

Audit of Accounts Report – Torfaen County Borough Council

Audit year: 2023-24

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About Audit Wales

Our aims and ambitions

Assure



the people of
Wales that public
money is well
managed

Explain



how public
money is being
used to meet
people's needs

Inspire



and empower
the Welsh
public sector to
improve



Fully exploit
our unique
perspective,
expertise and
depth of insight



Strengthen our
position as an
authoritative,
trusted and
independent
voice



Increase our
visibility,
influence and
relevance



Be a model
organisation for
the public sector
in Wales and
beyond

Contents

| | |
|--|----|
| Introduction | 5 |
| Your audit at a glance | 6 |
| Detailed report | |
| Financial statements' materiality | 7 |
| Ethical compliance | 8 |
| Proposed audit opinion | 9 |
| Issues arising during the audit | 10 |
| Appendices | |
| Appendix 1 –Proposed audit report | 13 |
| Appendix 2 – Letter of representation | 17 |
| Appendix 3 – Summary of corrections made | 20 |
| Audit quality | 22 |
| Supporting you | 23 |

Introduction

I have now completed my audit in line with my Detailed Audit Plan.

This Audit of Accounts Report summarises the findings of my audit of the 2023-24 annual report and accounts. My team have already discussed these issues with the Head of Financial Services and the Group Finance Officer – Corporate.



Adrian Crompton
Auditor General for
Wales

Your audit at a glance



Audit opinions

Following the satisfactory completion of the areas of work outstanding, we are proposing to give an unqualified opinion on the accounts.

We have nothing to report under the other sections of my report, ie those relating to going concern; other information; other matters; or matters I report by exception.



Significant issues

We have identified the following significant issues:

- Production, timeliness and quality of certain working papers and audit evidence.
- Weaknesses in the PPE revaluation process and related accounting adjustments

We have provided further details of these issues on **page 11** of our report.

Financial statements' materiality



Materiality £3.971 million

My aim is to identify and correct material misstatements, ie those that might otherwise cause the user of the accounts to be misled.

Materiality is calculated using:

- 2023-24 gross expenditure of £397 million
- Materiality percentage of 1%

I apply the materiality percentage to gross expenditure to calculate materiality.

I will report to you any misstatements above £199,000, calculated as 5% of materiality (called the 'trivial level').



Areas of specific interest

There are some areas of the accounts that may be of more importance to the user of the accounts. We set lower materiality levels for these as follows:

- Senior officer salary, benefits, and compensation £1,000
- Related party disclosures:
 - Transactions with officers/elected members £10,000
 - Transactions with subsidiaries/associate companies £3.971 million

Ethical compliance



Compliance with ethical standards

We believe that:

- we have complied with the ethical standards we are required to follow in carrying out our work;
- we have remained independent of yourselves;
- our objectivity has not been comprised; and
- we have no relationships that could undermine our independence or objectivity.

Proposed audit opinion



Audit opinion

We intend to issue an unqualified audit opinion on this year's accounts once you have provided us with a Letter of Representation (see below).

Our proposed audit report is set out in **Appendix 1**.



Letter of representation

A Letter of Representation is a formal letter in which you confirm to us the accuracy and completeness of information provided to us during the audit. Some of this information is specified as being necessary by auditing standards; other information may relate specifically to your audit.

The letter we are requesting you to sign is included in **Appendix 2**.

Issues arising during the audit



Misstatements

A misstatement arises where information in the accounts is not in accordance with accounting standards.

Uncorrected misstatements

We set out below the misstatements above our reporting level which we identified in the accounts. These have been discussed with management but remain uncorrected. We request that these misstatements be corrected. In addition to those documented below we also identified a number of other issues; however these were individually below our reporting threshold.

- £500k of cash and cash equivalents was originally omitted from a disclosure in Note 17: Financial Instruments but the Council has corrected this. However, there remains a classification issue as the balance has been classified as a short-term investment instead of cash and cash equivalents in the Statement of Financial Position and accompanying notes.
- A number of issues were identified from our audit of Note 13 : Property, Plant and Equipment, which have been outlined in detail on p.11 of this report. The issues above the reporting threshold that remain uncorrected are:
 - £770k impairment of non-enhancing expenditure which has been disclosed in the incorrect line of the CIES. This will be incorrectly shown in surplus/deficit of revaluation of non-current assets instead of the surplus/deficit on provision of services.
 - £202k depreciation arising from assets with non-enhancing expenditure which had not been impaired, which has not which has not been removed from the CIES or Note 13.

If you decide not to correct these misstatements, we ask that you provide us with the reasons in writing for not correcting them.

Corrected misstatements

During our audit, we identified misstatements that have been corrected by management, but which we consider should be drawn to your attention.

These are set out in **Appendix 3**.



Other significant issues

In the addition to the misstatements identified during the audit we also report other significant issues to you. For this year's audit we have identified two such issues which we wish to bring to your attention.

