



# Audit of Financial Statements Report

## Neath Port Talbot County Borough Council

**Audit year:** 2014-15

**Issued:** September 2015

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# Status of report

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The Auditor General 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. The Auditor General 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 2015 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 level at which we judge such misstatements to be material for the Council's accounts is £4,645,000. 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, for example, the remuneration note.
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 2014-15, that require reporting under ISA 260.

## Status of the audit

6. We received the draft financial statements for the year ended 31 March 2015 on 15 June, ahead of the agreed deadline, 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 Auditor General'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 non-trivial misstatements identified in the financial statements, which remain uncorrected.

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## 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 were some issues arising in these areas this year:
  - **We have no major concerns about the qualitative aspects of your accounting practices and financial reporting.** We found the information provided in the main to be relevant, reliable, comparable, material and easy to understand. We concluded that estimates are appropriate and financial statement disclosures unbiased, fair and clear. The Council continues to refine its closure processes building on the significant improvement we've seen in the last few years. However, although the number of errors overall is reducing there are still a number of issues being identified within the capital accounts. It is appreciated that capital is a complex area but further improvements are still needed to the closure processes for 2015-16.
  - **We did not encounter any significant difficulties during the audit.** We received information in a timely and helpful manner in the main 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 but there is one issue that we need to bring to your attention.** Although the accounts correctly reflect all exit packages as required by the Accounts and Audit Regulations (Wales) 2014, on review some settlement payments did not evidence that the payments related to a dispute, complaint or formal proceedings as required by the Council's template business case. The Council needs to ensure that all settlement payments made outside the normal voluntary redundancy/early retirement framework are fully supported and completed in accordance with the Council's approved procedures.
  - **There are no 'other matters' specifically required by auditing standards to be communicated to those charged with governance.**

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## 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 and the Council that we consider to bear on our objectivity and independence.

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# Appendix 1

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## Final Letter of Representation

Huw Vaughan Thomas  
Wales Audit Office  
24 Cathedral Road  
Cardiff  
CF11 9LJ

[Date]

## Representations regarding the 2014-15 financial statements

This letter is provided in connection with your audit of the financial statements of Neath Port Talbot County Borough Council (the Council) for the year ended 31 March 2015 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 2014-15; in particular the financial statements give a true and fair view in accordance therewith; and
- 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 the 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/collaborative 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.



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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 2013-14 Wales Audit Office 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 the Audit Committee 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 Auditor General to the Members of the Audit Committee 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 2015 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 and the Cash Flow 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 2014-15 based on International Financial Reporting Standards (IFRSs).

#### **Respective responsibilities of the responsible financial officer and the Auditor General for Wales**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 8, 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 Financial Reporting Council'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 2015 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 2014-15.

### **Opinion on other matters**

In my opinion, the information contained in the Explanatory Foreword 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 following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept;
- the accounting statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit;
- the Governance Statement contains material misstatements of fact or is 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 Auditor General for Wales' Code of Audit Practice.

**For and on behalf of  
Huw Vaughan Thomas  
Auditor General for Wales  
Wales Audit Office  
24 Cathedral Road  
Cardiff CF11 9LJ  
29 September 2015**

## 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
1		Comprehensive Income and Expenditure statement (CIES)	Depreciation in respect of vehicles purchased for the Environment Directorate had been incorrectly recharged across all services in the CIES.
	£802,159	£802,159 of depreciation to be reallocated to environmental and regulatory services.	
	£64,530	£64,530 of depreciation to be reallocated to highways and transport.	
2	£4,678,000	<p>Comprehensive Income and Expenditure statement            Adult Social Care            Gross expenditure and Income increased.</p> <p>Note 26 – Amounts Reported for Resource Allocation Decisions – Directorate Income and Expenditure:            Social Services, Health &amp; Housing directorate</p> <p>Fees, Charges and Other services income – Increased            Other service expenses Increased</p>	Client income of £4,678,000 collected by Residential Homes has been incorrectly credited to expenditure.

