

Archwilydd Cyffredinol Cymru
Auditor General for Wales



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Annual Financial Audit Outline

Neath Port Talbot County Borough Council

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Status of document

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Annual Financial Audit Outline

Introduction

1. This Annual Financial Audit Outline has been prepared by Richard Harries on behalf of Anthony Barrett, the Appointed Auditor.
2. As your external auditor my objective is to carry out an audit which discharges my statutory duties as Appointed Auditor and fulfils my obligations under the Code of Audit Practice, namely to:
 - examine and certify whether your financial statements are ‘true and fair’; and
 - assess whether you have made proper arrangements for securing economy, efficiency and effectiveness in the use of resources.
3. The purpose of this outline is to explain to you:
 - My audit team’s approach to:
 - the audit of your financial statements for the year ending 31 March 2014 including the significant risks of material misstatement in your financial statements and how we plan to address them; and
 - the assessment of your arrangements for securing economy, efficiency and effectiveness in the use of resources.
 - The planned timetable, fees and audit team.
 - The scope of the audit, our respective responsibilities and how we ensure independence and objectivity in our work.
4. There have been no limitations imposed on me in planning the scope of this audit.

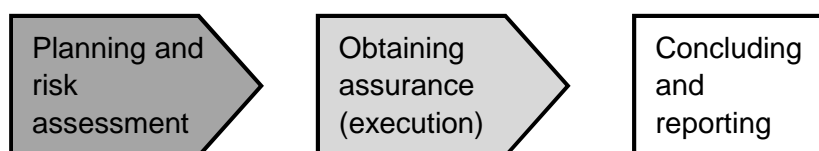
Financial statements audit

5. It is my responsibility to issue a report on the financial statements which includes an opinion on:
 - Whether or not the accounts give a ‘true and fair view’ of the financial outturn and position of Neath Port Talbot County Borough Council (the Council). This provides assurance that the accounts:
 - are free from material misstatement, whether caused by fraud or error;
 - comply with statutory and other applicable requirements; and
 - comply with all relevant requirements for accounting presentation and disclosure.
 - The consistency of information in the Explanatory Foreword with the financial statements.
6. My report must also state by exception if the Annual Governance Statement for 2013-14 does not comply with requirements.

Audit approach

7. My team's audit work uses a range of techniques to assess risk and obtain audit evidence and assurance and is based on a thorough understanding of your business. This understanding allows my team to develop an audit approach which focuses on addressing specific risks whilst providing assurance for the financial statements as a whole. Our audit approach consists of three phases as set out in [Exhibit 1](#).

Exhibit 1: Our audit approach

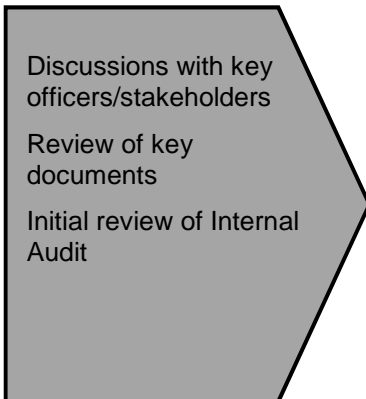


8. The work undertaken in each of these three areas is set out in more detail in [Exhibit 2](#).
9. I do not seek to obtain absolute assurance that the financial statements and related notes are true and fair, but adopt a concept of materiality. In planning and executing the audit, we aim to identify material misstatements in the financial statements and related notes, that is, those that might result in a reader of the accounts being misled. The levels at which I judge such misstatements to be material will be reported to the Audit Committee prior to completion of the audit.
10. For reporting purposes, we will treat any misstatements below a 'trivial' level (the lower of five per cent of materiality or £100,000) as not requiring consideration by those charged with governance and therefore will not report them.

