



WALES **AUDIT** OFFICE  
SWYDDFA **ARCHWILIO** CYMRU

Addendum 2

# Audit of Financial Statements Report

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

**Audit year:** 2012-13

**Issued:** September 2013

**Document reference:** 511A2013

# Status of report

---

This document has been prepared for the internal use of the Neath Port Talbot County Borough Council as part of work performed in accordance with statutory functions, the Code of Audit Practice and the Statement of Responsibilities issued by the Auditor General for Wales.

No responsibility is taken by the Wales Audit Office (the Auditor General and his staff) and, where applicable, the appointed auditor in relation to any member, director, officer or other employee in their individual capacity, or to any third party.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 Code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales (and, where applicable, his appointed auditor) is a relevant third party. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at [infoofficer@wao.gov.uk](mailto:infoofficer@wao.gov.uk).

# Contents

---

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.

---

## Summary report

Introduction	4
Status of the audit	4
Proposed audit report	4
Significant issues arising from the audit	5
Independence and objectivity	6

---

## Appendices

Final Letter of Representation	7
Proposed audit report of the Appointed Auditor to the members of Neath Port Talbot County Borough Council	10
Summary of corrections made to draft financial statements which should be drawn to the attention of Members of the Audit Committee	12

---

# Summary report

---

## 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 2013 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 £4.6 million for income and expenditure items and working capital balances, and £6.3 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.
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 financial statements of the Council, for 2012-13, that require reporting under ISA 260.

## Status of the audit

6. We received the draft financial statements for the year ended 31 March 2013 on 19 June, ahead of the statutory deadline of the 30 June 2013 and have now substantially completed the 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. The audit team has already discussed these issues with officers.

## Proposed audit report

8. 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](#).
9. The proposed audit report is set out in [Appendix 2](#).

---

## Significant issues arising from the audit

### Uncorrected misstatements

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

### Corrected misstatements

11. There are 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 significant issues arising from the audit

12. 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 was one issue 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 2012-13 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, we will also need to reconsider our position.

- 
- **We have some other concerns about the qualitative aspects of your accounting practices and financial reporting although overall the Council has continued to build on the significant improvements made last year.**

It is pleasing to report that overall the Statement of Accounts and associated working papers provided for audit were of a good standard. Progress continues to be made to further improve closedown procedures, with the finance and corporate services directorate driving these improvements. The majority of directorates also produced significantly improved working papers this year. However, further improvements are needed in a number of areas, especially in terms of the capital closure processes and the information provided by the environment directorate. Both had made some improvements in the year but still have work to do. We will continue to work with officers in 2013-14 to take forward lessons learnt from this year's process to ensure we continue to build on this improved performance.

- **We did not encounter any significant difficulties during the audit.**

We received the majority of information in a timely and helpful manner and were not restricted in our work.

- **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 that we have not reported to you already.**

We report these where you are not already aware of them or where they may be symptomatic of broader weaknesses in the overall control environment. However, the results of our testing did not identify any matters to bring to your attention.

- **There are no other matters specifically required by auditing standards to be communicated to those charged with governance.**

## Independence and objectivity

13. As part of the finalisation process, we are required to provide you with representations concerning our independence.
14. 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 or its staff and the Council that we consider would have any impact on our objectivity and independence.

# Appendix 1

---

## Final Letter of Representation

(Audited body's letterhead)

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

[Date]

## Representations regarding the 2012-13 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 2013 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 CIPFA code of practice on local authority accounting in the UK 2012-13; 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;
  - 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;
  - the identity of all related parties and all the related party relationships and transactions of which we are aware;
  - our knowledge of all known partnerships and joint working arrangements that would impact on the financial statements.

## 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 Council has complied with all conditions imposed by relevant grant paying organisations and can reasonably expect to receive the amounts of grant included within the accounts.

The Council has complied with all aspects of contractual agreements that would require adjustment to, or disclosure in, the accounting statements and related notes.

The reserves of the Council have been reviewed and are properly treated within the final accounts in accordance with the CIPFA guidance.

The provisions of the Council have been reviewed and have been properly treated within the final accounts in accordance with IAS 37.



---

The Council has accounted for and disclosed its partnership and joint/collaborative working arrangements in accordance with accounting standards and the CIPFA Code.

The agreed recommendations set out in the 2011/2012 WAO financial accounts reports have been satisfactorily implemented.

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 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 26 September 2013

Signed by:

[Officer who signs on behalf of management]

Date:

Signed by:

[Officer or Member who signs on behalf of those charged with governance]

Date:

## Appendix 2

---

### Proposed audit report of the Appointed Auditor 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 2013 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 2012-13 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 7, 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 the 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 2013 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 2012-13.

