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WALES **AUDIT** OFFICE

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Audit of Financial Statements Report

Neath Port Talbot County Borough Council

Audit year: 2010-11

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Status of report

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Summary report

Introduction

1. The Appointed Auditor is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of Neath Port Talbot County Borough Council (the Council) at 31 March 2011 and its income and expenditure for the year then ended.
2. We received the draft financial statements for the year ended 31 March 2011 on 18 July 2011 this was after the statutory deadline for the production of the financial statements of 30 June 2011. Due to this delay, audit issues, council officers availability etc, we were unable to complete our audit and issue an audit opinion by the statutory deadline of 30 September 2011.
3. We have been working closely with your officers to conclude our work and we have now substantially completed the audit work. We are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. The audit team has already discussed these issues with relevant officers.
4. 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.
5. The quantitative levels at which we judge such misstatements to be material for the Council are £4 million for income and expenditure items and working capital balances, and £5.6 million for other balances. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity.

Proposed audit report

6. It is the Appointed Auditor's intention to issue an unqualified audit report on the financial statements once you have provided us with a Letter of Representation based on that set out in [Appendix 1](#). However, the audit cannot be formally concluded until the re-advertisement of the accounts has been concluded.
7. The proposed audit report is set out in [Appendix 2](#).

Significant issues arising from the audit

Uncorrected misstatements

8. We set out below the misstatements we identified in the financial statements, which have been discussed with management but remain uncorrected. We confirm these do not impact on the proposed audit opinion on the Statement of Accounts for 2010-11. However, you need to confirm whether or not you are content with the management's

proposals not to amend the accounts and record the reasons in the Letter of Representation. Irrespective of whether these issues are adjusted or not, further work will be required to address these issues next year.

Treatment of primary school finance leases.

9. Ysgol GGD Cwmgors and Coedffranc Primary schools have been identified as finance leases but had been omitted from the accounts in error. This meant that the property plant and equipment balance and finance lease liabilities at 1 April 2009 were understated by £2,882,900. As the correct account entries will require Council officers to unwind the lease to its inception they have decided to include a narrative note this year with full disclosure being made in 2011-12.

Treatment of interest on VAT refund

10. As a result of a court case, Her Majesty's Revenue and Customs (HMRC) invited claims backdated to accounting periods before 1996. Based on work done by Council officers the Council has received a principal repayment of £327,625 together with interest of £318,000. The interest has been included in investment income in the accounts, whereas in our opinion it should be included in general income as it does not meet the definition of investment income set out in the CIPFA Code of Practice on Local Government Accounting.

Treatment of 2009-10 invest to save creditor

11. In 2009-10 the balance sheet did not reflect the total loan repayable to the Welsh Government under the invest to save scheme: this means that the 2010-11 creditors balance is understated by £166,750.

Corrected misstatements

12. There are also misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process. They are set out with explanations in [Appendix 3](#).

Other issues arising from the audit

13. In the course of the audit we also consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you. There were some significant issues arising in these areas this year.

We have concerns about the qualitative aspects of your accounting practices and financial reporting

14. 2010-11 has been a very challenging year for the Council, with the introduction of International Financial Reporting Standards (IFRS). The Council was also involved in the transfer of its housing stock to NPT homes, which required significant input from the finance team and also resulted in the transfer of some key finance officers to NPT homes. These issues have had an impact on the accounts production and audit process.
15. The Statement of Accounts for 2010-11 was the first to be prepared in accordance with IFRS and the conversion of the Council's Statement of Accounts required a significant amount of work over and above the standard accounts preparation process. As previously reported to the Audit Committee, this process was problematic and took considerable time and effort from officers and audit staff, and meant that the statement of accounts was not produced in line with the statutory deadlines.
16. The quality of the statement of accounts produced was poor with a significant number of audit adjustments being required. As highlighted, the finance team were under considerable pressure, but we have reported in the last two years that closure processes needed to be improved with more quality review built into the process to ensure pre-audit accounts were as accurate as possible within the time constraints faced. The fact that the restated opening balances were not available for audit earlier in the year compounded the problems.
17. The working papers we received were of variable quality with some being relevant, reliable and easy to understand but others requiring significant audit input to resolve.
18. Given the ongoing challenges in terms of the finance department restructuring, key staff leaving, office relocations etc, it is imperative that closure processes are reviewed and the necessary resources and processes put in place to ensure that statutory deadlines are met in 2011-12. The timely preparation and publication of materially correct and audited accounts are a fundamental way in which the Council demonstrates its stewardship of public money. We will work closely with officers to ensure that effective arrangements are put in place in terms of timetable, working papers and working arrangements between departments and audit. The Audit Committee will have a key role to play in this process.

