

# Report

## Governance & Audit Committee

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### Part 1

Date: 27<sup>th</sup> January 2022

**Subject** 2020-21 Statement of Accounts Process  
“Lessons Learned” Paper

**Purpose** This report is to provide Governance & Audit Committee with an update from the exit meeting with Audit Wales which reflected upon the 2020-21 Statement of Accounts audit process, and whether practices could be amended to benefit the 2021-22 Statement of Accounts process.

**Author** Head of Finance / Assistant Head of Finance

**Ward** All

**Summary** The Council received an unqualified judgement on its Statement of Accounts 2020-21.

Nevertheless, auditors have raised presentational advice in its ISA260 received by the Committee in its November meeting. Most of those presentational aspects (other than 3) were taken on board during the Accounts preparation, and will roll forward as a feature of subsequent year’s working papers.

The report reflects upon the 2020-21 audit experience to consider whether any changes in approach will avoid the same challenges being manifest for the 2021-22 audit process. As such this report is less about the technical aspects that have already been considered in the Council’s response to the ISA260 in November and more about the efficiency of process and business practice, appreciating a statutory requirement to remove time from both the preparation of the Accounts and the subsequent audit.

In summary the changes introduced include;

- A heightened emphasis to undertake financial administrative tasks during the year to avoid them being as significant a closing task e.g. processing of routine reserve transactions, reconciliations of grants.
- A pre-emptive decision will be sought from Cabinet to agree that any changes during audit process that impacts the bottom line can be automatically transferred to an earmarked reserve.
- An improved impetus in the engagement between Council staff and auditors to include for instance circulation of standard information gathering requirements to service colleagues and management accountants in advance of year end, an exception report being supplied to management where audit information requests have gone

unresolved after a fortnight, a cut off to the weekly issues log 2 days prior to meeting to allow matters to be better investigated and agreed at weekly meeting, and a better identification of those matters that have a bearing on true and fair view judgement from those matters that are purely presentational choices.

- Bringing forward the member declaration process prior to year-end.

**Proposal** To note the feedback from the exit discussion and consider whether the extent of changes sufficient to better adhere to statutory deadlines.

**Action by** Head of Finance / Assistant Head of Finance

**Timetable** Immediate

This report was prepared after consultation with:

- Audit Wales
- Head of Finance

**Signed**

## Background

1. The production of the 2020/21 Statement of Accounts was set against the continued backdrop of the Covid-19 pandemic, which impacted on the completion of the accounts in a number of ways. This included resource challenges within the small team primarily responsible for producing the accounts. As well as the resource challenges, the 2020/21 revenue outturn position was significantly more favourable than anticipated, resulting in a large underspend, partly driven by the late allocation of grant funding by WG to local authorities across Wales. This large underspend necessitated in-depth discussions regarding transfers to reserves which, because of the need for Cabinet approval, delayed the finalisation of the outturn position and, consequently, the production of the accounts by a number of weeks. As a consequence, meeting the statutory deadlines was extremely difficult and it was a credit to the individuals involved that the accounts were finalised as early as they were and that an overall unqualified audit opinion was given.

## Headline Requirement

2. The Accounts and Audit (Wales) Regulations 2014 require Councils to publish their draft accounts by 31st May and to have them audited and approved by 31<sup>st</sup> July. By way of comparison, the 2020-21 closure process had the draft accounts prepared by 26<sup>th</sup> June, and the audit was substantially concluded by the end of October with presentation at Governance & Audit Committee on 11<sup>th</sup> November 2021.
3. There is a temporary flexibility during the current pandemic to extend the process due to the effect of Covid-19 upon business processes and staffing, and this option has been utilised with regard to the last two years' accounts.
4. The following table shows the comparison between statutory requirements and the Welsh Government flexibility that existed for 2020/21 accounts.