	Value of correction	Nature of correction	Reason for correction
3	<p>£1,248,460 CIES Income &amp; expenditure</p> <p>£969,440 Debtors and Creditors</p> <p>£1,248,460</p> <p>£1,248,460</p>	<p>CIES Gross income and expenditure reduced</p> <p>Note 16 - Debtors - Central government bodies reduced Note 19 - Creditors - Other local authorities reduced</p> <p>Note 34 - Grant Income – Credited to Services – Other services grants – reduced</p> <p>Note 26 – Environment – Government grants reduced Other service expenses reduced</p>	<p>Workways Grant: Grant monies received as lead partner in respect of expenditure incurred by partners, and the subsequent payment of grant to partners should be excluded from the accounts as it does not represent the Council's own activity.</p>
4	Narrative	Note 3 – Critical judgements in applying accounting policies: has been updated to provide additional information.	To improve link between figures in Note 3 and those in Note 43: Treasury management Investments – Icelandic Banks.
5	£129,000	<p>Note 11 – Property Plant and Equipment (PPE): Assets under construction, was overstated by £129,000.</p> <p>Note 16 Debtors – Central Government Bodies was understated by £129,000.</p>	£129,000 of reclaimable VAT had been incorrectly capitalised, resulting in asset values being overstated and debtors understated.
6	£574,000	<p>Note 11 – PPE:</p> <p>Revaluation increases/decreases recognised in the revaluation reserve – decreased by £574,000.</p> <p>Revaluation increases/decreases recognised in surplus/deficit on provision of services increased by £574,000.</p>	The split of revaluation increases/decreases between those charged to revaluation reserve and those to CIES was incorrect.
7	£1,113,000	<p>Note 11 – PPE</p> <p>The Cost and Accumulated Depreciation of Assets Under Construction were both reduced by £1,113,000.</p>	Assets under Construction (AUC) incorrectly included the cost and impairment of £1,113,000 for the Margam Crematorium cremators which had been damaged by fire. These were written off as the assets no longer existed.

	Value of correction	Nature of correction	Reason for correction
8	£142,000	Note 11 – PPE  Other land and buildings – revaluation increases to revaluation reserve increased.  De-recognition disposals increased.	Reconciliation of revaluations per PPE note 11 to revaluation reserve identified that revaluations of assets on disposal have been incorrectly netted down within the PPE note.
9	£1,000,000	Note 11 – PPE Surplus assets increased  Note 18 – Assets held for sale: Assets newly classified as held for sale decreased.	The Land at Tir Morfa Road Sandfields incorrectly classified as Assets Held For Sale, transferred to PPE Note 11 surplus assets.
10	£146,530	Note 11 – PPE Vehicle additions reduced. Note 19 Creditors – Other entities and individuals reduced. Capital financing corrected.	Five vehicles delivered in April 2015 had been incorrectly included within creditors and vehicle assets in 2014-15.
11	£299,832	Note 11 – PPE – Assets Under Construction was increased. Note 19 – Creditors – Other Entities and Individuals was increased.	A construction invoice for £299,832 in respect of capital works undertaken in March 2015 had been charged to 2015-16 in error.
12	£71,657	Note 11 – PPE – Other Land and Buildings increased. Note 19 – Creditors: Central Government Bodies increased.	A £71,657 payment to HMRC for stamp duty relating to the purchase of land at Burrows Yard, Port Talbot on 30 March 2015, had been charged to 2015-16 in error.
13	£48,651	Note 16 Debtors Other entities and individuals – decreased.  Note 19 Creditors Other entities and individuals – decreased.	Wayleaves receipts had been incorrectly posted to creditors rather than posted against the existing debtor balance.
14	£2,115,000	Note 16 Debtors Central government bodies – decreased Other local authorities - increased	Grant due from other lead partner Councils (Swansea, Pembroke, and Bridgend) for work undertaken by the Council had been incorrectly classified under Central government bodies.

