



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

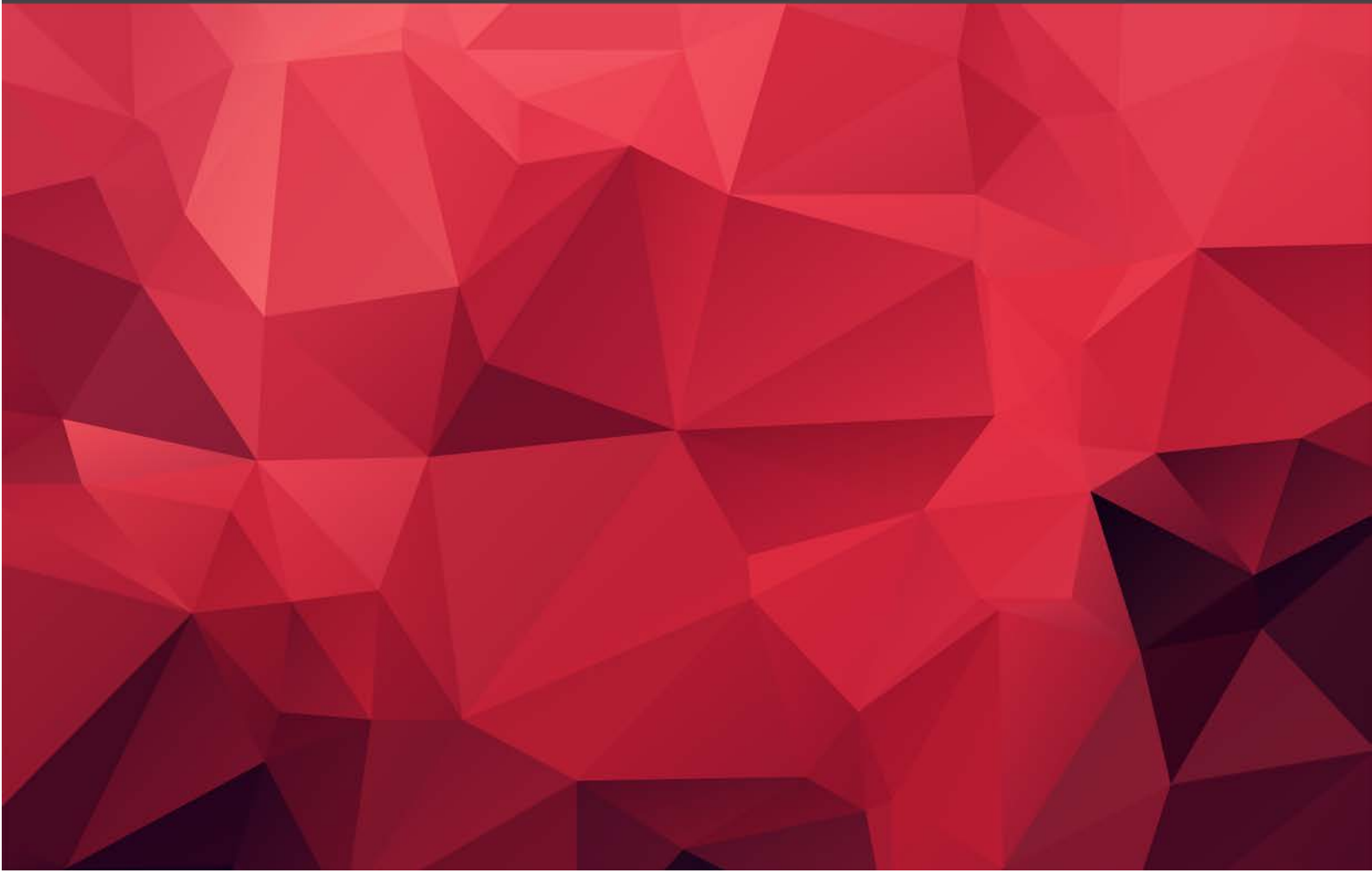
Archwilydd Cyffredinol Cymru
Auditor General for Wales

Final Accounts Memorandum 2016-17 **Newport City Council and Newport City Council Group**

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info.officer@audit.wales.

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This document, which has been prepared and presented on behalf of the Auditor General, summarises the conclusions on the audit of Newport City Council's 2016-17 financial statements and Whole of Government Accounts return.

