



WALES **AUDIT** OFFICE  

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SWYDDFA **ARCHWILIO** CYMRU

# Audit of the Financial Statements Report

## **Neath Port Talbot County Borough Council**

**Audit year:** 2011-12

**Issued:** September 2012

**Document reference:** 483A2012

# Status of report

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Anthony Barrett, as Appointed Auditor, intends to issue an unqualified audit report on your financial statements. There are some issues to report to you prior to their approval.

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# Summary report

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## Introduction

1. Anthony Barrett, as 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 2012 and its income and expenditure for the year then ended.
2. We received the draft financial statements for the year ended 31 March 2012 on 28 June 2012, one day prior to the agreed deadline and 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 the relevant officers.
3. 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.
4. The quantitative levels at which we judge such misstatements to be material for the Council are £4.8 million for income and expenditure items and working capital balances, and £5.9 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

5. 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](#).
6. The proposed audit report is set out in [Appendix 2](#).

## Significant issues arising from the audit

### Uncorrected misstatements

7. There are no misstatements identified in the financial statements which remain uncorrected.

### Corrected misstatements

8. There are some misstatements that management have corrected, 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](#).

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## Other significant issues arising from the audit

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

- **The Council has made payments in respect of equal pay liabilities in previous years, but has not recognised a liability in respect of pension contributions.**

The Council was one of the first to agree on 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. The pension liability issue only relates to the payments made in 2008-09.

Legal advice obtained by the Appointed Auditor suggests that pensions contributions should be made on the £2.5 million of payments made in 2008-09.

The potential pension contributions not provided for in the accounts at 31 March 2012 are estimated to be between £182,000 and £269,000.

In light of the diverging legal views and the uncertainty regarding the need to recognise a provision in respect of pension contributions on equal pay settlements, we have concluded that we are not required to undertake any further action regarding this matter as part of the audit of the 2011-12 Statement of Accounts.

The Council needs to be alert to any future court decisions on this issue that could clarify the legal position and impact on the need for a provision. In the event of any such decisions, I will also need to reconsider my position.

- **We have some concerns over the qualitative aspects of your accounting practices and financial reporting although there has been a significant improvement over last year.** We found the information provided to support the financial statements to be relevant and reliable. We concluded that accounting policies and estimates are appropriate and financial statement disclosures are unbiased, fair and clear. Better quality accounts were produced this year which required significantly less amendment than in 2010-11. We acknowledge the significant progress made by the finance and corporate services directorate in the accounts preparation process this year. However, scope to improve still exists in a number of areas, especially in terms of the compilation of the Comprehensive income and expenditure statement (CIES) and capital closure processes. The CIES includes a £1.289 million miscellaneous balance which officers were unable to provide an explanation for. Although we are satisfied from our work that the accounts are not materially affected by this, there is obviously an issue with how the accounts are collated which needs to be addressed for 2012-13. We will continue to work with officers in 2012-13 to take forward lessons learnt from this year's process to ensure that the necessary improvements are made. The Audit Committee will continue to have a key role to play in this and we will ensure that you are kept fully informed throughout the audit year.

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- **We did encounter some difficulties during the audit which were to be expected to some degree given the changes in personnel during the closure period but this can be improved.** Although we were not restricted in our work and we received most of the information we requested for our audit in a timely and helpful manner, there were still delays in resolving some of the audit issues raised and in finalising the amendments to the accounts. The lack of comprehensive supporting working papers in some areas resulted in more audit requests for information being required and increased the time required to complete the audit.
  - **There were no significant matters discussed and corresponded upon with management which we need to report to you.**
  - **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.** We are required to report these where you are not already aware of them or where they may be symptomatic of broader weakness in the overall control environment. However, the results of our testing did not identify any matters to bring to your attention.

# Appendix 1

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## Final Letter of Representation

(Audited body's letterhead)

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

[Date]

## Representations regarding the 2011-12 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 2012.

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 of Practice on Local Authority Accounting in the United Kingdom 2011-12, in particular the financial statements give a true and fair view in accordance therewith.

We acknowledge 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;

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- 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.



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## 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 27 September 2012.

Signed by:

Director of Finance and Resources

Date:

Signed by:

Chair of the Audit Committee

Date:

# Appendix 2

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## Proposed audit report of the Appointed Auditor to the Members of 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 2012 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 2011-12, 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 page 6, 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.

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## 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 2012 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 2011-12.

## 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.

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

**28 September 2012**

## Appendix 3

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### Summary of corrections made to the draft financial statements which should be drawn to the attention of Members 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
Presentational	2010-11 column headings in the MiRS, CIES, Balance Sheet and Note 21 amended to state restated.	Where 2010-11 comparative figures had been restated the column headings did not state this.
Disclosure	Note 1 xx amended to include details of how adopted roads are accounted for.	Note 1 xx did not disclose the accounting policy in respect of adopted roads are accounted for.
Presentational	Note 1 xx amended to remove reference to Council dwellings.	Note 1 xx referred to the depreciation policy in respect of Council dwellings when the Council no longer has any Council dwellings.
£13,645,000	Notes 7 and 20 earmarked reserves decreased. HRA reserve increased.	The former HRA reserve had been transferred to earmarked reserves which is not allowable until the HRA is closed.
Disclosure	Additional disclosure added to Note 25.	Note 25 Amounts reported for resource allocation decisions did not disclose why there was no housing income and expenditure in 2011-12.
Disclosure	Additional disclosure added to Note 44.	Note 44 Trust Funds did not disclose that the disclosed figures were derived from unaudited accounts.