Exhibit 2: Our audit approach

Planning and risk assessment

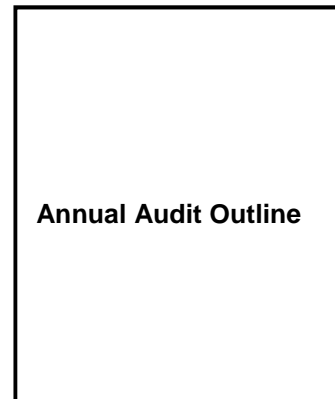
Key tasks



Objectives

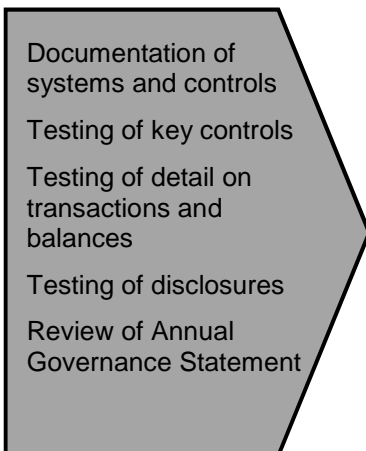


Output

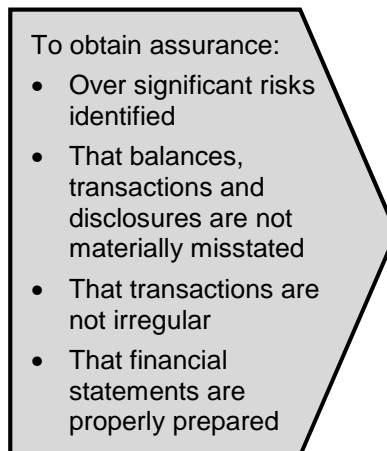


Obtaining assurance (execution)

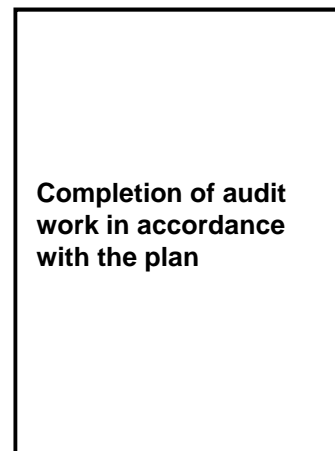
Key tasks



Objectives

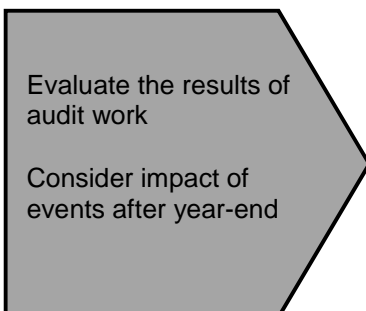


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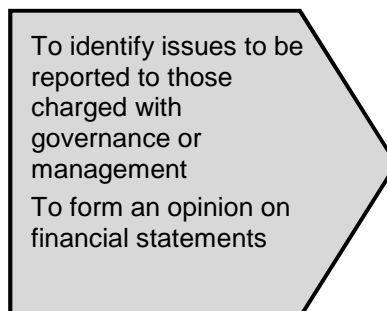


Concluding and reporting

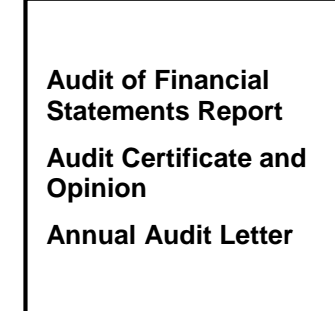
Key tasks



Objectives



Output



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11. In planning my work and obtaining an understanding of the Council, I consider the control environment including the activities of Internal Audit to determine the potential impact of its work on my planned procedures and to evaluate the extent to which I can rely on that work.
12. As part of the planning process, my staff considered the information which would be required to support the accounts submitted for audit. The fees assume that this information will be provided by the timescales agreed and to the quality standards that we expect. My other main assumptions in setting the estimated fees will be that:
- the financial statements and supporting working papers have been subject to review and validation by management, to provide the Responsible Financial Officer with assurance that they are ‘true and fair’;
 - all appropriate officials will be available during the audit;
 - you have all the necessary controls and checks in place to enable the Responsible Financial Officer to provide all the assurances that I require in the Letter of Representation addressed to me;
 - Internal Audit has completed its planned programme of work and that management has taken all necessary remedial action on issues that could have affected the financial statements.

Audit risks and issues

Risks of material misstatement in the accounting statements

13. **Exhibit 3** provides information regarding the main operational and financial risks faced by the Council that could affect my audit. These are the main risks that I have identified during the initial audit planning process, based upon information currently available, and the actions proposed to address them. I may need to change the audit plan if any new risks emerge. I will not make any changes to the audit plan without first discussing them with officers and, where relevant, those charged with governance.