We did encounter some difficulties during the audit

19. Although we were not restricted in our work and we received most of the information that we required for our audit in a timely manner, there were still delays in resolving some of the audit issues raised. The current flexible working arrangements impacted on when key staff were available to answer audit queries and also when key officers could meet to discuss and agree the impact of audit adjustments before responding to us. These working arrangements added to the difficulties and delays experienced and need to be reviewed and factored into the closure plans to be developed by the Council.

There is one matter discussed and corresponded upon with management which we need to report to you

20. The Council was one of the first to agree equal pay settlements with its employees, with the bulk of the payments made in 2006-07 and a further £2.5 million being paid in 2008-09.
21. The appointed auditor has recently obtained independent legal advice on whether pension contributions apply when determining liabilities arising from equal pay settlements, this concluded that councils should recognise employers' pension contributions payable on equal pay settlements. However, this only applies to payments made after April 2008 as the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations have been amended retrospectively to this date.
22. This amendment therefore only applies to the £2.5 million paid out in 2008-09. This change has been discussed with officers and the potential liability has been estimated as between £182,000 to £269,000. Given the uncertainties that still surround this issue, it has been agreed that this amount will be reflected as a contingent liability in this year's accounts but reviewed in more detail in 2011-12 to determine whether the payment should be made or provided for.

There are no other matters significant to the oversight of the financial reporting process that we need to report to you

23. No other matters relating to the oversight of the financial reporting process at the Council were identified during our audit work.

We did not identify any material weaknesses in your internal controls

24. We did not identify any material weaknesses in the Council's internal controls, but controls within the creditors and debtors systems need to be improved. These issues have been raised at previous Audit Committee meetings by internal audit and work is ongoing to make the necessary improvements.

Appendix 1

Letter of Representation

Appointed Auditor
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

Date

Representations regarding the 2010-11 Financial Statements

This letter is provided in connection with your audit of the financial statements of Neath Port Talbot County Borough Council for the year ended 31 March 2011.

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

Management Representations

Responsibilities:

[I/We] have fulfilled [my/our] responsibilities for the preparation of the financial statements in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2010-11, in particular the financial statements give a true and fair view in accordance therewith.

[I/We] acknowledge [my/our] responsibility for 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 Neath Port Talbot County Borough 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; and
 - 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. A summary of these items is set out below:

In all material respects, the statement of accounts, including the restatement of prior-year comparatives, complies with International Financial Reporting Standards.

Representations by the Audit Committee

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 the Audit Committee on 12 December 2011.

Signed by:

Signed by:

Director of Finance and Resources

Chair of the Audit Committee

Date:

Date:

Appendix 2

Proposed audit report of the Appointed Auditor to the Neath Port Talbot County Borough Council

Independent auditor's report to the Members of Neath Port Talbot County Borough Council

I have audited the accounting statements and related notes of Neath Port Talbot County Borough Council for the year ended 31 March 2011 under the Public Audit (Wales) Act 2004. Neath Port Talbot County Borough Council'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 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 2010-11 based on International Financial Reporting Standards (IFRSs).

Respective responsibilities of the responsible financial officer and the independent auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on pages ... to ..., the responsible financial officer is responsible for the preparation of the statement of accounts, 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 Auditing Practices Board'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 Neath Port Talbot County Borough Council'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. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Opinion on the accounting statements of Neath Port Talbot County Borough Council

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Neath Port Talbot County Borough Council as at 31 March 2011 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 2010-11.

Opinion on other matters

In my opinion, the information contained in the Explanatory Foreword for the financial year for which the accounting statements and related notes are prepared 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 Governance Statement on which I report to you if, in my opinion, it does not reflect compliance with 'Delivering Good Governance in Local Government: Framework' published by CIPFA/SOLACE in June 2007, or if the statement is misleading or inconsistent with other information I am aware of from my audit.

Certificate of completion of audit

I certify that I have completed the audit of the accounts of Neath Port Talbot County Borough Council in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Code of Audit Practice issued by the Auditor General for Wales. The audit cannot be formally concluded and an audit certificate issued until the re-advertisement of the accounts has been concluded, which is expected to be in January 2012.

Anthony Barrett
Appointed Auditor
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

13 December 2011

Appendix 3

Summary of corrections made to the draft financial statements which should be drawn to the attention of the Audit Committee

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

Value of correction	Nature of correction	Reason for correction
£15,238,000	Fixed assets overstated, payments in advance understated.	Harbour Way capital scheme: <ul style="list-style-type: none"> capital additions had been included in the accounts incorrectly as the expenditure had not been incurred at the year-end; and this resulted in capital expenditure; capital financing; payments in advance; receipts of grant in advance and Consolidated Income and Expenditure Statement (CIES) having to be amended.
£15,238,000	CIES – taxation non-specific grant income line overstated.	See above.
£15,642,000	Receipts in advance understated.	See above.
£15,238,000	Capital Adjustment Account overstated.	See above.
£124,000	Capital Grants unapplied overstated.	See above.
£528,000	Government debtors understated.	See above.
£1,049,980	Central government debtors overstated, creditors – receipts in advance overstated.	Work ways European convergence grant: <ul style="list-style-type: none"> the government debtors balance included £1,049,908 for the Council's share of the grant from the regional work ways team, however, the amount from the Wales European Funding Office (WEFO) to the regional team was also included in debtors resulting in the Council's element being double counted.