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Summary report

Introduction

- 1 The financial statements are an essential means by which Newport City Council (the Council) and Newport City Council Group (the Group) account for their stewardship of the resources at their disposal and their financial performance in the use of those resources. The Auditor General's Code of Audit Practice identifies that it is the responsibility of the audited body to:
 - put in place systems of internal control to ensure the lawfulness of transactions;
 - maintain proper accounting records; and
 - prepare financial statements in accordance with relevant requirements.
- 2 As auditors, we are required to audit the financial statements and to issue an auditor's report which includes an opinion on whether the financial statements give a 'true and fair' view of the state of affairs of the Council and the Group. The auditor's report also gives our opinion on whether the financial statements have been prepared properly in accordance with relevant legislation, directions or regulations, and applicable accounting standards.
- 3 The Auditor General also reports by exception if:
 - the Annual Governance Statement does not reflect compliance with guidance;
 - adequate accounting records have not been kept;
 - financial statements are not in agreement with accounting records and returns;
 - information specified by Welsh Ministers regarding remuneration and other transactions is not disclosed; or
 - all the information and explanations required for audit have not been received.
- 4 The legislative authority for the Whole of Government Accounts (WGA) is the Resources and Accounts Act 2000 (the GRAA). This appoints the Comptroller & Auditor General (C&AG) as the auditor of the WGA. His audit opinion is underpinned by work carried out by a central WGA consolidation audit team within the National Audit Office and the auditors of component bodies that are included in WGA.
- 5 Most public sector bodies, including the Council, are required to provide WGA information under the HM Treasury's Whole of Government Accounts (Designation of Bodies) Order. This identifies the English and Welsh bodies to be included in the 2016-17 WGA.
- 6 We are responsible for interpreting the National Audit Office's instructions for a Welsh context and check that WGA packs have been prepared properly and in accordance with guidance and provide an assurance statement to the National Audit Office.

The Auditor General issued an unqualified opinion on the 2016-17 financial statements of Newport City Council and Newport City Council Group

- 7 On 28 September 2017, the Auditor General issued an unqualified auditor's report on the financial statements of the Council and the Group.
- 8 We received an approved draft Statement of Accounts prior to 30 June 2017. This was in line with the requirements of the Accounts and Audit (Wales) Regulations 2014. There have been further improvements in the quality of the draft financial statements and the information available to support them. However, there remain some improvements to be made, the more significant of which are detailed in [Appendix 1](#).
- 9 We are required to report to those charged with governance the findings from our audit of the financial statements. The Auditor General's Audit of the Financial Statements report was presented to the Audit Committee on 25 September 2017. A summary of the findings is set out in [Exhibit 1](#).

Exhibit 1: Audit of Financial Statements Report to the Audit Committee

Reporting requirement	Audit findings
Modifications to the auditor's report	No modification was required to the auditor's report.
Unadjusted misstatements	There was one unadjusted misstatement. The Newport Transport Ltd bus depot was held in the Group accounts at a value £376,000 lower than that provided by an external valuer.
Material weaknesses in the accounting and internal control systems identified during the audit	No material weaknesses in the accounting and internal control systems were identified during the audit.
Views about the qualitative aspects of the entity's accounting practices and financial reporting	There has been further improvement in the working papers provided to support the financial statements. We have worked with management to review more significant or complex account areas earlier in the audit process.
Matters specifically required by other auditing standards to be communicated to those charged with governance	There were no other matters specifically required by audit standards to be communicated to those charged with governance.
Any other relevant matters of governance interest relating to the audit	There were no other relevant matters of governance interest to be reported.

- 10 Recommendations arising from our audit of the financial statements are set out in [Appendix 1](#).

We identified some issues with Newport City Council's Whole of Government Accounts return for 2016-17

- 11 Our 2015-16 Final Accounts Memorandum raised recommendations in respect of the WGA return, including:
- the Management Review Checklist should be completed to assist with the preparation of the return; and
 - supporting working papers should be provided at the same time as the return is provided for audit.
- 12 Working papers were provided at the start of the 2016-17 audit, and were of a higher standard than those provided for the prior year. However, a number of amendments were still required to the WGA return this year.
- 13 Management did not complete the mandatory Management Review Checklist. This checklist asks management to perform a quality assurance review over the WGA return. It notes that: *'Auditors have been advised not to start their audit until they receive a properly completed management review checklist'*. At the request of the audit team, the checklist was completed and signed by management on 4 October 2017, after submission of the unaudited return.
- 14 Recommendations arising from our WGA audit are set out in [Appendix 1](#).

Appendix 1

Recommendations from our 2016-17 audit work

We set out all the recommendations arising from our audit with management's response to them. We will follow up these next year and include any outstanding issues in next year's audit report:

Exhibit 2: Recommendation 1

Recommendation 1 – initial review of draft accounts	
Findings	<p>In our 'audit of financial statements' report for 2016-17, we noted that management have continued to improve the quality of accounts and working papers provided for audit.</p> <p>Despite these improvements, our audit did identify some errors in the 2016-17 draft accounts such as casting errors and incorrect note tables. In addition, we identified a number of significant year-on-year movements on balances and transactions which were not accompanied by explanations when the draft accounts were receipted for audit. The Audit Committee also identified some narrative and presentational issues at its meeting on 25 September.</p> <p>An effective quality assurance review by management should identify and clear such errors before approval of the draft accounts. A high-level analytical review (comparing balances and transactions from year to year) would also identify significant movements which could result in potential misstatements within the financial statements.</p> <p>The above issues did not affect the successful delivery of the audited accounts in 2016-17. However, as deadlines for the approval and audit of financial statements become tighter in future years, such errors could impact on future delivery.</p>
Priority	Medium
Recommendation	<p>We recommend that management review and formalise their quality assurance and analytical review processes, to ensure that they identify any such errors within the draft accounts.</p> <p>Elimination of these errors will become more important as the Council moves towards faster closing of its financial statements. If such errors are not cleared, they could delay the audit process.</p>
Accepted in full by management	Yes