Production, timeliness and quality of the working papers

The 2023-24 audit was the second undertaken in line with the revised auditing standard ISA315. At the conclusion of the 2022-23 audit, we held a detailed post project learning workshop with key officers at the Council to ensure that the new audit requirements were taken into consideration for the planning and delivery of the 2023-24 annual report and accounts.

However, in certain areas the Council did not initially provide detailed populations in line with our revised approach. The production, timeliness and quality of working papers at the start of the audit was problematic, resulting in additional time and requests being made, and ultimately prolonging the audit window. This was particularly the case for expenditure and income and the associated creditors and debtors.

Property plant and equipment (PPE) revaluation process

We identified a number of issues with the revaluation of PPE completed in the year that resulted in material changes to the accounts. These issues led to significant work for the finance team (in processing the changes) and the audit team (in ensuring the accounting entries were correct) during the audit.

The key issues that impacted on the audit process were:

- The Council failed to communicate that external valuers were used for completing the valuations of comprehensive schools and other assets during the year which resulted in further audit work to document the work of an additional 'management expert'.
- For all assets where indexation was applied during the year, the incorrect BCIS indexation rates were used to calculate the change in value. This led to a material understatement of the Council's assets.
- For an asset which had been revalued in the year, the fixed asset register and other accounting records had not been updated to reflect the change in value and useful economic life as documented in the valuer's report. This resulted in a material understatement of the Council's assets.
- Discrepancies were identified when reconciling the property, plant and equipment note and the fixed asset register. Correcting these resulted in material amendments to the note.
- The revaluation of one comprehensive school was completed as a desk exercise. A full site visit is required per the accounting framework, and therefore a subsequent exercise was required during the audit process. This deficiency in the revaluation process was not identified by finance officers.

- For a number of assets, additions made during the year were incorrectly included within the gross book value when calculating the change in value leading to double counting of this expenditure in the final valuation of the assets.
- Non-enhancing expenditure incurred during the year had not been impaired as required and the corresponding adjustments to the Revaluation Reserve and CIES had not been made. Misstatements relating to this issue remain uncorrected which has been outline on p. 10 of this report.

Due to the number of issues identified and amendments required, a second version of the PPE note was requested before audit work could be undertaken. This led to delays in the completion of our work which also prolonged the audit window

Recommendation

For both issues we have identified, we have agreed to work together with the finance team to understand the difficulties in this area so that these issues do not materialise for 2024-25.

Appendix 1

Proposed audit report

The report of the Auditor General for Wales to the members of Torfaen County Borough Council

Opinion on financial statements

I have audited the financial statements of Torfaen County Borough Council (the Council) for the year ended 31 March 2024 under the Public Audit (Wales) Act 2004.

The 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 the significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2024.

In my opinion, in all material respects, the financial statements:

- give a true and fair view of the financial position of the as at 31 March 2024 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with legislative requirements and UK adopted international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2024.

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.

My staff and I are 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 the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve 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.

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 is in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2024; and
- 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 is in accordance with guidance.

Matters on which I report by exception

In the light of the knowledge and understanding of [name of local government body and the group] 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:

- I have not received all the information and explanations I require for my audit;
- adequate accounting records have not been kept, or returns adequate for my audit have not been received from branches not visited by my team; or
- the financial statements are not in agreement with the accounting records and returns.

Responsibilities of the responsible financial officer for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the responsible financial officer is responsible for:

- the preparation of the statement of accounts, which give a true and fair view and comply with proper practices;
- maintaining proper accounting records;

- internal controls 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;
- 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 the responsible financial officer anticipates that the services provided by the Council will not continue to be provided in the future.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit the financial statements in accordance with the Public Audit (Wales) Act 2004.

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, the head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the 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, expenditure recognition, posting of unusual journals;
- Obtaining an understanding of the Council's framework of authority as well as other legal and regulatory frameworks that the 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 the Council
- Obtaining an understanding of related party relationships.

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;
- 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
- 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 the the 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.

Other auditor's responsibilities

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Certificate of completion of audit

I certify that I have completed the audit of the accounts of Torfaen 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.

Adrian Crompton

Auditor General for Wales

Date (TBC)

1 Capital Quarter

Tyndall Street

Cardiff, CF10 4BZ

Appendix 2

Letter of representation

[Audited body's letterhead]

Auditor General for Wales
Wales Audit Office
1 Capital Quarter
Cardiff
CF10 4BZ

[Date]

Representations regarding the 2023/24 financial statements

This letter is provided in connection with your audit of the financial statements of Torfaen County Borough Council for the year ended 31 March 2024 for the purpose of expressing an opinion on their truth and fairness

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 CIPFA Code 2023/24 in particular the financial statements give a true and fair view in accordance therewith;
- the design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

Information provided

We have provided you with:

- full access to:
 - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;
 - additional information that you have requested from us for the purpose of the audit; and

- unrestricted access to staff from whom you determined it necessary to obtain audit evidence;
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- our knowledge of fraud or suspected fraud that we are aware of and that affects Torfaen 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.

