



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

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

Audit year: 2018-19

Date issued: July 2019

Document reference: 1397A2019-20



This document has been prepared as part of work performed in accordance with statutory functions.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000.

The section 45 code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales and the Wales Audit Office are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at

infoofficer@audit.wales.

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.

Contents

The Auditor General intends to issue an unqualified audit report on your 2018-19 financial statements. There are some issues to report to you prior to their approval.

Summary report

Introduction	4
Status of the audit	4
Proposed audit report	4
Significant issues arising from the audit	5
Independence and objectivity	7

Appendices

Appendix 1 – final Letter of Representation	8
Appendix 2 – proposed audit report of the Auditor General	11
Appendix 3 – summary of corrections made to the draft financial statements which should be drawn to the attention of the Audit Committee	14

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 2019 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. 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 2018-19, that require reporting under ISA 260.

Status of the audit

- 6 We received the draft financial statements for the year ended 31 March 2019 on 22 May 2019, a week earlier than the agreed deadline of 30 May 2019 and three weeks before the statutory deadline of 15 June 2019. This was a considerable achievement given the work that is necessary to produce the financial statements.
- 7 We have now substantially completed the audit work. At the time of drafting this report, the following area of audit work remains outstanding:
 - our review of the additional pension liability arising from the McCloud judgement. We are awaiting additional assurance from our consulting actuary on the appropriateness of the actuarial assessment of the impact of the legal judgements on the Council's liabilities (further details are provided in this report).
- 8 We will update the Audit Committee at its meeting on 29 July 2019 in respect of these outstanding areas.
- 9 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.

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 opinion.
- 13 The adjustment relates to land at the Dyffryn Lower school which became non-operational in 2018-19 with the opening of the new Cwm Brombil school but was not re-classified as a surplus asset. The impact of this unadjusted misstatement is that other land and buildings are overstated by £848,000 and surplus assets understated. As this land was not valued on an open market basis, the extent of the understatement in the surplus assets valuation is uncertain but is not judged to be material. Management have confirmed that this will be corrected in the 2019-20 financial year.
- 14 Whilst Auditing Standards require us to request that this is corrected, we accept management's view that given the practicalities in requesting a new valuation for non-material 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

- 15 There are misstatements which 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](#) and have no impact on the Council's reported net expenditure.

Other significant issues arising from the audit

- 16 During 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.

We have no significant concerns about the qualitative aspects of your accounting practices and financial reporting

- 17 We found the information provided to be relevant and reliable. We also concluded that your accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear.
- 18 The draft financial statements were prepared to a good standard and were supported by good quality working papers which were provided on a timely basis, helping us to complete the audit within the required deadline.
- 19 In previous years 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 quality of information provided to support capital transactions improved this year, we will continue to work with the team to further improve the process.

We did not encounter significant difficulties during the audit

- 20 There were no significant difficulties during the audit. To facilitate the audit process, we agreed 'audit deliverables' with management and have had continued engagement through the accounts production and audit process, which has been very helpful.

There is one significant matter discussed and corresponded upon with management which we need to report to you

- 21 The draft financial statements were prepared before the Supreme Court denied the Government's application for leave to appeal the legal judgement about age discrimination in public sector pension schemes, including the local government pension scheme. These changes surrounded a move from final salary to a career average basis and are referred to as the McCloud judgement.
- 22 The cost of providing a remedy to affected employees is likely to be significant. We have concluded that the McCloud judgement gives rise to a past service cost and liability within the scope of accounting for pensions within local authorities which should be accounted for as an increased liability where a reasonable estimate can be made.
- 23 The Council have obtained updated evidence from their actuary on the impact of this legal judgement on the valuation of the pension liability. As this is above the Council's materiality threshold for the 2018-19 financial statements, the Council has adjusted the 2018-19 financial statements accordingly which is referenced within **Appendix 3** of this report.