Exhibit 3: Summary of main audit risks and proposed responses

Risks	Action proposed
Control environment risks	
<p>Financial Challenges</p> <p>The Council is facing significant financial challenges in common with the rest of the public sector. These financial pressures increase the risk of overspending and therefore the risk of manipulation to achieve the projected year-end position.</p>	<p>My audit team will reflect the Council's financial position in planning the audit and will direct audit testing to the areas of greatest risk.</p>
<p>Voluntary severance scheme</p> <p>The need to make financial savings in recent years has resulted in significant reduction in staff numbers, with more scheduled to leave in 2013-14. There are risks that with a significant number of staff leaving, key internal controls will not continue to be effective and that the cost of the voluntary redundancy scheme will not be correctly reflected in the accounts.</p>	<p>My audit team will review key controls for material financial systems to ensure controls are still effective and ensure that all costs associated with the departures are captured accurately within the service expenditure areas and provisions.</p>
<p>Fraud risks</p> <p>The risk of fraud through management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk. (ISA240)</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • test the appropriateness of journal entries and other adjustments made in preparing the financial statements; • review accounting estimates for biases; and • evaluate the rationale for any significant transactions outside the normal course of business.
<p>There is also a risk of material misstatement due to fraud in revenue recognition and as such is treated as a risk. (ISA 240.26-27)</p>	<p>My audit team will evaluate which types of revenue give rise to such risks, obtain an understanding of the Council's related controls relevant to such risks and focus its testing on the timing and value of revenue where appropriate.</p>

Risks	Action proposed
Financial systems risks	
<p>Income Remit System</p> <p>A new income remit system is being introduced in 2013-14, as it is a new system there is a risk that it will not process transactions correctly which could result in a material misstatement in the accounts.</p>	<p>My audit team will review the implementation of the new system to ensure transactions are processed correctly.</p>
Preparation of the accounts risks	
<p>Completeness of reporting</p> <p>The preparation of the Statement of Accounts for 2013-14 will reflect judgements of how to account for items and what disclosures to make. An example would be whether a provision needs to be made for the Council's liabilities at the date of the Statement of Accounts. There is a risk that given ongoing financial pressures, not all liabilities will be recognised in the Council's Statement of Accounts and that not all contingent liabilities will be disclosed.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • review documentation held to support judgements made by officers and refer to papers provided in support of them; • assess whether the draft disclosure of estimates and judgements, as required by the Code, is reasonable; and • design testing to obtain the required assurance that all material liabilities, provisions and contingent liabilities have been recognised/disclosed.
Financial statements risks	
<p>Landfill provision</p> <p>In 2012-13 we were satisfied that the Council had insufficient information to make a reasonable estimate of the landfill provision required in accordance with IAS37. We agreed that the Council would undertake work in 2013-14 to enable a reliable estimate to be made in the 2013-14 accounts.</p>	<p>My audit team will ensure the following:</p> <ul style="list-style-type: none"> • a provision is in place for landfill within the 2013-14 financial statements; • the reliable estimate methodology is robust; and • accounting entries within the accounts are accurate.
<p>Capital projects</p> <p>Two new large capital projects commence in the spring of 2014. There is a risk that the Statement of Accounts will not reflect all work done up to 31 March 2014 and that the financing of the expenditure will not be correctly accounted for.</p>	<p>My audit team will undertake tests to gain assurance that asset valuations, financing and capital commitments are correctly reflected in the Statement of Accounts.</p>

Accounting and reporting issues

14. In addition to the audit risks set out above, I also need to consider any new financial accounting and reporting requirements which impact on my responsibilities. I summarise the more significant accounting and reporting changes that apply to 2013-14 in [Exhibit 4](#).

Exhibit 4: Significant accounting and reporting changes for 2013-14

Accounting and reporting change

IAS 1 Presentation of Financial Statements

The Comprehensive Income and Expenditure Statement has been amended as a result of the June 2011 amendments to IAS 1 *Presentation of Financial Statements* (where relevant to an authority) and the June 2011 amendments to IAS 19. The requirement for Financing and Investment Income and Expenditure to include 'pensions interest cost and expected return on pensions assets' has been replaced by 'net interest on the net defined benefit liability (asset)'. Financing and Investment Income and Expenditure also now includes 're-measurements of the net defined benefit liability (asset) for long-term employee benefits recognised in accordance with section 6.2'.