Item	Statutory Deadline	Extended Deadline
Draft Statement of Accounts	31 <sup>st</sup> May 21	31 <sup>st</sup> August 21
Audited Statements published	31 <sup>st</sup> July 21	30 <sup>th</sup> November 21

At present, no extension of time has been communicated by Welsh Government in respect of 2021/22 closure of accounts process. Whilst that flexibility has been useful, it did have the effect of extending the audit process into a timeframe where the technical team has other priorities/responsibilities to the Council in the provision of half yearly monitoring and reporting, which proved an additional challenge to manage so it is hoped that after Covid 19 considerations become less prevalent that traditional statutory timescales would apply.

5. As the ISA260 submitted to the Committee with the final accounts already included the technical corrections made, and any related learning, the main focus of this report and the meeting with Audit Wales on 16<sup>th</sup> December was to explore what collectively needed to happen to better meet statutory timeframes.
6. It quickly became clear from that meeting that audit colleagues face similar challenges if they are to meet July deadlines in respect of 2021-22 Statement of Accounts process. They explained,
  - the impact of resource constraints as a result of remote working/staff absence,

- accounts/audit deadlines for other sectors such as the NHS continue to be pushed back, which impacts on when they would be available to start local government audits,
  - there remains other work across Wales from the 2020-21 period that still requires audit review which is likely to impact resource availability and priorities ahead of 2021-22 local government Statement of Accounts resourcing ( e.g. grant audits that still remain to be certified);
  - similarly, other matters out of both teams' control also take up early Audit Wales staff time (e.g. Whole of Government Accounts (WGA) audit work, which still hasn't begun as they await details from the National Audit Office (NAO)/Her Majesty's Treasury (HMT) on how this work is to proceed for 2020-21. That process has proved very time intensive and inefficient previously, with numerous IT and verification issues with the supplied proforma return forms.
  - NCC-is also materially affected by the level of audit work required in respect of its Housing Benefit Subsidy return (which takes up a lot of early staff time over Jan-Apr for them at the moment given the number of complex issues arising), which impacts upon the ability to undertake early audit testing.
7. Despite this, there is a motivation amongst Council staff to prepare the Accounts by the 31<sup>st</sup> May deadline, and this should still be achievable given the factors/actions described below.
8. However it is probably worthwhile highlighting that to accord with ever shortening timescales it would be commonplace for the Accounts presentation to become simpler, shorter and use estimates where information traditionally coming from other sources is not yet available. So, whilst the audit judgement remains one of "true and fair view" rather than 100% accuracy, there will increasingly be a degree of healthy friction to manage, as often audit refinements and Member feedback are designed to be precise and improve accuracy, so in future it may be sensible to split audit recommendations between those issues that will have a bearing upon the true and fair view judgement and those that involve a degree of choice.

#### IS260 recap

9. As part of the external audit process, and finalisation of the annual Statement of Accounts process, Audit Wales issued the Council with its ISA260 Report. This was received by members at their November meeting. Where corrections were made, the working papers were adjusted accordingly, and those working papers formats will roll forward to future year's closure process so any technical aspects from past audits should automatically be picked up.
10. So this paper, whilst exploring trends that impacted upon the need for corrections, should not be viewed as simply repeating the lessons learned of ISA260 response document.

#### Uncorrected misstatements

11. As outlined in the ISA260 Report, there were three misstatements identified by Audit Wales, which remained uncorrected within the final accounts. These misstatements totalled £625,000, so were below the materiality threshold, and are outlined below:

<b>Misstatement</b>	<b>Explanation as to why this occurred</b>
A £264,000 overstatement of expenditure relating to recognition of future losses in the year, which	This item prudently anticipated future income not being received and a provision was created in respect of such. Accounting convention precludes provisions in respect of debt/income not yet due. It

is not permitted by the CIPFA Code.	would have been acceptable to use an earmarked reserve for this purpose instead, but Member approval of such isn't practical before the Governance & Audit Committee meeting.
A £208,000 overstatement of expenditure on training costs, which were accrued for incorrectly in the year;	This arose due to a lack of communication between two Council services, meaning that Finance were not made aware of the fact that said costs were being funded directly via grant and were no longer a cost for the Council to bear.
A £153,000 overstatement of expenditure relating to the accrual of secondary pension contributions relating to Newport Transport Ltd.	This entry was included in the draft accounts, as it reflected the potential arrangement with regard to Newport Transport's pension liability at that time. An alternative course of action was subsequently decided upon and this entry was therefore no longer required.

