

Audit of Accounts Report – Neath Port Talbot Council

Audit year: 2019-20

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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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We intend to issue an unqualified audit report on your Accounts. There are some issues to report to you prior to their approval.

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Audit of Accounts Report

Introduction

- 1 We summarise the main findings from our audit of your 2019-20 statement of accounts in this report.
- 2 We have already discussed these issues with the Director of Finance and Corporate Services and his team.
- 3 Auditors can never give complete assurance that accounts are correctly stated. Instead, we work to a level of 'materiality'. This level of materiality is set to try to identify and correct misstatements that might otherwise cause a user of the accounts into being misled.
- 4 We set this level at £5.2 million for this year's audit.
- 5 There are some areas of the accounts that may be of more importance to the reader and we have set a lower materiality level for these, as follows:
 - Senior officers' remuneration - £1,000
 - Related party transactions and balances - £130,000.
- 6 We have now substantially completed this year's audit.
- 7 In our professional view, we have complied with the ethical standards that apply to our work; remain independent of yourselves; and, our objectivity has not been compromised in any way. There are no relationships between ourselves and yourselves that we believe could undermine our objectivity and independence.

Impact of COVID-19 on this Year's Audit

- 8 The COVID-19 pandemic has had a significant impact on all aspects of our society and continues to do so. You are required by law to prepare accounts and it is of considerable testament to the commitment of your accounts team that you have succeeded in doing so this year in the face of the challenges posed by this pandemic. We are extremely grateful to the professionalism of the team in supporting us to complete our audit in such difficult circumstances.
- 9 The pandemic has unsurprisingly affected our audit and we summarise in **Exhibit 1** the main impacts. Other than where we specifically make recommendations, the detail in **Exhibit 1** is provided for information purposes only to help you understand the impact of the COVID-19 pandemic on this year's audit process.

Exhibit 1 – impact of COVID-19 on this year’s audit

<p>Timetable</p>	<p>The deadline for Councils to complete their draft statement of accounts remained at 15 June 2020. In line with the Council’s original timetable, the draft accounts were submitted to us on 29 May 2020.</p> <p>The Audit Committee is due to consider and approve the audited statement of accounts on 14 September 2020 (replacing 29 July 2020). We expect your audit report to be signed on 15 September 2020 (replacing 31 July 2020).</p>
<p>Electronic signatures</p>	<p>If still necessary at the time of approval and signing, we will accept electronic signatures and electronic transfer of files. We anticipate that your audit report will be signed electronically.</p>
<p>Audit evidence</p>	<p>As in previous years, we received most of the audit evidence in electronic format. We have used various techniques to ensure its validity. Where we have been unable to obtain access to paper documents because of COVID-19 restrictions, we have devised alternative audit methodologies to obtain sufficient audit evidence. Specifically:</p> <ul style="list-style-type: none"> • Council officers provided electronic working papers in accordance with our agreed Audit Deliverables Report; • Council officers provided audit evidence to the audit team through remote access to the Council’s shared server; and • Audit Wales also secured remote read only access to the Council’s Oracle ledger which enabled the audit team to query the ledger and hence reduce the burden on officers to provide this information. <p>Despite the practical implications of lockdown and the additional workload pressures on your staff in responding to the pandemic, we did not encounter any significant delays in receiving audit evidence or timely responses to audit queries.</p>
<p>Other</p>	<ul style="list-style-type: none"> • Officers were available by video-conferencing for discussions which enabled the audit team to correspond effectively with officers throughout the audit. • Video-conference based Audit Committee meetings have enabled us to proficiently discharge our responsibility for reporting to those charged with governance. • We have drawn attention to valuations of certain property assets as at 31 March 2020, where the pension fund investment manager had declared ‘material valuation uncertainty’. We explain this matter at paragraph 20 and in Appendix 2.

- 10 We will be reviewing what we have learned for our audit process from the COVID-19 pandemic and whether there are innovative practices that we might adopt in the future to enhance that process.

Proposed audit opinion

- 11 We require you to provide us with a Letter of Representation based on that set out in **Appendix 1**. The letter contains certain confirmations we are required to obtain from you under auditing standards along with confirmation of other specific information you have provided to us during our audit.
- 12 Once you have provided us with your Letter of Representation, we intend to issue an unqualified audit opinion on the 2019-20 statement of accounts. Our proposed audit report is set out in **Appendix 2**. We issue a 'qualified' audit opinion where we have material concerns about some aspects of your accounts; otherwise we issue an unqualified opinion.
- 13 Our proposed audit report includes an emphasis of matter reference, drawing the reader's attention to Note 35 of the accounts. This note describes the impact of the COVID-19 pandemic on the valuation of pension scheme property assets where professional valuation reports have declared a 'material valuation uncertainty' in valuing these assets at 31 March 2020.
- 14 The Council has disclosed the nature and impact of the material uncertainty and my opinion is not modified in respect of this matter.