IAS 19 Employee Benefits

Chapter 6 of the code includes revisions as a result of the June 2011 amendments to IAS 19 *Employee Benefits*:

- amendments to the definitions in section 6.1;
- updated terminology, amendments to the recognition requirements and clarifications of the disclosure requirements in section 6.2;
- amendments to the recognition requirements of section 6.3 Termination Benefits and clarification of the disclosure requirements; and
- amendments to the classification, recognition, measurement and disclosure requirements in section 6.4 Post-employment Benefits.

Use of resources audit

15. To discharge my responsibilities regarding the arrangements that the Council has established to secure economy, efficiency and effectiveness in its use of resources, I shall place reliance upon:
- the results of the audit work undertaken on the financial statements;
 - the Council's system of internal control, as reported in the Annual Governance Statement and my report thereon;
 - the results of work carried out by the Auditor General, including work carried out under the Local Government (Wales) Measure 2009 (the Measure), certification of claims and returns, and data-matching exercises;
 - the results of the work of other external review bodies where relevant to my responsibilities; and
 - any other work that addresses matters not covered by the above, and which I consider necessary to discharge my responsibilities.

Certification of grant claims and returns

16. The Appointed Auditor, acting as an agent of the Auditor General, undertakes certification work on the Council's grant claims and returns in accordance with instructions issued by the Auditor General.

Overall issues identified

17. **Exhibit 5** summarises the more significant and/or recurring issues I identified when undertaking grant certification work in 2012-13.

Exhibit 5: Overall issues relating to grant claim and return certification

Qualified grant claims and returns qualified in 2012-13

Of the 2012-13 grant claims and returns that we certified we qualified 24, compared to 18 in 2011-12. This represents 36 per cent of the total. The main issue on which we qualified concerned the lack of or quality of supporting evidence and ineligible expenditure.

Effectiveness of grant management arrangements

I have been reporting for a number of years that grants management arrangements need to be improved and that the weaknesses with the current arrangements result in significantly more audit work than should be required. I understand that the Council is now working to improve its arrangements which we will test and report on as part of our 2013-14 audit.

Other work undertaken

18. I am also responsible for the audit of the Margam Joint Crematorium Committee. I have identified the fire damage to the new cremator installed in 2013 as a key risk area. I will be reviewing the accounting treatment of the damaged incinerator in the Council's accounts together with the revenue implications of this in the joint committee's accounts.
19. In addition to my responsibilities in respect of the audit of the statutory financial statements set out above, I am also responsible for the audit of the Welsh Church Act Trust Fund and the Glamorgan Further Education Trust Fund – Lewis and Aldworth. My team will undertake the audit of these accounts on my behalf in accordance with the timescales agreed with the Council and the Charity Commission.
20. In addition to my responsibilities in respect of the audit of the body's statutory financial statements set out above, I am also required to certify a return to the Welsh Government which provides information about the Council to support the preparation of Whole of Government Accounts.

Auditor General's Regulatory Programme

21. A separate document, the Auditor General's Regulatory Programme for Performance Audit, will be issued setting out the work to be delivered by the Auditor General under the Measure.

Fee, audit team and timetable

Fee

22. The 2013 Act has required us to revise our cost allocation methodology. Broadly, the impact of this exercise has been to increase the cost of financial audit work and reduce the cost of performance work. For unitary authorities, where we undertake both functions, the overall change has generally been cost neutral. In fact for Neath Port Talbot Council there will be an overall reduction in the combined audit fee of 4.2 per cent.
23. The proposed fee for 2013-14 financial audit work is £177,398 and will be charged in equal instalments between November 2013 and October 2014.
24. Planning will be ongoing, and changes to my programme of audit work and therefore my fee may be required if any key new risks emerge. I shall make no changes without first discussing them with the Director of Finance and Corporate Services.
25. In previous years, there have been no formal objections to the Council's financial statements. However, I do receive a number of queries and items of correspondence from members of the public and other interested parties. A small amount of time will be included within the fee to deal with minor queries, as part of the overall management of the audit.
26. Any detailed investigations or other work required to respond to queries and objections will result in an additional fee. Any such additional fee will be charged at daily rates based on the specific grade or skill mix required for the work, but will be discussed with the Council, prior to undertaking the work.
27. The Auditor General is required to recover, in respect of each grant or return, an amount that covers the full cost of the relevant work undertaken. Grant and return certification work is charged on a daily basis in line with the skill-related fee scales set out in the Auditor General's local government fees letter. The fees will reflect the size, complexity and particular issues relating to the specific grants.

