2017 and its income and expenditure for the year then ended.
- 2 We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might result in a reader of the accounts being misled.
- 3 The quantitative levels at which we judge such misstatements to be material for the Council are £8.4 million. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and reader sensitivity.
- 4 International Standard on Auditing (ISA) 260 requires us to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
- 5 This report sets out for consideration the matters arising from the audit of the 2016-17 financial statements of the Council (including its Group), that require reporting under ISA 260. A separate report has been issued covering the City & County of Swansea Pension Fund.

Status of the audit

- 6 We received the draft financial statements for the year ended 31 March 2017 on 14 June 2017, prior to the deadline of 30 June 2017, and have now substantially completed our audit work.
- 7 We are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. We have already discussed these issues with the Head of Financial Services and Service Centre (the Section 151 officer).

Proposed audit report

- 8 It is the Auditor General's intention to issue an unqualified audit report on your 2016-17 financial statements once you have provided us with a Letter of Representation based on that set out in [Appendix 1](#). The proposed audit report is set out in [Appendix 2](#).

Significant issues arising from the audit

Uncorrected misstatements

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

Corrected misstatements

- 10 There were a number of misstatements which have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process. These are set out with explanations in [Appendix 3](#). These amendments had no impact on the net expenditure or net assets of the Council.

Other significant issues arising from the audit

- 11 In the course of the audit, we consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you:
- **We have no concerns about the qualitative aspects of your accounting practices and financial reporting.** As was the case last year, we found the financial statements were compiled to a good standard. We found the information provided to be relevant, reliable, comparable and easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear. We will hold a post project learning meeting with the Council's Finance Team later in the year to improve the efficiency of the compilation and audit processes. A key challenge for the Council and us will be the statutory earlier closure deadline of 31 May and audit deadline of 31 July from 2020-21. To ensure we are well placed to meet the earlier deadlines the Council and ourselves will agree a plan to incrementally bring forward the accounts closure and audit over the next few years.
 - **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. We did however identify that the Council's working papers and responses to our audit queries for Borrowing could be improved in 2017-18.
 - **There were no significant matters discussed and corresponded upon with management which we need to report to you.** We planned and performed our audit to address the financial statement risks as reported within our 2017 Audit Plan. No significant issues were identified from the audit of these areas.

- **There are no other matters significant to the oversight of the financial reporting process that we need to report to you.**
- **We did not identify any material weaknesses in your internal controls although we have identified some significant issues to report to you.**
During 2016-17, the Council has continued to make progress in improving its arrangements for capital accounting. However, there are a number of areas where further work is required in 2017-18. [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 2016-17 financial audit work

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

Independence and objectivity

- 13 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 14 As reported in our Audit Outline there is one independence issue for which we put in place additional audit controls. We have complied with ethical standards and in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between the Wales Audit Office and the Council that we consider to bear on our objectivity and independence.

Appendix 1

Final Letter of Representation

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

Representations regarding the 2016-17 financial statements

This letter is provided in connection with your audit of the financial statements (including that part of the Remuneration Report that is subject to audit) of City & County of Swansea for the year ended 31 March 2017 for the purpose of expressing an opinion on their truth and fairness.

We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

Management representations

Responsibilities

We have fulfilled our responsibilities for:

- The preparation of the financial statements in accordance with legislative requirements and the Code; in particular the financial statements give a true and fair view in accordance therewith.
- The design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

Information provided

We have provided you with:

- Full access to:
 - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;
 - additional information that you have requested from us for the purpose of the audit; and
 - unrestricted access to staff from whom you determined it necessary to obtain audit evidence.

- The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- Our knowledge of fraud or suspected fraud that we are aware of and that affects the Council and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements.
- Our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others.
- Our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
- The identity of all related parties and all the related party relationships and transactions of which we are aware.

Financial statement representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

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 & County of Swansea

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by Members of the City & County of Swansea on 28 September 2017.

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:

Head of Financial Services and Service
Centre (S151 Officer)

Date:

Signed by:

Chair of the Council

Date:

Appendix 2

Proposed audit report of the Auditor General to the Members of the City & County of Swansea

I have audited the accounting statements and related notes of:

- the City & County of Swansea;
- the City & County of Swansea Group; and
- the City & County of Swansea Pension Fund;

for the year ended 31 March 2017 under the Public Audit (Wales) Act 2004.

The City & County of Swansea's accounting 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.

The City & County of Swansea Group's accounting 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.

