

Archwilydd Cyffredinol Cymru
Auditor General for Wales



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Audit of Financial Statements Report

Neath Port Talbot County Borough Council

Audit year: 2015-16

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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

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 at 31 March 2016 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 Neath Port Talbot County Borough Council are £4.6 million. 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 remuneration disclosures.
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 Neath Port Talbot County Borough Council, for 2015-16, that require reporting under ISA 260.

Status of the audit

6. We received the draft financial statements for the year ended 31 March 2016 on 7 June 2016, a week earlier than in 2014-15 and three weeks before the statutory deadline of 30 June 2016. This was a considerable achievement given the work that is necessary to produce the financial statements and puts the Council in a strong position to achieve the future challenges of early closure
7. We have now substantially completed the audit work. We are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. The audit team has already discussed these issues with the Director of Finance and Corporate Services.

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.

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 significant concerns about the qualitative aspects of your accounting practices and financial reporting.** We found the majority of information provided 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 has continued to refine and improve its accounts production process. However, as in previous years, a number of issues were still identified within the capital accounts and there remains scope to improve the capital closure processes. This is the one area that continues to be problematic and time consuming in terms of the audit. We will work with officers early in the 2016-17 audit to review what needs to be done to improve this process going forward.
 - **We did not encounter any significant difficulties during the audit.** We received information in a timely and helpful manner and were not restricted in our work. Management's engagement with auditors to resolve queries and the continued engagement throughout the accounts production and audit process was very helpful and allowed the audit to run smoothly.
 - **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.**
 - **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 and Neath Port Talbot County Borough Council that we consider to bear on our objectivity and independence.

Appendix 1

Final Letter of Representation

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

23/09/2016

Representations regarding the 2015-16 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 2016 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 the CIPFA Code of Practice on Local Authority Accounting in the UK 2015-16; in particular the financial statements give a true and fair view in accordance therewith.
- 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 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 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 23 September 2016.

Signed by:

Director of Finance and
Corporate Services

Date: 23 September 2016

Signed by:

Chair of the Audit Committee

Date: 23 September 2016

Appendix 2

Proposed audit report of the Auditor General to Neath Port Talbot County Borough Council

Auditor General for Wales' 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 2016 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 2015-2016 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 pages....to....., the responsible financial officer is responsible for the preparation of the statement of accounts, which give 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 Narrative Report 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.

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 2016 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 2015-2016.

Opinion on other matters

In my opinion, the information contained in the Narrative Report 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 Annual Governance Statement does not reflect compliance with guidance.

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
[Date]

Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

Appendix 3

Summary of corrections made to the draft financial statements which should be drawn to the attention 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
Capital account areas		
(£1,283,000)	Decrease in the value of other land and buildings (Note 13) because the old Gnoll Park Road car park remained in the balance sheet after a new car park had been built on the site.	To ensure that asset valuations are accurate.
(£846,000)	Decrease in the gross value of other land and buildings (Note 13) and increase in impairment because assets which no longer exist (Western Avenue Ground and the Sandfields Lifelong Learning Centre) were treated as impairments in the balance sheet when they should have been de-recognised.	To ensure compliance with the Local Government Code.
(£6,722,000)	Decrease in the value of other land and buildings (Note 13) and increase in children and education services expenditure (CIES) relating to 4 schools which were closed in July 2016 because they were depreciated over a useful life of 40 years rather than their remaining useful lives.	To ensure that asset valuations are accurate and comply with the Local Government Code.
(£2,181,000)	Decrease in impairments of other land and buildings and increase in de-recognition (Note 13) because non-added value expenditure was incorrectly classified.	To ensure compliance with the Local Government Code.

Value of correction	Nature of correction	Reason for correction
Capital account areas		
£3,580,000 reclassification	Decrease de-recognition of assets under construction (Note 13) by £3,159,000 and increase re-classifications of surplus assets and reclassification of £421,000 from other land and buildings to surplus assets because expenditure relating to the acquisition of the Tesco site for the Neath regeneration project had been derecognised.	To ensure compliance with the Local Government Code.
£2,738,000 revaluations		
	Both items of expenditure were then subject to a revaluation adjustment of £2,738,000 which decreased CIES planning services expenditure by £421,000	
(£9,081,000)	Decrease in CIES deficit on revaluation of available for sale assets and decrease in surplus on revaluation of PPE because revaluation gains and losses had been separated out and losses had been incorrectly categorised.	To ensure compliance with the Local Government Code.
(£799,000)	Decrease in CIES non distributed costs and increase in planning services expenditure (£88,000) and adult social care expenditure (£711,000) because non-distributed costs included impairment losses on other land and buildings which should have been categorised to other services.	To ensure compliance with the Local Government Code.
£2,660,000	A general housing capital grant was omitted from the analysis of grants credited to services (Note 36).	To completely disclose grants received.
£300,000	Increase in other capital grants and decrease in Ysgol Newydd Bae Baglan grant (Note 36) because it had been incorrectly analysed.	To ensure presentational accuracy of grants disclosed.
Other account areas		
(£200,000)	Decrease central government creditor (Note 21) and debtor (Note 18) because the overpayment of the quarter 1 concessionary fares grant had not been netted against the quarter 4 underpayment.	To correctly present creditor and debtor balances.
Various	Other narrative and presentational changes were made to the draft financial statements.	To ensure presentational accuracy and compliance with the Local Government Code.

Wales Audit Office
24 Cathedral Road
Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

E-mail: info@audit.wales

Website: www.audit.wales

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: post@archwilio.cymru

Gwefan: www.archwilio.cymru