

# Audit of Financial Statements Report

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

**Audit year:** 2013-14

**Issued:** September 2014

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# 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 2014 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 £4.9 million for income and expenditure items and working capital balances, and £6.6 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.
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 2013-14, that require reporting under ISA 260.

## Status of the audit

6. We received the draft financial statements for the year ended 31 March 2014 on 19 June, in line with the agreed deadline, and have now substantially completed the audit work. At the date of drafting this report there were still some areas to be completed but it is expected these will be cleared by the date of the audit committee. We will update you if there are any outstanding matters at the meeting.
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](#).

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## 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 a number of 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. A significant number of these changes relate to note 26 Amounts Reported For Resource Allocation Decisions, where internal recharges between directorates had not been removed resulting in both income and expenditure being overstated. These amendments together with other issues identified during the audit 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 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 pension 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 2014 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 2013-14 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.

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- **We have no major concerns about the qualitative aspects of your accounting practices and financial reporting.**

Overall we found the information provided to be relevant, reliable, comparable, and easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear. The overall quality of working papers provided for audit continued to improve, although the impact of staff leaving under the voluntary redundancy scheme has impacted on some directorates with officers taking over new roles during the closure process and therefore being unfamiliar with audit requirements. We will continue to work with officers in 2014-15 to build on the already significantly 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 although we did experience some delays in getting responses to debtor and creditor queries.
- **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.**
- **There are not any 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 judgement, we are independent and our objectivity is not compromised. There are no relationships between the Wales Audit Office and the Council that we consider to bear on our objectivity and independence.

# Appendix 1

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## 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 2013-14 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 2014 for the purpose of expressing an opinion on their truth and fairness and their proper preparation.

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 2013-14; 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.

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## 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 CBC 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.

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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 2012/2013 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. A summary of these items is set out below:

- [xxxx]

## 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 Neath Port Talbot CBC on [insert date].

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

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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 2014 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 2013-14 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 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit.

If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

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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 2014 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 2013-14.

## 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 2014**

## Appendix 3

### Summary of corrections made to the draft financial statements which should be drawn to the attention of the 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
1	<p>£331,000 Other land and buildings (OLB)</p> <p>£29,000 Vehicles plant and equipment (VPE)</p> <p>£1,113,000 Assets under construction (AUC)</p>	<p>Note 11 – Property Plant and Equipment (PPE)</p> <p>For these three categories of assets impairment losses were transferred from the depreciation charge (reduced by £1,473,000 to £15,661,000) to the 'Impairment losses recognised in the provision of services'. (Increased by £1,473,000 to £5,763,000.)</p>	<p>The impairment of assets had been incorrectly recorded within the depreciation charge for 2013-14.</p>
2	<p>£211,000 cost or valuation</p> <p>£209,000 Accumulated depreciation</p>	<p>Note 11</p> <p>The analysis of revaluation of OLB and associated depreciation disclosed within Property Plant and Equipment Note 11 were corrected.</p>	<p>The revaluation and associated depreciation for OLB in note 11 were incorrectly analysed between the revaluation reserve and the Comprehensive Income and Expenditure Statement (CIES)</p>
3	<p>£375,000</p>	<p>Note 11 – PPE amended.</p> <p>Assets Under Construction increased.</p> <p>Other Land and Buildings decreased.</p> <p>Downward revaluation charged to CIES decreased.</p>	<p>The Western Avenue school feasibility study capital cost of £375,000 had been incorrectly reclassified from AUC and offset against the Awel Y Mor school revaluation. The capital expenditure should remain within AUC rather than transferred out to OLB as they are not yet operational.</p>