Recommendation 1 – initial review of draft accounts	
Management response	As the Council moves towards faster closing, we will need to continue to build in checks and balances to aid cross-casting issues as they arise. We also built a QA into the timetable, which needs to be adhered to. Due to the size and complexity of the document and the tight timescales in which they are completed, there will inevitably be some narrative and presentational issues that are not fully picked up via a QA session. We do ask for responses from members and others on any errors they spot prior to submission of the draft accounts, as this provides another level of QA.
Implementation date	May 2018

Exhibit 3: Recommendation 2

Recommendation 2 – documentation of exit package approvals	
Findings	<p>Our audit identified one exit package that required separate disclosure in Note 30 of the financial statements (officer remuneration).</p> <p>As part of our audit work we reviewed this exit package to ensure that it was appropriately disclosed in the financial statements and the decision supporting the exit package was approved at an appropriate level. Our review confirmed that:</p> <ul style="list-style-type: none"> • appropriate approval procedures were in place supporting the exit payment; and • the amount relating to the exit payment was correctly disclosed in the final 2016-17 financial statements. <p>Notwithstanding the above, our review identified that this exit package was not supported by a formal business case. Management explained that this is because this related to a negotiated settlement, as opposed to an offer of redundancy or early retirement.</p>
Priority	Medium
Recommendation	All future exit packages need to be supported by a formal business case. The business case should document the rationale for the decision coupled with any legal advice obtained to support the decision. It should also detail the 'value for money' basis for providing the exit package.
Accepted in full by management	Yes
Management response	Future exit packages will be subject to a formal business case process, including consideration of value for money as part of any decision.

Recommendation 2 – documentation of exit package approvals

Implementation date	Immediate
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Exhibit 4: Recommendation 3**Recommendation 3 – assets coming into operational use**

Findings	<p>Our audit identified three separate assets classified as assets under construction (AUC) in note 14 of the draft accounts, despite being brought into operational use during the year.</p> <p>Two of these assets (both relating to landfill sites) were revalued by Newport Norse during the audit. They were initially held at cost within AUC at a combined value of £4.9 million but have now been transferred to 'other land and buildings' (OLB) within the final accounts at a final value of £1. As these assets relate to landfill sites, it is reasonable for them to have such a low value.</p> <p>The third asset (relating to a public space) remains in AUC in the final accounts at a cost value of £1.3 million, as a valuation report had not been received for the asset before 30 September. In line with the Council's accounting policy, assets must be revalued before they are transferred out of AUC.</p> <p>Our audit testing confirmed that the correct accounting treatment has been applied to these three assets in the final accounts.</p>
Priority	Medium
Recommendation	<p>We recommend that in future years, the Council review all AUC at year-end, to ensure that there are no assets classified as AUC that have in fact been brought into operational use.</p> <p>Such a review will assist management in confirming that the classification of property, plant and equipment in the financial statements is appropriate.</p>
Accepted in full by management	Yes
Management response	We will work with Newport Norse to ensure the correct classification of assets in line with the policy.
Implementation date	March 2018

Exhibit 5: Recommendation 4

Recommendation 4 – Whole of Government Accounts (WGA)	
Findings	<p>Our 2015-16 final accounts memorandum raised a recommendation that the Management Review Checklist is completed to assist with the preparation of the WGA return, as this assists management in performing an effective quality assurance review over the return.</p> <p>The checklist should be completed before the unaudited return is submitted to the Welsh Government. It also notes that: <i>'Auditors have been advised not to start their audit until they receive a properly completed management review checklist'</i>.</p> <p>Management did not complete the 2016-17 checklist before submission of the unaudited WGA return. At the request of the audit team, the checklist was completed and signed by management on 4 October 2017.</p>
Priority	Low
Recommendation	<p>We recommend that in future years, the Management Review Checklist is completed before the unaudited WGA return is submitted to the Welsh Government.</p> <p>This checklist will assist management in performing an effective quality assurance review over the return.</p>
Accepted in full by management	Yes
Management response	A checklist will be completed prior to submission.
Implementation date	July 2018

Appendix 2

Wales Audit Office performance measures

We agreed a range of targets for the delivery of our work as set out in our 2017 Audit Plan. I have summarised our performance against these targets below.

Exhibit 6 – Performance measures

Planned output	Target	Outcome
Audit of the Financial Statements Report	September 2017	Presented to Audit Committee on 25 September 2017
Opinion on Financial Statements	September 2017	Audit Opinion signed on 28 September 2017
Final Accounts Memorandum	November 2017	Presented to Audit Committee on 30 November 2017

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