Significant issues arising from the audit

Uncorrected misstatements

- 15 During our audit, two misstatements were identified in the statement of accounts which have been discussed with management, but management have chosen not to adjust. We do not consider these to be material to our audit opinion.
- 16 The Council's historic cost property, plant and equipment records were incomplete and did not fully comply with the requirements of the Code of Practice on Local Authority Accounting. This requires that historic cost adjusted for the revaluation reserve value should equal the net book value of assets. The Council have now updated their records but have been unable to fully reconcile the historic cost and net book value of its assets. The unreconciled difference is not material, the Council estimates that the revaluation reserve is overstated £1,676,000 and the capital adjustment account understated. Management have confirmed that this will be corrected in the 2020-21 financial year.
- 17 Land and buildings at Harbour Court were revalued in 2019-20 as part of the Council's rolling revaluation programme. The property, which is leased by the Council includes a stepped rent for which an equivalent rent was calculated as part

of the valuation process. However, the Council's valuation software erroneously overwrote the equivalent rent input into the system by the valuer. The impact of this unadjusted misstatement is that other land and buildings are understated by £281,344 and the loss charged to the CIES overstated. We have confirmed that no further similar errors have occurred, and management have stated that this will be corrected in the 2020-21 financial year.

18 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 statement of accounts. We request that the Audit Committee considers approving management's rationale for this and include this in the Letter of Representation.

Corrected misstatements

19 There were initially misstatements and disclosure errors in the draft statement of accounts. These have now been corrected by management and have no impact on the Council's reported net expenditure. However, we believe that these should be drawn to your attention and they are set out with explanations in **Appendix 3**.

Other significant Issues arising from the audit

20 In the course of the audit, we consider a number of matters relating to the accounts and report any significant issues arising to you. There were some issues arising in these areas this year as shown in **Exhibit 2**:

Exhibit 2 – significant issues arising from the audit

Significant issues arising from the audit		
<p>Material uncertainty arising from the valuation of pension scheme property assets</p>	<p>As a result of the pandemic, the Pension Fund investment manager declared a 'material valuation' uncertainty in their professional valuation reports at 31 March 2020 in respect of their valuation of UK property funds they manage on behalf of the City and County of Swansea Pension Fund. The Council's share of this fund at 31 March 2020 was £16.4 million.</p> <p>I have requested that the Council sets out in Note 35 – Defined benefit pension schemes – additional narrative to disclose the nature and extent of the uncertainty.</p>	<p>The Council has included the additional narrative disclosure.</p> <p>I have also drawn the readers' attention to this disclosure in an emphasis of matter paragraph in my audit report.</p> <p>My opinion is not modified in respect of this matter.</p>

Significant issues arising from the audit

McCloud judgement	<p>The draft financial statements were prepared before the Government published its consultation on its proposed remedy in response to the McCloud judgement on age discrimination in public sector pension schemes, including the local government pension scheme.</p> <p>The Government published its consultation on 16 July 2020 and we have confirmed that the Council's actuary has taken account of the main provisions of the proposed remedy in its valuation of the Council's pension liability.</p> <p>I have requested that the Council sets out in Note 35 – Defined Benefit Pension Schemes – the extent to which the proposed McCloud remedy has been accounted for.</p>	<p>The Council has included the additional narrative disclosure.</p>
Asset valuation process	<p>Our audit testing identified that significant changes had been made to the valuations of four properties as at 31 March 2020. The Council's capital finance team were unable to provide us with satisfactory explanation to support the changes made as they generally accept the valuations without any challenge or quality assurance. Although the Council's valuer was subsequently able to provide satisfactory evidence and explanations, there are procedural weaknesses in the valuation process and in the capital finance teams quality assurance processes.</p>	<p>We will work with officers early in the 2020-21 audit to improve these processes going forward.</p>

Recommendations

- 21 Following the audit certification by the Auditor General, we will continue to work with the Council's finance team to improve the accounts production process for 2020-21.

Appendix 1

Final Letter of Representation

Neath Port Talbot Council Letterhead

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

14 September 2020

Representations regarding the 2019-20 financial statements

This letter is provided in connection with your audit of the financial statements of Neath Port Talbot Council for the year ended 31 March 2020 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 responsibility 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 2019-20; 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 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 an uncorrected misstatement identified during the audit is immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of these items is set out below:

- The Council's historic cost property, plant and equipment records were incomplete and did not fully comply with the requirements of the Code of Practice on Local

Authority Accounting. This requires that historic cost adjusted for the revaluation reserve value should equal the net book value of assets. The Council have updated their records but have been unable to fully reconcile the historic cost and net book value of its assets. The unreconciled difference is not material, the Council estimates that the revaluation reserve is overstated £1,676,000 and the capital adjustment account understated. Management have confirmed that this will be corrected in the 2020-21 financial year.

