

Report

Audit Committee

Part 1

Date: 28 September 2020

Subject **Audit and Approval of the 2019-20 Statement of Accounts**

Purpose This report presents results of the external audit of the 2019-20 Statement of Accounts (Accounts), highlights the changes since they were initially published at the start of July 2020 and seeks their formal adoption as required by the Accounts and Audit (Wales) Regulations 2014 (as amended).

Author Assistant Head of Finance

Ward General

Summary The Accounts were published on July 6th by the Head of Finance and added to the Council's website at that time. This was just over three weeks after the statutory deadline of June 15th, however this was due to carrying out the closing of accounts and preparation of the financial statements during lockdown due to the Covid-19 pandemic, which caused increased complications and difficulties. The Accounts were available for public scrutiny, as required by the Accounts and Audit (Wales) Regulations 2014 (as amended), for a 20 working day period ending 28th August 2020.

Although the current situation of working remotely is not ideal for both ourselves and Audit Wales, our auditors have reviewed the draft 2019/20 Statement of Accounts in detail, and a number of required changes have been identified. Audit Wales' accompanying report shows a summary of the agreed changes. Appendix A presents the revised Accounts which members are invited to review and subsequently approve in accordance with the Council's standing orders. Representatives from the WAO and finance staff will be available to clarify any points arising from the audit changes and the content of the Accounts as required.

Proposal Committee is recommended:

- To review the content of the 2019/20 Accounts and Audit Wales' Financial Statements (ISA260) report on the 2019/20 Accounts and comment as appropriate.
- To authorise the Head of Finance to adopt and sign the Accounts 2019/20, in accordance with the Accounts and Audit (Wales) Regulations 2014 (as amended).
- Authorise the Head of Finance and Chair of Audit Committee to sign the letter of representation

Action by Assistant Head of Finance – publish final accounts on Council website;

Timetable Immediate

This report was prepared after consultation with:

- Audit Wales

Background

2019/20 closedown of accounts and preparation of the Statement of Accounts has been very challenging in the backdrop of the Covid-19 pandemic. With the country going into lockdown at the end of March, the finance team were faced with closing down the financial year end and producing a draft statement of accounts while working from home and without the usual access to a number of files and contacts. There were also significant competing demands across accountancy and other service areas in the response to the Covid-19 pandemic.

Given this, it is testament to the team and the wider service areas that we were able to utilise remote working technology such as 'Teams'; and continued access to the Councils networks and financial ledger to produce and publish a draft Statement of Accounts on 6th July 2020, just over three weeks after the statutory deadline for approval of 15th June 2020. Understandably, it is common across Wales and the UK that the deadline was not met this year. After this date they were available for inspection for a period of 20 working days. The complete accounts were available for public scrutiny between 3rd August and 28th August 2020.

The Council received no requests to review the Accounts from the public during the public scrutiny period.

The draft accounts would normally be presented to Audit Committee, however due to the lockdown this was not possible to arrange in person. However, the draft Statement of Accounts and presentation highlighting the key points was e-mailed to Audit Committee Members. Audit Committee members were welcomed to provide any comments on the draft accounts before final sign-off.

The Accounts were prepared in accordance with the Code of Practice on Local Authority Accounting in the UK published by CIPFA for 2019/20.

The Accounts include the statutory "Annual Governance Statement" providing a summary of the system of internal control operating within the Council for the year to 31 March 2020. This Statement includes actions to address any identified risks.

Following review of the accounts by Audit Wales, amendments have been made to the draft statement as set out in Appendix 3 of Audit Wales' 'Audit of Accounts Report' and is presented to Audit Committee for approval. The statutory deadline for approval of the accounts is 15th September, due to the challenges arising from the Covid-19 pandemic this was not achievable, and the accounts are due to be signed electronically following this meeting by the 30th September. Again, completing this just two weeks after the statutory deadline is an achievement and a large number of authorities across the country have not achieved the statutory deadline.

Despite the challenges faced this year, alongside Audit Wales, the team were able to build on previous improvements, especially in relation to early audit review of capital items, which you will note the number of amendments in relation to these have reduced from previous years.

