



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Audit of Financial Statements Report – Neath Port Talbot County Borough Council

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We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

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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 (the Council) at 31 March 2017 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 £5.4 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 2016-17, that require reporting under ISA 260.

Status of the audit

- 6 For this year's audit, we agreed with the Council that they would be a pilot for the early closure of local government accounts. We agreed to work with the Council to bring the accounts production and audit forward with the aim of completing the audit by the end of July 2017.
- 7 We received the draft financial statements for the year ended 31 March 2017 on 31 May 2017, a week earlier than in 2015-16 and the agreed deadline of 7 June 2017. This was four weeks before the statutory deadline of 30 June 2017 and was a considerable achievement given the work that is necessary to produce the financial statements and the issues with capital accounting highlighted in previous years.
- 8 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 and his team.
- 9 Going forward, we will work together to learn the lessons of this year to improve arrangements for future years both locally and to inform the wider roll out of the early closure pilots.

Proposed audit report

- 10 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](#).
- 11 The proposed audit report is set out in [Appendix 2](#).

Significant issues arising from the audit

Uncorrected misstatements

- 12 During our audit, one misstatement was identified in the financial statements, which has been discussed with management but management have chosen not to adjust. We do not consider this to be material to our audit opinion:
 - Social services expenditure is overstated and local authority debtors are understated, as the Council overpaid the adoption service but did not accrue to recover this overpayment. The net impact of the unadjusted misstatement is an overstatement of expenditure by £364,775 and a corresponding understatement of local authority debtors and the Council's cash backed reserves. This misstatement also impacts on other statements and notes – notably the Expenditure and Funding Analysis, Movement in Reserves Statement, Cash flow Statement, Notes 4, 5, 7, 21 and 23.
- 13 Whilst Auditing Standards require us to request that this is corrected, we accept management's view that given the number of entries required to amend the statements for relatively low values and the tight timescale for closure of the audit, there is little benefit in amending the financial statements. We request that the Audit Committee consider approving management's rationale for this and include this in the Letter of Representation.

Corrected misstatements

- 14 We identified a number of minor misstatements and disclosure errors in the draft financial statements during the audit. These were corrected by management and have no impact on the Council's net expenditure.

Other significant issues arising from the audit

- 15 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

- 16 We found the majority of information provided to be relevant, reliable, comparable, material and easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear.
- 17 The Council produced good quality working papers and had an effective quality assurance process over the financial statements. The deadline for production was challenging and we would like to commend the Council's Finance team for achieving this and for the overall quality of their work.
- 18 Last year we reported a number of issues within the capital accounts and identified that there was scope to improve the capital closure process. We have worked with the Capital Finance team during the year and are pleased to be able to report that the agreed improvements have made and we have not identified any similar issues for 2016-17.

We did not encounter significant difficulties during the audit

- 19 There were no significant difficulties during the audit. We received information in a timely and helpful manner and were not restricted in our work.
- 20 Management's continued engagement throughout the accounts production and audit process was very helpful and enabled queries to be resolved promptly. The constructive but independent working relationships with the Finance team have continued again this year.

There were no significant matters discussed and corresponded upon with management which we need to report to you

- 21 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

- 22 We have not identified any 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

- 23 We have considered internal controls that are relevant to the preparation of the financial statements in order to design appropriate audit procedures, but not for the purpose of expressing an opinion on the effectiveness of internal control. We have not identified any matters which are material to the accuracy and completeness of the financial statements.

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

- 24 There are no other matters (such as those relating to fraud, compliance with laws and regulations, or subsequent events) that we need to report to you.

Independence and objectivity

- 25 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 26 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.

Appendix 1

Final Letter of Representation

[Audited body's letterhead]

Appointed Auditor
Auditor General for Wales
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

26 July 2017

Representations regarding the 2016-17 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 2017 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 2016-17; 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;
 - additional information that you have requested from us for the purpose of the audit; and

- unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
- The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- Our knowledge of fraud or suspected fraud that we are aware of and that affects Neath Port Talbot County Borough Council and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements.
- Our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others.
- Our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
- The identity of all related parties and all the related party relationships and transactions of which we are aware.

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 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:

- Social services expenditure is overstated by £364,775 and local authority debtors and cash backed reserves are correspondingly understated as the Council overpaid the adoption service but did not accrue to recover this overpayment.

Representations by the Audit Committee

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by the Audit Committee on 26 July 2017.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Signed by:

Signed by:

Director of Finance and Corporate Services

Chair of the Audit Committee

Date: 26 July 2017

Date: 26 July 2017

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 2017 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 2016-2017 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 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 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 2017 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 2016-2017.

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;
- I have not received all the information and explanations I require for my audit; or
- the 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]

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