Value of correction	Nature of correction	Reason for correction
£921,000	<p>MiRS amended:</p> <ul style="list-style-type: none"> <li>• general fund balance adjustments between accounting basis and funding basis under regulations (Note 6) increased;</li> <li>• general fund transfer to/from Unusable Reserve to Working Balance increased;</li> <li>• unusable reserves adjustments between accounting basis and funding basis under regulations (Note 6) increased;</li> <li>• unusable reserves transfers to/from Earmarked Reserves (Note 7) decreased; and</li> <li>• unusable reserves transfer to/from Unusable Reserve to Working Balance increased.</li> </ul> <p>Note 6 amended:</p> <ul style="list-style-type: none"> <li>• adjustments between accounting basis and funding basis under regulations decreased.</li> </ul>	The Icelandic impairment adjustment was disclosed in the incorrect line of the MiRS.
Narrative	CIES description amended to correctly describe the entry for non-enhancing capital expenditure for which there is a revaluation reserve balance.	The CIES incorrectly described the expenditure as surplus or deficit on revaluation of available for sale assets.
Disclosure Notes	Additional disclosure notes detailing the exceptional items and non-distributed costs included in the CIES.	Further details of the amounts disclosed in the CIES were not included in the notes.
Disclosure	Cashflow and supporting notes amended.	The cash flow was prepared using a combination of the direct and indirect methods and all the adjusting entries required by the Code were not made.
£10,569,000	<p>Note 11 amended:</p> <ul style="list-style-type: none"> <li>• other land and buildings additions increased;</li> <li>• vehicles, plant and equipment additions increased; and</li> <li>• additional line added for movements in each affected asset analysis column.</li> </ul>	Non enhancing capital expenditure incurred and the adjustment of PPE downwards for the 'write off' to the revaluation reserve and CIES were not included in Note 11.

Value of correction	Nature of correction	Reason for correction
£55,663,000	Note 11 amended: <ul style="list-style-type: none"> <li>• infrastructure decreased;</li> <li>• assets under construction increased; and</li> <li>• depreciation decreased.</li> </ul> Brought forward balances also amended and disclosure note added.	All infrastructure expenditure has been capitalised immediately regardless of whether or not the asset is complete and has been brought into use.
£977,000	Note 11 amended: <ul style="list-style-type: none"> <li>• revaluation decreased; and</li> <li>• depreciation increased.</li> </ul> Note 18: <ul style="list-style-type: none"> <li>• Obligations under finance leases increased.</li> </ul> There were also amendments to the revaluation reserve, CIES, capital adjustment account and MiRS.	The two schools held on finance leases had not been capitalised with a corresponding finance lease creditor established.
Disclosure	Additional disclosure note detailing which assets had been revalued, the effective date of the revaluation and the assumptions used.	The required disclosures were not made in respect of revalued assets.
£7,162,000	Note 11 amended: <ul style="list-style-type: none"> <li>• Depreciation written out to the surplus/deficit on the provision decreased.</li> </ul> Depreciation written out to the revaluation reserve increased.	All depreciation written off on revaluation was classified in Note 11 as 'depreciation written out to the surplus/deficit on the provision of services'. Consequently, Note 11 entries do not reconcile to the reserves.
£2,725,900	Note 11 amended: <ul style="list-style-type: none"> <li>• land and building revaluations decreased;</li> <li>• land and building values increased; and</li> <li>• depreciation increased.</li> </ul> There were also amendments to the revaluation reserve, capital adjustment account, MiRS and the CIES.	Dwr-y-Felin Comprehensive Lower School was incorrectly reclassified as an asset held for sale at the year end.

Value of correction	Nature of correction	Reason for correction
£7,916,000	Note 11 amended: <ul style="list-style-type: none"> <li>other land and buildings revaluations decreased; and</li> <li>AUC revaluations increased.</li> </ul>	Revaluation losses in respect of assets under construction were miscoded to other land and buildings.
£459,000	Note 11 amended: <ul style="list-style-type: none"> <li>other land and buildings – change in asset classifications decreased; and</li> <li>infrastructure – change in asset classifications increased.</li> </ul>	A late audit adjustment made in 2010-11 in respect of Herbert Street was incorrectly debited to other land and buildings rather than infrastructure.
£58,000	Note 11 amended: <ul style="list-style-type: none"> <li>other land and buildings – revaluations decreased; and</li> <li>vehicles, plant and equipment revaluations increased.</li> </ul>	Revaluation losses in respect of vehicles, plant and equipment were miscoded to other land and buildings.
Disclosure	Additional disclosures made in Note 12 detailing the policy for the acquisition, preservation, management and disposal of heritage assets and for those assets valued, details of who carried out the valuation.	Heritage assets identified but not valued had not been disclosed.
£380,000 £985,000	Note 15 amended: <ul style="list-style-type: none"> <li>government body debtors increased;</li> <li>NHS debtors increased; and</li> <li>other entities debtors decreased.</li> </ul>	A health board debtor was incorrectly classified as a government debtor rather than an NHS debtor and a Welsh Government SEG grant debtor was incorrectly classified as Other Entities.
£269,000	Note 15 amended: <ul style="list-style-type: none"> <li>Sundry debtors increased.</li> </ul> Note 18 amended: <ul style="list-style-type: none"> <li>Sundry creditors increased.</li> </ul>	Credit balances on the debtors system was netted off the debtors balance.
£126,000 £1,396,000	Note 16 amended: <ul style="list-style-type: none"> <li>cash held by the authority increased; and</li> <li>bank current accounts increased.</li> </ul>	The analysis of cash and bank disclosed the cash balances against the wrong lines.