It is acknowledged that Audit Wales have highlighted a number of issues within their ISA260 report, which will be reviewed by the Council and actions put in place to ensure that procedures and processes are put in place to address the issues raised. It must be noted that following discussion with the team, the challenge placed on them from working from home and not having

the close proximity to team members to share ideas and questions did provide problems and it is felt this is reflected in some of the “simple” amendments that have been highlighted.

Audit Wales Audit of Accounts Report (ISA260)

Audit Wales’ report confirms that they have completed the majority of their work and are happy to provide an unqualified opinion and that the accounting statements give a **true and fair view** of the financial position of the Authority and have been properly accounted for in accordance with the Code.

The report further details the agreed changes applied to the Statement of Accounts from the original publication through to completion of the audit review. These are highlighted in Appendix 3 of their report, and while some of the figures look significant they are largely reclassifications between categories and no adjustments have impact on the bottom line of the accounts.

The team have already carried out an early review of the amendments required alongside the Head of Finance, and it has been acknowledged that a number of the errors were could have been avoidable and are not down to issues with the setup of the ledger or accounting treatment, but on a number of occasions human error. While the large majority of corrections would not have been easily identifiable on QC of the completed draft statements, it has been agreed that peer review of notes at the production stage could have been carried out better, but pressures on time and remote working made this more difficult than usual.

There are two uncorrected misstatement included in the ISA260 report which is discussed further below. One of which is the same issue that was raised in 2018/19 and has continued into this report.

Accounting treatment of loan modifications under IFRS 9

This was raised in 2018/19 as an uncorrected misstatement and relates to a change in accounting treatment for an historic Public Works Loan Board loan subsequently replaced by a new loan with a lower interest rate, but otherwise significantly similar terms and conditions. This is overstated in the accounts by £380,000. We have taken a view that this is immaterial to the accounts and therefore has not been adjusted.

A discussion needs to take place with Audit Wales on how decisions not to adjust in relation to materiality are dealt with in future ISA260 reports. In line with CIPFA Code of Practice on materiality and simplification of accounts, authorities should be able to make a decision to not account for immaterial items. While it is agreed these should be flagged to the Audit Committee, we do not understand the usefulness of it being reported every year for what may in some cases be a very long time period.

Borrowings - soft loans overstated by £1.9 million

When IFRS 9 was introduced in 2018/19 a review of the borrowings identified that a number of the repayable grant funding from Welsh Government were accounted for as long-term creditors rather than borrowings. These are interest free and have since been added to by interest free borrowing from Salix for funding of energy efficiency schemes. While we moved the loans into borrowing, the Council did not account for the “fair value” of the loan as per the accounting treatment. This is essentially a technical adjustment which is reversed out through an unusable reserve, therefore does not impact on the bottom line of the general fund or earmarked reserves.

A calculation has taken place on the fair value of these loans and as per the ISA260 report the loans are overstated by £1.9m. This is not material and as it does not impact on the bottom line, a decision has been made not to adjust for this misstatement.

As per the loan modification misstatement a discussion is required with Audit Wales on what happens with this in future ISA260 reports.

Emphasis of Matter

Included in the Audit Report, despite the accounts having a true and fair view, the Auditor has raised three “emphasis of matter”, these all relate to valuation uncertainty as at the 31st March 2020 due to the Covid-19 pandemic and relate to the following areas:

- Valuation of land and buildings
- Valuation of investment properties
- Valuation of pension fund assets

These emphasis of matter are not unique to Newport City Council and would be included across Wales.

Other Issues – creditors

Audit Wales highlight the issue of creditors in the report with 3 out of 19 sampled creditors being incorrectly accrued for. Again the closedown process was hampered by covid-19 and without access to a number of pieces of information service areas and the accounting teams were required to make a number of assumptions when carrying out accruals at year-end.

We will enforce the message on accurate accrual accounting across the service areas for 2020-21 to ensure this improves in the future.

Financial Summary:

There are no direct financial implications arising from this report. The approved Accounts will provide the basis for future financial planning.