The City & County of Swansea Pension Fund's accounting statements comprise the Fund Account and the Net Assets Statement.

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 2016-17 based on International Financial Reporting Standards (IFRSs).

Respective responsibilities of the responsible financial officer and the Auditor General for Wales

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 186, the responsible financial officer is responsible for the preparation of the statement of accounts, including the City & County of Swansea's Group accounting statements and the City & County of Swansea Pension Fund's accounting statements, which gives a true and fair view.

My responsibility is to audit the accounting statements and related notes in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors.

Scope of the audit of the accounting statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements and related notes sufficient to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the City & County of Swansea and the City & County of Swansea Group and the City & County of Swansea Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of

significant accounting estimates made by the responsible financial officer and the overall presentation of the accounting statements and related notes.

In addition, I read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited accounting statements and related notes 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.

Opinion on the accounting statements of the City & County of Swansea

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of the City & County of Swansea as at 31 March 2017 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17.

Opinion on the accounting statements of the City & County of Swansea Group

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of the City & County of Swansea Group as at 31 March 2017 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17.

Opinion on the accounting statements of the City & County of Swansea Pension Fund

In my opinion, the pension fund accounts and related notes:

- give a true and fair view of the financial transactions of the City & County of Swansea Pension Fund during the year ended 31 March 2017 and of the amount and disposition of the fund's assets and liabilities as at that date; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17.

Opinion on other matters

In my opinion, the information contained in the Explanatory Foreword is consistent with the accounting statements and related notes.

Matters on which I report by exception

I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

- adequate accounting records have not been kept;
- the accounting 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;
- the Governance Statement does not reflect compliance with guidance.

Certificate of completion of audit

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

For and on behalf of
Huw Vaughan Thomas
Auditor General for Wales

24 Cathedral Road
Cardiff
CF11 9LJ

29 September 2017

Appendix 3

Summary of corrections made to the draft financial statements

During our audit we identified the following misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

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

| Value of correction | Nature of correction |
|---------------------|--|
| £22 million | Borrowing (Note 18) The following classification errors were identified in Note 18 of the draft financial statements: <ul style="list-style-type: none">• £22 million of short-term borrowing from other authorities was incorrectly classified as Public Works Loan Board (PWLB).• £9 million of PWLB loans were incorrectly classified as long-term borrowing. These loans are due to mature within twelve months.• £2 million of long-term borrowing from other institutions including Welsh Government was incorrectly classified as PWLB. |
| £9 million | |
| £2 million | |
| £1 million | Grant Income (Note 32) Note 32 of the draft financial statements incorrectly disclosed £1 million of grant income received by the Council as relating to 'Vibrant and Viable Places' rather than 'other grants and contributions'. |
| Various | Various other minor presentational amendments were made to the draft financial statements. These amendments included a number of minor changes and additional disclosures to the Officers' remuneration set out in Note 30. |

Appendix 4

Recommendations arising from our 2016-17 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: recommendations arising from our 2016-17 financial audit work

| Matter arising 1 – Capital Accounting | |
|--|---|
| Findings | <p>During 2016-17, the Council has continued to make progress in improving its arrangements for capital accounting. However, there are a number of areas where further work is required in 2017-18 including:</p> <ul style="list-style-type: none">• the Council's approach to the revaluation of Schools requires review to ensure that the correct guidance is consistently applied across the asset base.• the Council is unable to fully reconcile its Revaluation Reserve to the net historical cost of its assets.• the Council holds the deeds for a number of assets but these have yet to be registered with the Land Registry. These records should be systematically updated with the Land Registry in conjunction with the revaluation programme.• the Council needs to formally review the valuation methods used for all significant assets held by Group subsidiaries and assess the difference between the valuation methods used by the subsidiaries and the valuation methods set out in the Council's accounting policies.• the Council's asset registers are spreadsheet based which takes significant officer time to maintain. A more efficient approach to capital accounting needs to be implemented if early closure deadlines are to be met in future. |
| Priority | High |
| Recommendation | The Council needs to continue to improve its capital accounting arrangements in 2017-18 across a number of areas. |
| Benefits of implementing the recommendation | Implementation of the recommendation would improve capital accounting arrangements. |
| Accepted in full by management | Yes |

Matter arising 1 – Capital Accounting**Management response**

There is an accepted need to strengthen further still a number of aspects of capital accounting as set out above. The findings are accepted and steps will be taken to address these where practicable and proportionate to do so.

Implementation date

Throughout 2017-18 in time for 2017-18 Statement of Accounts compilation

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