- Land and buildings at Harbour Court were revalued in 2019-20 as part of the Council's rolling revaluation programme. The property, which is leased by the Council includes a stepped rent for which an equivalent rent was calculated as part of the valuation process. However, the Council's valuation software erroneously overwrote the equivalent rent input into the system by the valuer. The impact of this unadjusted misstatement is that other land and buildings are understated by £281,344 and the loss charged to the CIES overstated. We have confirmed that no further similar errors have occurred, and management have stated that this will be corrected in the 2020-21 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 14 September 2020.

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:

Director of Finance and Corporate services:

Date: 14 September 2020

Signed by:

Chair of the Audit Committee

Date: 14 September 2020

Appendix 2

Proposed audit report

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

Report on the audit of the financial statements

Opinion

I have audited the financial statements of Neath Port Talbot Council for the year ended 31 March 2020 under the Public Audit (Wales) Act 2004.

Neath Port Talbot 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 2019-20 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 Council as at 31 March 2020 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 2019-20.

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.

Emphasis of matter – effects of the Covid-19 pandemic on the valuation of pension scheme property assets

I draw attention to Note 35 of the financial statements, which describes the impact of the COVID-19 pandemic on the valuation of pension scheme property assets as at 31 March 2020.

My opinion is not modified in respect of this matter.

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 2019-20;

- 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 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 9, 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 as a whole 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
15 September 2020

24 Cathedral Road
Cardiff
CF11 9LJ

Appendix 3

Summary of corrections made

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.

Exhibit 3: summary of corrections made

Value of correction	Nature of correction	Reason for correction
£9,351,000	Note 5 Expenditure and income analysed by nature Revaluation losses on property, plant and equipment had been incorrectly disclosed as other services expenditure when they should have been classified as depreciation, amortisation and impairment expenditure.	To correctly disclose the categorisation of expenditure.
£998,626	Note 11 Property, Plant and Equipment The net book value of service concession assets (residential care homes under the Pobl contract) disclosed in Note 11 had not been decreased by the annual depreciation charge and was therefore overstated by this amount.	To correctly disclose the value of service concession assets within Property, Plant and Equipment.
£3,752,000	Note 17 Creditors The short-term creditors' balance had been decreased by the debit balance on the inter-committee cash account. This should properly have been classified as a debtor (within Note 13 Debtors). Both creditors and debtors were correspondingly understated.	To correctly disclose creditors and debtors.

Value of correction	Nature of correction	Reason for correction
£61,558 £11,080	<p>Note 27 Officers' Remuneration</p> <p>The salary and employer's pension contribution disclosed for the newly appointed Director of Environment incorrectly included remuneration from their previous role.</p>	To correctly disclose the remuneration of the Director of Environment.
Disclosure only	<p>Note 35 Defined Benefit Pension Schemes</p> <p>Additional wording added to explain the basis on which the actuary has valued liabilities arising from the McCloud judgement.</p>	Additional wording which clarifies that the valuation is in line with the proposed remedy issued by the Government in July 2020.
£9,370,000	<p>Note 35 Defined Benefit Pension Schemes</p> <p>The fair value of pension scheme assets was based on an estimated rate of return for March 2020 which understated the value by £9.37 million compared to the actual rate of return. The overall pension liability and pensions reserve (Note 20) are correspondingly overstated and the actuarial gains (CIES) understated.</p>	To disclose pension scheme assets and liabilities in line with the scheme actuaries updated valuation.
Disclosure only	<p>Note 35 Defined Benefit Pension Schemes</p> <p>Note added to explain that due to the impact of COVID-19, the Pension Fund investment manager reported a material uncertainty in their valuation reports for UK property funds managed on behalf of the City and County of Swansea Pension Fund as at 31 March 2020. The</p>	Additional wording in the financial statements, to which the Auditor General's certificate (Appendix 2) draws attention as an 'emphasis of matter'. See paragraph 20.

Value of correction	Nature of correction	Reason for correction
	Council's share of this fund was £16.4 million.	
Narrative	<p>Annual Governance Statement Additional wording added to explain the impact of the COVID-19 pandemic on the Council's governance arrangements.</p>	To comply with CIPFA disclosure requirements.



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We welcome correspondence and telephone calls in Welsh and English.
Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.