Risks:

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
Failure to approve and publish the accounts or qualified accounts	M	L	The Council works with its Auditors to ensure the Accounts are prepared and suitably reflect the financial position of the authority	Assistant/Head of Finance

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

Effective financial management is essential if an organisation is to achieve its stated objectives.

Options Considered/Available

Approve the modified Statement of Accounts for 2019/20 and sign the letter of representation.

Reject updated Statement of Accounts and not sign the letter of representation which would further delay the publication of the accounts.

Preferred choice and reasons

That the Accounts are approved by Audit Committee and signed by Head of Finance, given they have been audited and all material issues have been corrected, as needed.

Letter of representation is signed by the Head of Finance and Chair of the Audit Committee

Comments of Chief Financial Officer

In the background of the Covid-19 pandemic it is testament to both the finance team and Audit Wales that we are in a position of publishing the accounts just two weeks after the statutory deadline.

The accounts show a true and fair view, and the uncorrected misstatements highlighted in the ISA260 report are not of a material value or nature, and therefore it is recommended the accounts are approved.

Officers will need to continue to improve processes through collaboration with Audit Wales to meet earlier closing deadlines which will be implemented from financial year ending 31st March 2021.

Comments of Monitoring Officer

There are no specific legal issues arising from the Report. The draft Statement of Accounts 19/20 has been prepared in accordance with the requirements of the COPFA Code of Practice on Local Authority Accounting and the Accounts and Audit (Wales) Regulations 2014. The Head of Finance has already approved and certified the accounts in his capacity as the Council's Section 151 officer. The certified but unaudited accounts were published on the Council's web site and were available for public scrutiny for a period of 20 working days, in accordance with the requirements of the Regulations. The draft statement has subsequently been reviewed and revised in accordance with WAO requirements. Audit Committee are now required to approve the Statement of Accounts and authorise the Head of Finance and the Chair to sign off the accounts and the letter of representation. Although this process should have been completed by 15th September, there have been significant delays in the accounting and auditing processes due to the Covid-19 restrictions and, therefore, this is the earliest opportunity for Audit Committee to consider the accounts and is only 2 weeks outside of the usual timescale.

Comments of Head of People and Business Change

There are no staffing implications arising from the report which is a key part of our regulatory framework. As highlighted by the Head of Finance, the Council has demonstrated good financial management in publishing the accounts during this challenging period.

Local issues

N/A

Scrutiny Committees

N/A

Equalities Impact Assessment and the Equalities Act 2010

The Equality Act 2010 contains a Public Sector Equality Duty which came into force on 06 April 2011. The Act identifies a number of 'protected characteristics', namely age; disability; gender reassignment; pregnancy and maternity; race; religion or belief; sex; sexual orientation; marriage and civil partnership. The new single duty aims to integrate consideration of equality and good

relations into the regular business of public authorities. Compliance with the duty is a legal obligation and is intended to result in better informed decision-making and policy development and services that are more effective for users. In exercising its functions, the Council must have due regard to the need to: eliminate unlawful discrimination, harassment, victimisation and other conduct that is prohibited by the Act; advance equality of opportunity between persons who share a protected characteristic and those who do not; and foster good relations between persons who share a protected characteristic and those who do not. The Act is not overly prescriptive about the approach a public authority should take to ensure due regard, although it does set out that due regard to advancing equality involves: removing or minimising disadvantages suffered by people due to their protected characteristics; taking steps to meet the needs of people from protected groups where these differ from the need of other people; and encouraging people from protected groups to participate in public life or in other activities where their participation is disproportionately low.

Children and Families (Wales) Measure

N/A

Wellbeing of Future Generations (Wales) Act 2015

Effective financial management enables the Council to support long term planning in line with the sustainable development principle of the Act, and the statement of accounts is a core part of these arrangements.

Crime and Disorder Act 1998

Section 17(1) of the Crime and Disorder Act 1998 imposes a duty on the Local Authority to exercise its various functions with due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent, crime and disorder in its area.

Background Papers

Draft Statement of Accounts 2019/20

Revised Statement of Accounts (Attached)