	Value of correction	Nature of correction	Reason for correction
15	£80,462	Note 17 – Cash and cash equivalents: Bank current accounts increased. Note 19 – Short term Creditors – ‘Other entities and individuals’ increased.	An £80,462 payment to Barclaycard was not made until 10 April 2015, and should therefore be recorded as a creditor rather than as an outstanding March 2015 bank payment.
16	£86,000	Note 19 Creditors – ‘Other entities and individuals’ was reduced. CIES – ‘Other Housing services’ and Movement in Reserves Statement – transfer to earmarked reserves increased.	Grant income received from the Home Office for the asset recovery incentive scheme was incorrectly included in creditors – ‘Other entities and individuals’.
17	£3,777,000	Note 19 – Creditors ‘Other Local Authorities’ decreased. ‘Other entities and individuals’ increased.	The £3,777,000 cash balance which the Council owed to SWTRA at 31 March 2015 was incorrectly categorised as Other Local Authorities within Note 19 Creditors, it should be categorised within Other entities and individuals.
18	(£16,409,000) Fees £1,623,000 Other service expenses £14,790,000 Support service recharges	Note 26 – ‘Amounts reported for Resource Allocation Decisions’ 2013-14 comparative figures to be included in the ‘Services and support services not in analysis’ for consistency.	2013-14 figures relating to internal recharges, were restated to improve accuracy and comparability with 2014-15.
19	£731,000	Note 26 – Education, Leisure & Lifelong Learning directorate Fees, charges & other services income decreased. Government grants increased. Note 34 Grant Income Credited to Services – Pupil Deprivation Grant increased.	A £731,000 Welsh Government grant to support pupil deprivation improvement had been incorrectly credited to Fees, charges & other services and omitted from Note 34 grant income.
20	Narrative	Note 29 – Agency Services Disclosures added for three schemes where the Council acts in an agency capacity for the Welsh Government.	The Council acts in an agency capacity for three Welsh Government schemes – Houses to Homes, Home Improvement Loans, and Visible and Viable Places – which had not been reflected in Note 29.

	Value of correction	Nature of correction	Reason for correction
21	£20,849 Median salary Treatment of teachers in non-LEA controlled schools	Note 32 – Officers remuneration: The median remuneration of all the Council's employees has been added and the note expanded to explain that teachers in schools not controlled by the LEA are included within the note.	The median remuneration of all the Council's employees had not been included (£20,849). Teachers employed in non-LEA controlled schools were included in the remuneration note and this had not been highlighted.
22	£31,000 Exit costs banding disclosure	Note 32 – Officers remuneration: Exit bandings corrected. Total cost of exit packages increased to £7,226,000 from £7,195,000.	Exit costs for four officers had been understated.
23	Narrative plus £7,515	Note 32 – Officers remuneration: Employers pension contribution amended to 16.2 per cent from 14.5 per cent Employers pension contributions increased as a result of the above.	The incorrect employers pension contribution percentage had been applied resulting in Senior Officers Pension costs being understated.
24	£11,000 plus Narrative	Note 33 – External Audit Costs: Fees payable to the Wales Audit Office, for the certification of grant claims and returns, reduced to £74,000. Audit fee rebates relating to 2013-14 have now been disclosed.	The fees payable to the Wales Audit Office for the certification of grant claims and returns, for 2014-15, should be £74,000 and not the £85,000 reported. The rebates in relation to prior years needed to be disclosed in the note.
25	Narrative	Note 48 – Joint Committees – Archives. The Council's share of reserves, as at 31 March 2015, was corrected to £50,000.	The Council's share of Archive reserves as at 31 March 2015 was misstated at £150,000.
26	Narrative	The Annual Governance Statement was amended.	A review of the Annual Governance Statement identified a number of areas where additional wording/clarification was required.



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