There are no other matters significant to the oversight of the financial reporting process that we need to report to you

24 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, but we have identified some areas for improvement

25 We have not identified any matters, which are material to the accuracy and completeness of the financial statements, or any matters which are significant enough to be brought to your attention. We will discuss and agree with management appropriate action for the relatively minor issues we have identified with a view to improving the accounts closure process.

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

26 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

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

28 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

29 July 2019

Representations regarding the 2018-19 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 2019 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 2018-19; 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 this item is set out below:

- Dyffryn Lower school became a non-operational in 2018-19 with the opening of the new Cwm Brombil school but the land on the site was not reclassified as a surplus asset. The impact of this unadjusted misstatement is that other land and buildings are overstated by £848,000 and surplus assets understated. As this land was not valued on an open market basis, the extent of the understatement in the surplus assets valuation is uncertain but is not judged to be material. This will be corrected in the 2019-20 financial year.

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 29 July 2019.

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: 29 July 2019

Date: 29 July 2019

Appendix 2

Proposed audit report of the Auditor General

The independent auditor's report of the Auditor General for Wales to the members of Neath Port Talbot County Borough Council

Report on the audit of the financial statements

Opinion

I have audited the financial statements of Neath Port Talbot County Borough Council for the year ended 31 March 2019 under the Public Audit (Wales) Act 2004.

Neath Port Talbot County Borough Council's financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and the related notes, including a summary of significant accounting policies.

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 2018-19 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial position of Neath Port Talbot County Borough Council as at 31 March 2019 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2018-19.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the Council in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the responsible financial officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

Other information

The responsible financial officer is responsible for the other information in the annual report and accounts. The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated later in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information to identify material inconsistencies with the audited financial statements 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.

Report on other requirements

Opinion on other matters

In my opinion, based on the work undertaken in the course of my audit:

- the information contained in the Narrative Report for the financial year for which the financial statements are prepared is consistent with the financial statements and the Narrative Report has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018-19;
- The information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and the Governance Statement has been prepared in accordance with guidance.

Matters on which I report by exception

In the light of the knowledge and understanding of the Council and its environment obtained in the course of the audit, I have not identified material misstatements in the Narrative Report or the Governance Statement.

I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

- proper accounting records have not been kept;
- the financial 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.

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.

Responsibilities

Responsibilities of the responsible financial officer for the financial statements

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 give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of statements of accounts that are free from material misstatement, whether due to fraud or error.

In preparing the statement of accounts, the responsible financial officer is responsible for assessing the Council's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Anthony J Barrett
For and on behalf of the Auditor General for Wales
30 July 2019

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 Council

During our audit the following misstatements were identified which 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.

Exhibit 1: summary of corrections made to the draft financial statements

Value of correction	Nature of correction	Reason for correction
£17,910,000	Increase in pension past service costs (IAS19) in the Comprehensive Income and Expenditure Statement and an increase in the pension reserve to reflect the estimated impact of the McCloud judgement. Corresponding amendments were made to the Movement in Reserves Statement, the adjustments to the expenditure and funding analysis (Note 4), income and expenditure analysed by nature (Note 5) and the disclosures relating to defined benefit pension schemes (Note 37).	To ensure that the estimated impact of the McCloud judgement is recognised in the accounts.
£1,271,000	Decrease in other land and building fixed asset additions and increases in infrastructure additions (£544,000), surplus asset additions (£294,000), vehicle, plant and equipment additions (£31,000) and community asset additions (£402,000) disclosed in Note 11. Corresponding amendments were made to de-recognition - other to remove non-enhancing expenditure from the fixed asset balance.	To ensure that non-enhancing fixed asset additions are correctly categorised and in compliance with the Local Government Code.
£8,122,000	Decrease in other movements in fixed asset valuations and corresponding increase in revaluation decreases recognised in the revaluation reserve (£1,770,000) and revaluation decreases recognised in the surplus/deficit on provision of services (£6,353,000). Corresponding adjustments were also made to depreciation written out on revaluation.	To ensure that revaluation adjustments correctly reflect the requirements of 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