	Value of correction	Nature of correction	Reason for correction
4	£617,000	Note 13 – Income, Expenses, Gains and Losses amended. Interest income increased. Interest income accrued decreased.	Incorrect categorisation of interest on investment assets, between interest income and Interest accrued.
5	£340,518	Note 19 Creditors amended. Environment service expenditure decreased within Note 26 and CIES. Creditors decreased. Earmarked reserves increased.	The £340,158 purchase cost of three recycling vehicles, delivered in May 2014 and therefore not 2013-14 expenditure, had been incorrectly included within both creditors and Environment service costs. The cost had been funded from reserves.
6	£85,000	Note 16 Debtors amended. Note 19 Creditors amended. 'Other entities and individuals' within Debtors and Creditors have been netted off to remove internal debts and reduced by £85,000.	Both debtors and creditors incorrectly included Education department internal debts of £85,000. As they are internal, they do not represent true debtor and creditor balances and should be netted off.
7	£883,000	Note 16 Debtors amended. Note 19 Creditors amended. 'Other entities and individuals' balances to be grossed up by £883,000.	Credit balances on the Council Tax payer's account (where individuals had overpaid or paid in advance) had been incorrectly netted off the debtor balance in 2013). The amount netted off in 2013-14 was £882,945.
8	£44,834	Note 16 Debtors amended. Note 26 Directorate income ELLL amended. Central Government bodies debtor reduced. Children's and Education services income reduced within Note 26 and the CIES.	A grant debtor relating to Work Based Learning was overstated by £44,834.

	Value of correction	Nature of correction	Reason for correction
9	£3,661,000 £270,000	Note 26 – Directorate Income and expenditure for Education, Leisure and Lifelong Learning (ELLL) amended. Fees and charges increased by £3,661,000. Government grants decreased by £3,661,000. Other service expenses decreased by £270,000. Support service recharges increased by £270,000.	Transposition errors existed for ELLL income categorisation in 2013-14.
10	£7,932,000 2013-14 £4,824,365 2012-13	Note 26 – Directorate income and expenditure 2012-13 and 2013-14 for ELLL amended. 2013-14: Fees, charges and other service income decreased. Support service recharges decreased. 2012-13: Fees, charges and other service income decreased Other service expenses decreased The CIES has also been amended.	This grant income had been recorded in both Education schools and Education thereby double counting.
11	£1,619,000	Note 26 – Directorate income and expenditure 2013-14 amended. Other service expenses increased. Support Service recharges decreased.	Incorrect classification of environment support service building recharges within 'Services and Support Services not in Analysis'.
12	£1,191,816 2013-14 £816,221 2012-13	Note 26 – Social Services directorate expenditure for 2013-14 and 2012-13 amended. Other service expenses decreased. Support service recharges increased.	Grant income transferred between cost centres within Social Services for 2013-14 and 2012-13 had been posted incorrectly.

	Value of correction	Nature of correction	Reason for correction
13	<p>2013-14 £7,354,000 CS £2,505,000 ELLL £1,698,000 Env £9,116,000 SSHH</p> <p>2012-13 £7,463,000 CS £1,924,000 ELLL £2,110,000 Env £7,393,000 SSHH</p>	<p>Note 26 – Directorate income and expenditure for 2013-14 and 2012-13 for: Corporate Services, ELLL, Environment and Social Services have been amended.</p> <p>Fees and charges and other income decreased.</p> <p>Support service recharges decreased.</p> <p>Other service expenses increased.</p>	<p>Support service recharges within Corporate Services, ELLL, Environment and Social Services had not been correctly netted off in both 2013-14 and 2012-13, leading to an overstatement of both income and expenditure.</p>
14	£821,000	<p>Note 26 SSHH directorate Government Grants decreased.</p> <p>Fees, Charges and other service income increased.</p>	<p>Housing Association income of £821,000 had been incorrectly posted to Government grant income, for SSHH, within Note 26.</p>
15	<p>2013-14 £2,340,000 CEoS £776,000 AdultSC</p> <p>2012-13 £306,000 CEoS £106,000 Culture £574,000 AdultSC</p>	<p>CIES: Income and expenditure for Children's and education services (CEoS), Adult social care (AdultSC) and Culture and related services for 2013-14 and 2012-13 have been amended within the CIES.</p> <p>No impact on net cost of services.</p>	<p>Recharges recorded as income should have been netted off expenditure for CEoS, Adult social care and Culture and related services for 2013-14 and 2012-13 within the Cost of Services section in CIES.</p>
16	£777,446 £532,849	<p>CIES: Central Services to the public: Income increased by £532,849 and expenditure increased by £777,446.</p> <p>Other services Income decreased by £532,849 and expenditure decreased by £777,446.</p>	<p>The expenditure of £777,446 and the grant income of £532,849, relating to the provision of housing benefit support had been incorrectly reallocated against other services in the cost of services section of the CIES.</p>
17	£10,118	<p>Note 32 The remuneration paid to the current Director of ELLL has been amended to £85,473.</p>	<p>The Director of ELLL remuneration disclosure included salary costs prior to employment as director. The correct amount for this employee as Director of ELLL is £85,473.</p>