12. There was no reluctance to amend the presentation for these items, simply a pragmatism that time constraints precluded an ability to get the necessary authority to amend reserve entries, which remains a Cabinet decision. The impact of not correcting these misstatements will be seen as part of the financial monitoring position in 2021/22. In the case of the £264,000 provision, this amount will be transferred to earmarked reserves during 2021/22. The other two items will result in an improvement totalling £361,000 in the overall monitoring position due to these credit entries now being part of the position.
13. In future years, changes volunteered during the audit process which impact upon the bottom line surplus or deficit will still necessitate further movements to reserves. There is an intention to request Cabinet pre-emptively agree that any changes agreed and affecting the bottom line outturn, caused by the audit process, can be automatically transferred to an earmarked reserve. This is anticipated to impact favourably on the level of uncorrected misstatements reported as these would in future instead be shown as corrected misstatements.

### Corrected Misstatements

14. Overall, the draft ISA260 Report identified a total of 16 areas (either core statements or notes to the accounts) where corrections were agreed and reflected in the final accounts. In some cases, there may have been more than one correction required, albeit the theme of the corrections within those areas was broadly similar.
15. A list of those misstatements, the correction and the learning taken from the experience was included with the ISA260 report considered by members at their November meeting. As mentioned above, technical adjustments were made to the working papers and these working papers will roll forward to be the basis for future Statement preparations, so those same issues shouldn't arise again.
16. However, the Statement of Accounts is quite a technical tome, is prepared at pace, it can reflect the circumstances specific to that particular year, as well as incorporating new regulation and accounting process. So, there is always the potential for the auditors to advance refinements to process, even on things which have been audited satisfactorily in previous years. The extent of refinements volunteered in respect of the 2020-21 Accounts was consistent with the previous year, despite there always being year specific challenges to address.
17. As an illustration of the moving parts that affected the 2020-21 preparation, these included,

- fixed assets remains one of the largest figures in the accounts for auditors to test, commonly individual changes year on year will be material to their judgement and 2020-21 saw significant valuation changes as education establishments were the primary focus for its 5 year review this year. Also, the valuation of operational property continued to be reported on the basis of material valuation uncertainty which again would prompt a greater consideration of enhanced testing.
- similarly, fair value measurement of investment property was more challenging than usual– as the longevity and severity of the impact of Covid-19 on the economy remains uncertain.
- relatedly, accounts assumptions and transactions were still directly affected by Covid-19 considerations
- such that throughout the year the Council received significant cash from Welsh Government in the form of new grants and financial support (extra £33m on 2019-20 levels), much of that being explicit Covid-19 grant streams (£27.3m)
- this central government support results in an additional agency note within the statement of accounts which details those initiatives where the Council acts as an agent of Welsh Government rather than a direct support provider. The Council facilitated £43.3m support and administering £20.2m of business rates support
- also, the effect of distance working and revised business practices had a material effect on service provision and the outturn position and resulted in far more reserve movements than would be common. That decision making process to allocate those surpluses unfortunately took longer than would be traditional.
- significant changes in accounting presentation affecting the following areas - Interest free loan presentation, a widened use of fair value comparators, contingent asset creation in respect of outstanding social care debt and amalgamation of Council and Newport Transport pension transactions
- it had been agreed that the Council would receive feedback from auditors on early note preparation and sample testing prior to concluding the draft Accounts preparation so that draft accounts could be refined before audit if necessary. This wasn't possible due to other audit commitments, so these continued to be factors of the core audit.