Value of correction	Nature of correction	Reason for correction
£1,095,000	Note 18 amended: <ul style="list-style-type: none"> <li>government bodies creditors decreased; and</li> <li>other Local Authority creditors increased.</li> </ul>	Monies owed to a local authority were incorrectly classified as government body creditors.
£291,000	Note 18 amended: <ul style="list-style-type: none"> <li>government body creditors increased; and</li> <li>working balances decreased.</li> </ul>	The creditor included in the accounts for the HRA subsidy claim was £291,000 less than the claim submitted.
£200,000	Note 19 amended: <ul style="list-style-type: none"> <li>long-term provisions decreased</li> <li>CIES amended;</li> <li>cost of services decreased</li> <li>Note 7 amended; and</li> <li>reserves increased.</li> </ul>	The provisions balance included a general contingency which did not meet the requirements of IAS 37 and should therefore have been a reserve.
£544,000	Note 21 amended: <ul style="list-style-type: none"> <li>revaluation reserve increased; and</li> <li>capital adjustment account decreased.</li> </ul>	The opening balance on the revaluation reserve incorrectly included a balance for HRA properties and over allocated credits to individual assets.
£63,000	Note 21 amended: <ul style="list-style-type: none"> <li>revaluation reserve increased; and</li> <li>capital adjustment account decreased.</li> </ul>	The summary of the differences between fair value and historic cost depreciation for individual assets in the fixed asset register included several errors.
£1,050,000	Note 25 amended: <ul style="list-style-type: none"> <li>Education, Leisure and Lifelong Learning government grant income decreased; and</li> <li>Education, Leisure and Lifelong Learning fees, charges &amp; other services income increased.</li> </ul>	Education, Leisure and Lifelong Learning government grant income was overstated as two debit amounts were added on rather than deducted.
£434,000	Note 25 amended: <ul style="list-style-type: none"> <li>depreciation increased; and</li> <li>other services decreased.</li> </ul>	Direct revenue financing was incorrectly taken off depreciation in the reconciliation to subjective analysis when it should have reduced other services.
Disclosure	Additional disclosure added to Note 30.	The remuneration of the Director of Education had increased year on year but no explanation of this was provided.



Value of correction	Nature of correction	Reason for correction
2 in number	Note 30 amended: <ul style="list-style-type: none"> <li>• number of other departures agreed 11-12 £0 to £20,000 decreased;</li> <li>• total decreased;</li> <li>• total number of exit packages £0 to £20,000 decreased;</li> <li>• total decreased; and</li> <li>• total cost of exit packages 11-12 £0 to £20,000 decreased.</li> </ul> Total decreased.	Two employees were erroneously included in the exit packages disclosure note.
Disclosure	Note 31 amended to disclose the agreed audit fee for 2011-12 included in the Annual Audit Outline.	Audit fees disclosed did not agree to the audit fee for 2011-12.
£375,000	Note 32 amended: <ul style="list-style-type: none"> <li>• Social services grants increased.</li> </ul>	Social services grant income was omitted from the analysis of grant income.
Disclosure	Note 33 amended to include the required related party disclosures in respect of NPT Homes.	The related party relationship with NPT Homes was not disclosed.
Disclosure	Note 41 disclosures amended to agree to the Margam Crematorium out-turn position.	The disclosures in Note 41 in respect of Margam Joint Crematorium did not agree to the Margam Crematorium out-turn.



WALES **AUDIT** OFFICE  

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SWYDDFA **ARCHWILIO** CYMRU

Wales Audit Office  
24 Cathedral Road  
Cardiff CF11 9LJ

Swyddfa Archwilio Cymru  
24 Heol y Gadeirlan  
Caerdydd CF11 9LJ

Tel: 029 2032 0500

Ffôn: 029 2032 0500

Fax: 029 2032 0600

Ffacs: 029 2032 0600

Textphone: 029 2032 0660

Ffôn Testun: 029 2032 0660

E-mail: [info@wao.gov.uk](mailto:info@wao.gov.uk)

E-bost: [info@wao.gov.uk](mailto:info@wao.gov.uk)

Website: [www.wao.gov.uk](http://www.wao.gov.uk)

Gwefan: [www.wao.gov.uk](http://www.wao.gov.uk)