Value of correction	Nature of correction	Reason for correction
£724,000	Debtors overstated, income overstated.	Since receiving the draft accounts the audit of the work ways grant has been concluded, which identified that the claim was overstated by £724,734, given the significance of this amount we agreed that the accounts would be amended.
£210,916	Creditors overstated, and expenditure in CIES overstated.	Education creditors included balances for 2011-12 expenditure incorrectly.
£2,492,101	Sundry debtors and sundry creditors balances overstated.	Committee 66 – operating accounts internal mentor system creditors balance had not been netted off the balance in sundry debtors.
£3,574,329 £6,074,363	2008-09 cash and creditors understated. 2009-10 cash and creditors understated.	2010-11 Accounting treatment of the South Wales Trunk Road Agency (SWTRA) was inconsistent with 2009-10. In 2010-11 sundry creditors included £14,167,794 cash due to SWTRA with a corresponding entry in the cash balance, whereas previously it had been excluded from the accounts as SWTRA is independent of the Council. Agreed that the previous year's figures would be amended to reflect the 2010-11 treatment.
£917,594 £809,941	Creditors – other local authorities understated, other entities and individuals overstated. Creditors – other local authorities overstated, central government departments understated.	Note 21 Misclassification of creditors: <ul style="list-style-type: none"> • Merthyr Tydfil County Borough Council misclassified; and • Teachers' Pensions payments misclassified.
£200,105	Sundry debtors overstated and income overstated.	Note 18 Sundry debtors: <ul style="list-style-type: none"> • Welsh Government pensioners grant had been omitted from the Council Tax arrears figure.
£189,374	Bad debts provision overstated, debtors balance understated.	Housing Revenue Account (HRA) bad debts provision posted twice, this also impacts on the HRA.

Value of correction	Nature of correction	Reason for correction
£528,0000	CIES expenditure understated. Note 7 movement in unusable reserves understated.	The opening balance in the Movement in Reserves statement (MiRS) did not reconcile to the balance sheet figure.
£76,960,000	CIES Non-distributed costs gross expenditure and gross income overstated.	Impact of change in pension valuations from RPI to CPI should have been included as a credit to the non-distributed costs gross expenditure not income, as it relates to past service costs.
Additional PBSE note		Post Balance Sheet Event (PBSE) note also needed in respect of the judicial review of this change currently ongoing.
Change in location in statement not value	Local Authority Housing (HRA line) moved from cost of services section of the CIES to a discontinued operations line.	Due to the housing stock transfer the HRA should be shown as a discontinued operation on the face of the CIES and not included in the cost of service section of the CIES.
£183,616	Non domestic rates overstated, debtors overstated.	Note 11 taxation and non specific grant incomes: <ul style="list-style-type: none"> non-domestic rates incorrectly included income which should have been netted off carried forward debtors figure.
£668,000	Revaluation gain in note 12 overstated. Assets held for sale overstated.	Note 12 Property Plant and Equipment (PPE) and note 20 Assets Held for Sale (AHfS): <ul style="list-style-type: none"> 2009-10 Revaluation gain on sale of land at Hillside had been included in PPE figures rather than the AHfS figures.
£459,000	Capital additions understated, Capital Adjustment Account (CAA) overstated.	Note 12 PPE: <ul style="list-style-type: none"> Spending on Herbert Street refurbishment had been written off as non-enhancing expenditure but it related to physical construction and materials, and should therefore have been capitalised.