### **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**  
**September 2013**

## Appendix 3

---

### 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
Disclosure	Note 16 and 19 disclosures amended to state the reason for the re-statement of the prior year comparative balances	The reason for the re-statement of the prior year debtor and creditor comparatives was not stated
Presentational	Note 18 entries amended to record transactions on the correct line in the note	Assets held for sale transactions were included against the wrong descriptor lines
£7,359,000 £1,281,000	Cost of services income and expenditure amended Cultural services expenditure decreased Environmental services expenditure increased Highways expenditure increased Cultural services income decreased Environmental services income increased Highways income increased	Environmental and regulatory services income and expenditure was incorrectly categorised as cultural and related services
£1,145,000	Cost of services income and expenditure amended Central services expenditure decreased Other housing services expenditure increased Central services income decreased Other housing services income increased	The housing benefit administration grant was incorrectly categorised as central services

Value of correction	Nature of correction	Reason for correction
£615,000 £3,243,000 £615,000	CIES surplus/deficit on provision of services increased Note 22 Revaluation reserve decreased Note 22 Capital adjustment account increased There were also amendments to Note 11 and the MiRS	Assets revalued in the year were not accounted for correctly
£2,602,000	Note 11 amended Other land and buildings decreased	The value of 2 assets was overstated in the asset register
Disclosure	Note 15 disclosures increased	Capital commitments in respect of Neath Town Centre regeneration were omitted from the disclosure
£29,759,000	Note 16 government body debtors decreased Note 19 government body creditors decreased	Debtor and creditor balances were included in the accounts for RSG and NDR whereas Welsh Government pays RSG net of NDR
£603,000	Note 16 government body debtors decreased There were also amendments to CIES grant income, MiRS, capital adjustment account and Note 34	The debtor balance in respect of the PDR2 grant claim was overstated
£996,000	Note 19 amended Other local authorities creditors decreased Other entities & individuals creditors increased	Incorrect classification of creditors
£1,746,000	Note 19 sundry creditors decreased Note 16 sundry debtors decreased Amendments were also made to the CIES	The debtors balance included a debtor which was not due until 2013-14, the contra entry for which had been posted to creditors and not the CIES
£324,000	Note 19 amended Other local authorities creditors increased Other entities & individuals creditors decreased	Incorrect classification of creditors

Value of correction	Nature of correction	Reason for correction
£457,000	Note 22 amended Upward revaluation of assets decreased Difference between fair value depreciation and historical cost depreciation decreased Amendments were also made to the CAA, MiRS and Note 8	The upward revaluation of assets disclosed in the revaluation reserve was higher than that recorded on the fixed asset register summary
Presentation	Note 23 comparative figures were amended	The comparative figures in the Cashflow did not agree to the audited 2011-12 accounts
Disclosure	Note 23 amended to include additional disclosures	The notes to the cash flow excluded an analysis of two material items
Presentation	Note 26 entries amended to record transactions on the correct line in the note	Employee and other services expenses were included against the wrong descriptor lines
£1,800,000	Note 26 amended Education leisure & lifelong learning government grants decreased Education leisure & lifelong learning service expenses decreased	Income on pupil deprivation grant was double counted as it was included as income in Committee 11 and expenditure when passed out to schools who also recorded it as income in Committee 10
£4,207,000	Note 26 amended Government grant income increased Fees, charges & other services income decreased	Grant income in Note 26 did not reconcile to the analysis of grant income in Note 34
Presentation	Note 32 comparative figures were amended	The comparative figures iro the number of exit packages agreed did not agree to the audited 2011-12 accounts
Disclosure	Note 32 amended to disclose the remuneration received by the Chief Executive as returning officer	The disclosure did not quantify the Chief Executive's remuneration as returning officer
Presentation	Note 33 comparative figures were amended	The comparative figures for external audit costs did not agree to the audited 2011-12 accounts
Disclosure	Note 35 amended to disclose the monetary value of members related party interests	The monetary value of members related party interests was not disclosed

---

Value of correction	Nature of correction	Reason for correction
Presentational	Note 36 comparative figures were amended	The comparative capital financing requirement figures were not updated in 2011-12 to reflect amendments made to the accounts to include finance lease assets into PPE
Disclosure	Note 37 amended to include reference to the operating lease arrangement with Gwalia	The residential care homes lease arrangement with Gwalia was not disclosed
Disclosure	Note 49 amended to disclose the Council's interest in Baglan Bay Ltd and Coed Darcy Ltd	The Council's interests were not fully disclosed in Note 49



WALES **AUDIT** OFFICE  

---

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)