Audit team

Exhibit 7: My team

Name	Role	Contact number	E-mail address
Richard Harries	Engagement Lead – Financial Audit	02920 320500	Richard.Harries@wao.gov.uk
Janet McNicholas	Financial Audit Manager	01639 763347	Janet.Mcnicholas@wao.gov.uk
Melvyn Jones	Financial Audit Team Leader – audit	01639 763249	Melvyn.Jones@wao.gov.uk
Gillian Gillett	Financial Audit Team Leader – grants	01639 763249	Gillian.Gillett@wao.gov.uk
Paul Cunningham	IT Specialist	02920 320500	Paul.Cunningham@wao.gov.uk

28. I can confirm that my team members are all independent of the Council, its officers and any joint committees. In addition, I am not aware of any potential conflicts of interest that I need to bring to your attention.

Timetable

29. I will provide reports, or other outputs as agreed, to the Audit Committee as appropriate, covering the areas of work identified in this document. My key milestones are set out in [Exhibit 8](#).

Exhibit 8: Timetable

Planned output	Work undertaken	Report finalised
Annual Financial Audit Outline for 2014	January/February 2014	March 2014
Financial accounts work:		
• Audit of Financial Statements Report	September 2014	September 2014
• Opinion on Financial Statements	September 2014	September 2014
• Financial Accounts Memorandum	October 2014	November 2014
Whole of Government Accounts	October 2014	October 2014
Use of Resources Work	August/September 2014	September 2014
Annual Audit Letter 2014	September/October 2014	November 2014
Outline of Audit Work for 2015	January/February 2015	March 2015

Appendix 1

Roles and responsibilities

This Annual Financial Audit Outline has been prepared to meet the requirements of auditing standards and proper audit practices. It provides Neath Port Talbot County Borough Council (the Council) with an outline of the financial audit work required for the 2013-14 financial statements.

The Public Audit (Wales) Act 2013 (the 2013 Act) sets out that the Auditor General is to be the auditor of local government bodies in Wales. The 2013 Act does, however, provide transitional arrangements where the appointment of a person as an auditor under section 13 of the Public Audit (Wales) Act 2004 continues to have effect until the end of the period for which the appointment was made (subject to any earlier termination). The Auditor General has appointed me as the auditor of the Council's accounts for the year ending 31 March 2014.

As Appointed Auditor, I am required by the Public Audit (Wales) Act 2004 to examine and certify the accounts of the Council. In accordance with professional standards that apply by virtue of the Code of Audit Practice set under the act, this involves giving an opinion on whether the accounts give a true and fair view of the Council's financial position and of its income and expenditure for the year. The act also requires me to satisfy myself of these things:

- that the accounts are prepared in accordance with regulations under section 39 of the act (the Accounts and Audit (Wales) Regulations 2005);
- that the accounts comply with the requirements of all other statutory provisions applicable to them;
- that proper practices have been observed in the compilation of the accounts; and
- that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

I am also required to certify that the audit has been completed in accordance with the Public Audit (Wales) Act 2004.

The audit does not relieve the Council of its responsibility to:

- establish systems of internal control to ensure the regularity and lawfulness of transactions and to ensure that its assets are secure;
- maintain proper accounting records;
- prepare a Statement of Accounts in accordance with relevant requirements; and
- establish and keep under review appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Public Audit (Wales) Act 2004 sets out the rights of the public and electors to inspect the Council's financial statements and related documents, to ask me, as the Appointed Auditor questions about the accounts and, where appropriate, to challenge items in the accounts.

The Auditor General is required to certify certain grant claims and returns. The Appointed Auditor, acting as an agent of the Auditor General, undertakes the audit work relating to those claims and returns.



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