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 uncorrected misstatements identified during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of these items is set out below:**

- [xxxx]

Representations by Those Charged with Governance

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 Torfaen County Borough Council on [insert date].

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:

[Officer who signs on behalf of management]

Date:

Signed by:

[Officer or Member who signs on behalf of those charged with governance]

Date:

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.

| Value of correction | Accounts areas | Explanation |
|---------------------|--|---|
| £99,905k | Note 36: Post-Employment Benefits (The amendment affected the SOFP, CIES, and reserves) | <p>The overall pension deficit has increased following an adjustment to the Local Government Pension Scheme liability.</p> <p>Additional guidance was received post the approval of the draft accounts which clarified the calculation of the 'asset ceiling' and subsequent treatment.</p> <p>This 'asset ceiling' is calculated in accordance with the International Financial Reporting Standards Interpretations Committee (IFRIC) IFRIC 14 'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' and was calculated based on figures provided by the pension fund actuary.</p> <p>Following this updated guidance resulted in an increase in liability of £99,905k for the authority.</p> |
| Various | Note 13: Property, Plant and Equipment (Amendments also affected other related notes) | <p>Numerous issues were identified during the audit relating to PPE. These have been communicated in detail under 'other significant issues' above.</p> |

| | | |
|---------|--|--|
| £2,990k | Note 17: Financial Instruments (Reclassification) | £2,990k of maturity loans were reclassified from long-term to short term borrowings. |
| £1,340k | Note 21: Creditors Note 22: Other Long-Term Liabilities (Reclassification) | £1,340k misclassification error between Note 21 Creditors and Note 22 Other Long-Term Liabilities |
| £1,396k | Movement in Reserves Statement Note 10: Joint Operations (JOPs) (Reclassification) | £1,396k of useable reserves relating to the Cardiff Capital Region (CCR) had been misclassified as unusable. |
| £822k | Note 10: Joint Operations (JOPs) | £822k was omitted from the debtor analysis. The primary statements were unaffected by this omission |
| Various | Cash Flow Statement and Supporting Notes | Significant amendments were made to the cash flow. These mostly related to correcting the treatment of long-term liabilities and short-term creditors. This included a prior year restatement. |
| £4.8k | Note 33 : Officers Remuneration | The pension contribution disclosures in Note 33 incorrectly included a contribution rate of 0.8% relating to recharges for old pension schemes. This was in addition to the correct pension scheme contribution rate of 24.7%. |

| | | |
|---------|---------|--|
| | | <p>It was correct for the Council to include this recharge within the accounts, however as it was not directly attributable to the individual officers it should have been omitted from Note 33.</p> |
| Various | Various | <p>Our audit work identified a number of minor narrative or disclosure errors that required correction. These have all been agreed with the client.</p> |

Audit quality

Our commitment to audit quality in Audit Wales is absolute. We believe that audit quality is about getting things right first time.

We use a three lines of assurance model to demonstrate how we achieve this. We have established an Audit Quality Committee to co-ordinate and oversee those arrangements. We subject our work to independent scrutiny by QAD*, and our Chair acts as a link to our Board on audit quality. For more information see our [Audit Quality Report 2023](#).



Our People

The first line of assurance is formed by our staff and management who are individually and collectively responsible for achieving the standards of audit quality to which we aspire.

- Selection of right team
- Use of specialists
- Supervisions and review



Arrangements for achieving audit quality

The second line of assurance is formed by the policies, tools, learning & development, guidance, and leadership we provide to our staff to support them in achieving those standards of audit quality.

- Audit platform
- Ethics
- Guidance
- Culture
- Learning and development
- Leadership
- Technical support



Independent assurance

The third line of assurance is formed by those activities that provide independent assurance over the effectiveness of the first two lines of assurance.

- EQCRs
- Themed reviews
- Cold reviews
- Root cause analysis
- Peer review
- Audit Quality Committee
- External monitoring

* QAD is the quality monitoring arm of ICAEW.

Supporting you

Audit Wales has developed a range of resources to support the scrutiny of Welsh public bodies and to support those bodies in continuing to improve the services they provide to the people of Wales.

Visit our website to find:

| | |
|---|--|
|  | our Good Practice work where we share emerging practice and insights from our audit work in support of our objectives to assure, to explain and to inspire. |
|  | our newsletter which provides you with regular updates on our public service audit work, good practice, and events. |
|  | our publications which cover our audit work completed at public bodies. |
|  | information on our forward performance audit work programme 2023-2026 which is shaped by stakeholder engagement activity and our picture of public services analysis. |
|  | various data tools and infographics to help you better understand public spending trends including a range of other insights into the scrutiny of public service delivery. |

You can find out more about Audit Wales in our [Annual Plan 2024-25](#) and [Our Strategy 2022-27](#).



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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.