	Value of correction	Nature of correction	Reason for correction
18		The number of employees who received salaries in the band £75,000 to £79,999 has been increased by one to 13.	Salary banding analysis – banding of £75,000 to £79,999 should be 13 not 12.
19	£131,000	Note 37 – Finance Leases amended. 2012-13 Other Land & Buildings increased to £3,112,000.	The net value of Other Land & Buildings held under Finance leases for 2012-13, incorrectly excluded £131,000 relating to the land element of the lease.
20	£22,992,000 2013-14 £21,521,000 2012-13	Note 40 Local Government Pension Scheme (LGPS) assets were amended due to incorrect casting.	The totals of Note 40 LGPS assets for 2013-14 and 2012-13 had been cast incorrectly.
21	£143,000	Note 52 The IAS 19 Pension charge has been amended to £1,090,000. The Non distributed costs and other service costs within the CIES have been amended. No net effect on service costs.	The IAS 19 pension's costs disclosed within Non Distributed Costs in Note 52 and within the CIES of £1,233,000 are overstated by £143,000. The correct figure should be £1,090,000.
22	£223,886	Note 42 – Refinancing and maturity risk. Between one and two years decreased to £1,667,000. Between two and five years increased to £9,511,000.	Maturity date of debt misclassified.
23	Presentation	Explanatory Foreword amended. Council expenditure amended. Contingencies and Reserves increased. Housing Revenue Account balances disclosed.	The budgeted and actual use of the Housing Revenue Account balances should be separately disclosed within the Council Fund account in the Explanatory Foreword, rather than netting off within Contingencies and Reserves.
24	Disclosure	Note 2 accounting standards not yet adopted. Increased details of other standards not yet adopted.	IAS1 presentation of financial statements requires disclosure as not adopted. Increased detail required of other standards, issued but not yet adopted.

	Value of correction	Nature of correction	Reason for correction
25	Disclosure	Note 35 Related Parties amended to disclose the group accountant's role as company secretary for the Waste Management company. Waste management charges amended.	The related party interests did not disclose the group accountant's role as company secretary for the Waste Management company. The waste management charges paid to NPT Recycling Ltd were £8.183 million, not £8.83 million as shown in note 35.
26	Disclosure	Note 15 – Major Capital Commitments The definition of a major commitment to be disclosed.	The definition of major capital commitment has not been disclosed.
27	Disclosure	Additional disclosures have been made within the Annual Governance Statement.	Increased disclosures necessary within the Annual Governance Statement.
28	Disclosure	Note 52 Narrative amended to confirm depreciation related to 'surplus assets'.	The £143,000 depreciation charge disclosed in Note 52 related to surplus assets and not assets held for sale: the narrative requires amendment to 'surplus assets'.
29	Disclosure	To ensure all information is included within Note 32: remuneration and Note 35: Related parties.	Additional narrative was added to both notes to reflect payments made to Windsor Transformational Education Service Ltd for providing the services of the Director of Social Services Health and Housing.

Wales Audit Office  
24 Cathedral Road  
Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

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

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

Swyddfa Archwilio Cymru

24 Heol y Gadeirlan  
Caerdydd CF11 9LJ

Ffôn: 029 2032 0500

Ffacs: 029 2032 0600

Ffôn Testun: 029 2032 0660

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

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