

Audit of Accounts Report – Neath Port Talbot Council

Audit year: 2020-21

Date issued: July 2021

Document reference: 2518A2021-22

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

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

Audit of Accounts Report

Introduction	4
Impact of COVID-19 on this year's audit	4
Proposed audit opinion	5
Significant issues arising from this year's audit	6
Recommendations	6
Appendices	
Appendix 1 – Final Letter of Representation	7
Appendix 2 – Proposed Audit Report	10
Appendix 3 – Summary of Corrections Made	15

Audit of Accounts Report

Introduction

- 1 We summarise the main findings from our audit of your 2020-21 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 £5.3 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 – £134,000
- 6 We have now substantially completed this year's audit work. At the time of drafting this report, the following area of audit work remains outstanding:
 - review of pension fund assets and liabilities. We are awaiting assurances from the City and County of Swansea Pension Fund auditor on the work they have undertaken on the Council's share of the pension fund assets and liabilities.
- 7 We will update the Governance and Audit Committee at its meeting on 28 July 2021 in respect of this outstanding area.
- 8 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

- 9 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.
- 10 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

Timetable	<ul style="list-style-type: none">• We received the draft accounts on 27 May 2021 as planned. This is in line with last year and with regulatory deadlines.• The Governance and Audit Committee is due to consider and approve the audited statement of accounts on 28 July 2021.• We expect your audit report to be signed on 30 July 2021.
Electronic signatures	The Chair, Treasurer and Auditor General will use electronic signatures to approve and certify the accounts respectively.
Audit evidence	<p>Our audit of your financial statements was undertaken remotely. Council officers effectively supported us in this by continuing to provide us with appropriate and timely information to inform our audit. Specifically:</p> <ul style="list-style-type: none">• officers provided electronic working papers;• officers provided audit evidence to the audit team through remote access to the Council’s shared server;• 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; and• officers were available by video-conferencing for discussions which enabled the audit team to correspond effectively with officers throughout the audit.

- 11 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

- 12 We intend to issue an unqualified audit opinion on this year’s accounts once you have provided us with a Letter of Representation based on that set out in **Appendix 1**. The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards.
- 13 We issue a ‘qualified’ audit opinion where we have material concerns about some aspects of your accounts; otherwise we issue an unqualified opinion.
- 14 Once you have provided us with your Letter of Representation, we intend to issue an unqualified audit opinion on your 2020-21 statement of accounts. Our proposed audit report is set out in **Appendix 2**.

Significant issues arising from the audit

Uncorrected misstatements

- 15 During our audit, one misstatement was identified in the statement of accounts which has been discussed with management, but management have chosen not to adjust. We do not consider this to be material to our opinion.
- 16 The provision made for insurance liabilities is based on an assessment of outstanding claims made by the Council's insurance advisers. This assessment also included a 'buffer' requirement of £862,000 which had been incorrectly included in the provision rather than the insurance reserve. The impact of this unadjusted misstatement is that reported net expenditure and the general fund reserve are overstated and earmarked reserves understated.
- 17 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 Governance and Audit Committee considers approving management's rationale for this and include this in the Letter of Representation.

Corrected misstatements

- 18 There were initially misstatements and disclosure errors in the draft statement of accounts. These have now been corrected by management. 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

- 19 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 no issues arising in these areas this year.

Recommendations

- 20 Following the audit certification by the Auditor General, we will continue to work with the Council's finance team to further improve the accounts production process for 2021-22.

Appendix 1

Final Letter of Representation

Neath Port Talbot Council Letterhead

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

28 July 2021

Representations regarding the 2020-21 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 2021 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 2020-21; 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.

The methods, the data and the significant assumptions used in making accounting estimates, and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework.

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 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:

- the provision made for insurance liabilities is based on an assessment of outstanding claims made by the Council's insurance advisers. This assessment also included a 'buffer' requirement of £862,000 which had been incorrectly included in the provision rather than the insurance reserve. The impact of this unadjusted misstatement is that reported net expenditure and the general fund reserve are overstated and earmarked reserves understated.

Representations by the Governance and 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 Governance and Audit Committee on 28 July 2021.

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: 28 July 2021

Signed by:

Chair of the Governance and Audit Committee

Date: 28 July 2021

Appendix 2

Proposed Audit Report

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

Opinion on financial statements

I have audited the financial statements of Neath Port Talbot Council for the year ended 31 March 2021 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 international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21.

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 2021 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with legislative requirements and international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. 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

In auditing the financial statements, I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt

on Neath Port Talbot Council's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the responsible financial officer with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. The Responsible Financial Officer is responsible for the other information contained within the annual report. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon. My responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

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 2020-21;
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and the Annual 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 Neath Port Talbot Council and its environment obtained in the course of the audit, I have not identified material misstatements in the Narrative Report or the Annual Governance Statement.

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, or returns adequate for my audit have not been received from branches not visited by my team;
- 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.

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 Neath Port Talbot 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

My procedures included the following:

- enquiring of management and those charged with governance, relating to Neath Port Talbot Council's policies and procedures concerned with:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;

- detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
- the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- considering as an audit team how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the following areas: revenue recognition and posting of unusual journals.
- obtaining an understanding of Neath Port Talbot Council's framework of authority as well as other legal and regulatory frameworks that Neath Port Talbot Council operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of Neath Port Talbot Council.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management and the Governance and Audit Committee about actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance, the Cabinet and Council;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

I also communicated relevant identified laws and regulations and potential fraud risks to all audit team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of Neath Port Talbot Council's controls, and the nature, timing and extent of the audit procedures performed.

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.

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.

Adrian Crompton
Auditor General for Wales
30 July 2021

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 2: summary of corrections made

Value of correction	Nature of correction	Reason for correction
Disclosure only	Note 6 Adjustments between accounting and funding basis Capital disposal proceeds were disclosed net of those applied during the year.	To correctly disclose capital disposal proceeds in the year.
Disclosure only	Note 12 Financial Instruments The fair value of non-PWLB debt excluded some debts.	To correctly disclose the fair value of non-PWLB debt.
£16,742	Note 27 Officers' Remuneration Remuneration disclosed did not include payments made for untaken annual leave on retirement. In addition, salary sacrifice deductions were not shown gross.	To correctly disclose the remuneration of senior officers.
Narrative	Annual Governance Statement Additional wording added to more fully explain the Council's governance arrangements.	To comply with CIPFA disclosure requirements.

There have also been a number of minor amendments and disclosure updates as a result of our work.



Audit Wales

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

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