### 2021-22 Closure Considerations

18. The movement/changes to fixed asset presentation shouldn't be as great this year, as the education portfolio (which remains the largest category reviewed), won't be formally reviewed again until 2025/26. This year, valuations are focussed on Community Assets which exhibit far less volatility.
19. However there will be a need to prepare for the introduction of International Financial Reporting Standard 16 which requires operating leases to feature on the balance sheet for the first time. This will be brought in in 2022-23 financial year, but there is a need to provide/calculate a 2021-22 comparator as a prelude. That work is scheduled for this last quarter of this financial year and is progressing satisfactorily. Any new feature in the Accounts provides a focus for audit activity.
20. Pandemic considerations are still very much with us, affecting national and international economies, and will continue to affect the valuation of investment properties. We anticipate that Norse (who are contracted to provide our valuations) will continue to highlight this as a factor impacting upon the certainty of their valuations. The ISA260 report drew attention to this, in relation to material uncertainty regarding valuations of land and buildings, although it is noted that this did not impact upon the audit opinion. It is anticipated that the same feedback from Audit Wales will be as valid to 2021-22 Statement of Accounts.

21. Operationally we still continue to derive significant central government support in respect of Covid-19. So these entries and the related agency note consideration will continue to be an extra feature of 2021-22 Statement of Accounts. Helpfully colleagues are sourcing approvals for the more routine reserve movements prior to the year end, which should better allow the corporate closing timetable to be met as it will free up the focus at year end on a more restrictive list for Member consideration. Similarly management accounting colleagues are reconciling Covid-19 grant awards and claims on a quarterly basis rather than leaving this as a year-end activity.
22. The team undertaking most of the closure of accounts preparation is very lean, and during last year's closure process valuable expertise, knowledge and capacity was unavailable through sickness absence and a senior officer leaving the organisation. In response to such volatility it is important to grow the knowledge of other team members, and some working paper note responsibilities are likely to be changed to grow this knowledge and confidence. This may increase resilience to deal with staff absences, but has a potential to impact on pace of production given a lack of familiarity. This year the team will be without the Chief Accountant due to maternity leave. Her replacement covered the absence of Assistant Head of Finance last year, and whilst technically proficient, will not have the same depth of knowledge about historic Newport specific circumstances, which will necessitate more time being allocated to reflection and review should audit queries arise.
23. As an example of likely change in approach to compensate for this, traditionally the Technical team and auditors have weekly meetings to discuss progress of the audit and agree revisions. During the 2020/21 process we found increasingly that the issues paper would be circulated immediately prior to the meeting, such that the meeting focussed on explaining the issue rather than agreeing resolution. In order to introduce greater thinking time for the temporary Chief Accountant cover, it has been agreed that the issues paper will be prepared and sent 2 day prior to meeting so that the necessary investigative work can be done and the weekly meeting becomes more responsive to progressing the audit.
24. Similarly towards the end of the audit, auditors highlighted that they had a degree of unfinished work where they had been engaging with service departments and management accountants for information and still hadn't received such. Some of this appeared outstanding for considerable time. This placed a significant unanticipated burden on the Technical team to facilitate these responses from colleagues whilst also trying to give practical effect to presentational changes that are always a feature of the latter stage of the audit process. So as an alternative, service colleagues will be reminded of the need to prioritise audit enquiries during the closure process, and auditors have agreed to provide a list to Assistant Head of Finance of any information that remains outstanding longer than 2 weeks, so these matters can be resolved in a more timely fashion during the main course of the audit.
25. In addition, auditors intend to review their audit deliverables document, which helpfully describes the routine/regular information that they require during the audit, such that this can be circulated alongside the closure timetable to colleagues as a reminder of information needs.
26. Auditors highlight the considerable time demands involved in the auditing of grant claims. There has been a move by Welsh Government to aggregate grant resourcing into "super" grants, and restrict the level of audit review necessary and the number of grants reviewed does appear to have reduced but these "super" grants will always be more significant/complicated than their historic counterparts and amounts involved more material to the Statement of Accounts process.

27. The complexity and significance of Housing Benefit claim has been specifically mentioned as a considerable commitment of Audit Wales time in Newport. They have provided feedback on the 2019-20 Housing benefit claim, but not yet the 2020-21 claim. However it is anticipated that those same weaknesses evident to the 2019-20 position will also be appropriate to the 2020-21 position as Housing benefit and housing needs colleagues won't have been able to improve the position retrospectively, and potentially Housing benefit administration continues to be impacted by Covid-19 response practices, the related challenge to derive a sufficiency of accommodation and the volumes of individual support claims. Consequently limited change appear apparent to conclude these weaknesses have been resolved for the future 2021-22 claim either yet.