Value of correction	Nature of correction	Reason for correction
£241,013	<p>Expenditure:</p> <ul style="list-style-type: none"> • PPE overstated, CIES expenditure understated; • MiRS understated; and • CAA overstated. <p>Income:</p> <ul style="list-style-type: none"> • CIES non-specific grant income overstated; • CIES cost of services income understated; • MiRS overstated; and • CAA understated. 	<p>Note 12 PPE:</p> <ul style="list-style-type: none"> • community equipment grant expenditure has been included in fixed assets whereas under the grant terms and conditions the assets should be recorded in the administering body's accounts – in this case Swansea City Council and reflected as a deferred charge in the Council's accounts. This also impacts on grant income.
£6,624,000 – 2010-11 £6,891,000 – 2009-10	<p>HRA management and maintenance expenditure overstated, this also needs to be reflected in the revaluation reserve.</p> <p>Non-enhancing expenditure written off through the MiRS overstated, CAA of non-enhancing expenditure written off overstated.</p>	<p>Under IFRS the treatment of impairment on capital expenditure has changed; this change had not been correctly reflected in the accounts for either 2010-11 or 2009-10.</p>
£705,000 – 2010-11 £1,435,000 – 2009-10	Interest income understated.	<p>Note 15 Income, expenses, gains and losses:</p> <ul style="list-style-type: none"> • interest expense line and interest income line understated for both 2009-10 and 2010-11 as it should reflect the total interest for the year. No impact on CIES.
£7,597,000 – 2010-11 £7,453,000 – 2009-10	Interest expense line understated.	
£34,000	2010-11 refuse income understated.	<p>Note 30 trading operations 2010-11 refuse income incorrect, the 2008-09 figure had been included in error.</p>

Value of correction	Nature of correction	Reason for correction
£10 £156 £156	Chief Executive, Director of Education and Lifelong Learning and Director of Finances and Resources overstated.	Note 35 Officers remuneration: <ul style="list-style-type: none"> 2010-11 employers pension contribution figures for the Chief Executive; Director of Education and lifelong learning and Director of Finance and Resources incorrect.
Numbers in bandings adjusted		<ul style="list-style-type: none"> The remuneration bandings included one too many employees in banding £70,000 to £74,999 and one too few in banding £80,000 to £84,999. Disclosure note only, but politically sensitive so amended.
£1,488,000	Revenue support grant 2009-10 overstated.	Note 38 Grant income performance incentive grant included in both performance incentive grant and revenue support grant lines for 2009-10 total overstated.
Revised note	Related parties note updated.	Note 39 related parties: <ul style="list-style-type: none"> Number of incorrect statements included in respect of officers directorships.
Various	Note 28 to be amended.	Note 28 Amounts reported for resource allocation decisions – required a number of amendments.
New note	IFRS transition note to be included.	No IFRS transition note had been included in the accounts: given the significant changes in 2010-11 a note should have been included. On receipt of note figures required amendment.
1 April 2009 restated balances	Note 18 Debtors. Note 19 cash and cash equivalents. Note 21 creditors.	Under IFRS various notes to the accounts required 1 April 2009 restated figures to be included.

Value of correction	Nature of correction	Reason for correction
	HRA Expenditure:	HRA – 2009-10 rent system figures had been posted to the 2010-11 financial ledger and the HRA in error.
£118,000	<ul style="list-style-type: none"> Management and maintenance understated. 	
£326,000	<ul style="list-style-type: none"> Negative subsidy payable overstated. HRA Income. 	
£22,000	<ul style="list-style-type: none"> Dwelling rents understated. 	
£11,000	<ul style="list-style-type: none"> Charge for services and facilities understated. 	
Narrative note	Note outlining background to VAT shelter to be included.	As part of the housing stock transfer a VAT shelter arrangement was agreed with HMRC, which meant that the VAT element of the refurbishment work needed to bring the housing stock up to standard could be offset by the Council and NPT homes, so that no physical transfer of monies to or from HMRC was required. Given the complexity of this agreement a note was required to the accounts explaining the VAT shelter arrangement.
a) £346,000,000 (£346,000,000)	a) HRA expenditure and HRA income increased.	As a result of the VAT shelter agreement a number of technical accounting entries were required. The end result of these entries is a matching debtor and creditor balance for the cost of refurbishing the housing stock which the Council will then net off. There is no impact on the bottom line of the accounts but adjustments are necessary to ensure that proper accounting practices are followed.
b) £69,000,000 (£69,000,000)	b) Debtors increased by input VAT reduced by output VAT, increased by amount due from NPT homes.	
c) £415,000,000 (£415,000,000)	c) Creditors increased by amount due to NPT homes.	
d) (£346,000,000) £346,000,000	d) HRA Movement in reserves statements credited with adjustment for expenditure in (a) above and debited with recognition of disposal.	
e) (£346,000,000) £346,000,000	e) Capital adjustment account debited and credited.	
f) (£346,000,000) £346,000,000	f) Deferred capital receipts accounts debited and credited.	

Value of correction	Nature of correction	Reason for correction
£5,625,000	Debtors increased. Reserves increased. Post-balance sheet note completed.	Since receiving the draft accounts the insurance claim in respect of the Afan Lido fire has been settled. As the Accounts had not been closed this settlement has been reflected in the accounts.
Various	Cashflow, notes 25; 26; 27 amended.	Auditable cashflow produced towards the end of the audit process. On receipt of notes figures required amendment.
Various notes		Numerous narrative disclosure amendments required to comply with the Code.



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