### Member declarations

28. Alongside reporting technical corrections, Audit Wales' ISA260 can highlight control environment aspects. One such weakness flagged by them in 2020-21 Accounts process was the weakness in declaration reporting, evidencing that 9 out of the 50 members (nearly 20%) did not submit an updated declaration of interests.

29. Not unreasonably, auditors will expect a fresh declaration from anyone who held office during the financial year concerned. So this will remain an annual consideration. The ISA260 response highlighted an intention to review the guidance supplied to Members to assist them in completing declarations. That still remains sensible.

30. However local authority elections in May this year could introduce a further extraordinary consideration as any de-returned members are anticipated to have less motivation to return a declaration for the preceding year once they no longer occupy office or intend to stand down.. So it is proposed that the process of getting member declarations should be concluded before the end of this financial year to mitigate that risk.

### **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?
The Council is unable to meet the requirement to publish its draft accounts by 31 <sup>st</sup> May and final accounts by 31 <sup>st</sup> July.	Medium (only whilst there is flexibility afforded by WG)	Medium	The above measures are designed to assist in meeting earlier Accounts production deadlines	Head of Finance, Assistant Head of Finance, Chief Accountant, Audit Wales.

### **Links to Council Policies and Priorities**

The Council has a statutory duty (as set out in the Accounts and Audit (Wales) Regulations 2018) to produce an annual statement of accounts, which details the overall financial performance and financial position of the Council over the last two years.

### **Options Available and considered**

1. Note the content of this report and the ambition to meet earlier deadlines, notwithstanding the challenges faced by both the Council and Audit Wales colleagues. Provide comments, as necessary, regarding the approach to be taken.
2. Note the ambition set out and offer a view that suggests the Council should not currently seek the meet earlier deadlines.

### **Preferred Option and Why**

Option 1 – the earlier deadlines are set out in the Accounts & Audit Regulations and, whilst there may be some flexibility for the 2021/22 accounts process, the Council will ultimately have to finalise the draft accounts by 31<sup>st</sup> May and should work towards that goal as early as possible.

### **Comments of Chief Financial Officer**

The production of statement of accounts within statutory timescale remains an important factor in the reputation of the organisation. The recent preparation of accounts continues to be complicated by pandemic considerations and the Council has taken advantage of the temporary flexibility to extend the publication period. Despite these challenges it is pleasing to acknowledge a true and fair view audit judgement has been maintained throughout this period.

The production of the Accounts lies mainly in the hands of 4 individuals that make up the Technical team. There is limited cover or capacity should unexpected challenges or staff absences impact the team. Given this lack of resilience, the consequence is felt as an extension to closure timescales, which is currently allowable under Covid 19 flexibilities but wouldn't be sustainable to rely upon into the medium term.

### **Comments of Monitoring Officer**

There are no legal implications arising. The Council is fulfilling its statutory and regulatory requirements in ensuring that it can meet statutory deadlines regarding its Statement of Accounts.

### **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 and reflects sound financial management.

### **Comments of Cabinet Member**

N/A

### **Local issues**

N/A

### **Scrutiny Committees**

N/A

### **Fairness and Equality Impact Assessment:**

- Wellbeing of Future Generations (Wales) Act
- Equality Act 2010

- **Socio-economic Duty**
- **Welsh Language (Wales) Measure 2011**

For this report, a full Fairness and Equality Impact Assessment has not been undertaken. This is because this report is not seeking any strategic decisions or policy changes, with their purpose being to provide members with an overview of the steps being taken in preparing for the forthcoming closure of accounts process. The Wellbeing of Future Generations (Wales) Act 2015 forms an integral part of the financial management of the Council.

## **Consultation**

N/A

## **Background Papers**

Statement of Accounts 2020/21

ISA260 Report 2020/21