

# Report



## Governance and Audit Committee

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### Part 1

Date: 23<sup>rd</sup> November 2023

**Subject** Statement of Accounts and ISA 260 Report 2022-23

**Purpose** This report presents the 2022-23 Statement of Accounts and highlights the key changes since they were initially published at the end of June 2023. The report also provides an overview of the key aspects of Audit Wales' ISA 260 report, as well as the Council's response to any issues raised. This is to enable the Committee to approve the signing of the accounts and complete the 2022-23 statement of account process.

**Author** Assistant Head of Finance / Chief Accountant

**Ward** All

**Summary** The Accounts were authorised for publication by the Head of Finance on 30<sup>th</sup> June 23 by the Head of Finance and they were available for public scrutiny, as required by the Accounts and Audit (Wales) regulations 2014, for a 20 working day period starting 21<sup>st</sup> August 2023.

Audit Wales have conducted their audit of the Council's statement of accounts and issued the ISA 260 Report for 2022-23 which states that an unqualified opinion will be given. There is one uncorrected misstatement, and two significant issues which Audit Wales have identified through their audit and which are detailed within the report. The ISA 260 and the statement of accounts are included as Appendix A and Appendix B of this report.

**Proposal**

1. To review the content of the 2022-23 Accounts.
2. To review and note the content of Audit Wales' ISA 260 report.
3. To recommend that the 2023-23 statement of accounts are authorised by the Chair and the Head of Finance.

**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**

This paper is to be read in conjunction with the final 2022/23 Statement of Accounts and Audit Wales' ISA260 report, with the ISA260 Report being Appendix A of this report and the Statement of Accounts being Appendix B.

The Accounts were prepared in accordance with the Code of Practice on Local Authority Accounting in the UK (The Code) published by CIPFA for 2022/23.

The Accounts include the statutory Annual Governance Statement, which provides a summary of the system of internal control operating within the Council for the year to 31<sup>st</sup> March 2023. This Statement includes actions to address any identified risks and was signed by the Chief Executive and the Leader of the Council on 30<sup>th</sup> October 2023.

The Council completed and published its draft statement of accounts on 30<sup>th</sup> June, which met the extended statutory deadline of 31<sup>st</sup> July 2023. The complete set of accounts were available for public scrutiny between 21<sup>st</sup> August to 18<sup>th</sup> September and the Council received no request to review the accounts from the public during this time. The extended deadline for the audited statement of accounts is 31<sup>st</sup> December and authorising the statement of accounts at the committee date of 23<sup>rd</sup> November will mean that this deadline has been achieved.

As part of the statement of accounts process, officers will undertake a review of the accounts process and complete a lessons learnt report, which will be presented to Governance and Audit Committee in due course.

### **Audit Wales – ISA 260 Report**

Audit Wales' report confirms that they intend to issue 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 details the agreed changes applied to the Statement of Accounts from the original publication through to completion of the audit review. The majority of these related to presentational changes, disclosure notes, including capital expenditure and financing and capital commitments, some amendments to the Senior Officer remuneration note and various corrections on consolidation of group accounts, all of which had no impact on the bottom line of the accounts.

### **Uncorrected misstatements**

Overstatement of Depreciated Replacement Cost asset valuations (£1.7 million)

The Council normally values its property asset portfolio every five years on a rolling basis, in line with CIPFA's Code. However, the Code also requires councils to verify that there have been no material movements in the value of assets between valuations. Given recent inflationary pressures, assets valued under the depreciated replacement cost method would likely be subject to material increases in value during 2022-23. Therefore, an annual exercise is undertaken to uplift the value of any asset valued under the depreciated replacement cost method. As part of this exercise there were some incorrect figures included with the working papers, leading to the overstatement of asset valuations by £1.7m.

Audit Wales are satisfied the Council's overall approach in calculating this uplift is within Code requirements. The Council has decided to not correct this misstatement due to the volume of the accounting entries required and the subsequent impact on a number of other notes within the statement of accounts. The value of the overstatement is immaterial, and it has no impact on the general fund. As this exercise is also done annually, this will be corrected for the 2023-24 statements.

### **Other notable issues arising from the audit**

## Review of Assets with zero Net Book Value

As part of the 2021-22 audit, Audit Wales identified £12.8 million of assets with a Net Book Value of zero remaining in the Council's draft accounts, despite no longer being in use. The Council corrected its final 2021-22 accounts in response to the issues raised in the audit and agreed to review such assets in detail in 2022-23 while preparing to implement a new financial ledger system. The Council has implemented a process regarding these assets and a significant amount of work has already been done throughout 22-23. This new process was largely successful, in ensuring that the number of nil net book assets incorrectly recorded on the asset register was significantly reduced in 2022- 23. However, the 2022-23 audit identified a further £2.6 million of assets that were no longer in use by the Council, and so needed to be removed from the 2022-23 accounts. This was in relation to only two assets, and this does not present any material issues with the remaining nil-Net Book Value assets held in the 2022-23 accounts. This work will continue throughout 2023-24 as the process becomes embedded.

## Liability to Newport City Homes relating to repair of the Duffryn District Heating System

Between the balance sheet date and date of authorisation, Newport City Homes notified Newport City Council that a heating system, which was transferred as part of the housing stock transfer in 2009, required significant works to improve and replace the pipes. As part of the transfer agreement, there is a clause which states that the Council will be liable to pay a contribution towards the cost, capped at £3.139m, and would only apply after Newport City Homes has committed pre-determined levels of expenditure within its Business Plan. This was included within the draft accounts as a contingent liability but, following discussion and investigations by officers, this has now been included as a provision within the accounts to show the Council's true current liabilities as at 31<sup>st</sup> March 2023.

Whilst Audit Wales consider that this liability could more accurately be classified as a creditor rather than a provision, the view is that the amount is not material, the full liability has been correctly recognised in the 2022-23 accounts and the impact on the Council's year-end reserves position arising from this issue is appropriately recorded.

## **Financial Summary:**

There are no direct financial implications arising from this report.

## **Risks**

<b>Risk</b>	<b>Impact of Risk if it occurs* (H/M/L)</b>	<b>Probability of risk occurring (H/M/L)</b>	<b>What is the Council doing or what has it done to avoid the risk or reduce its effect</b>	<b>Who is responsible for dealing with the risk?</b>
The Governance & Audit Committee do not approve the Statement of Accounts and the Council is unable to meet a statutory obligation.	High	Low	The Council has ensured the necessary controls are in place to be able to produce an accurate Statement of Accounts. Officers have worked closely with external auditors reviewing the accounts and have, wherever possible, amended the accounts in line with their recommendation	Head of Finance, Assistant Head of Finance, Chief Accountant and wider Accountancy section

## **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. Authorise the Chair and Head of Finance to sign the 2022/23 Statement of Accounts.
2. Do not authorise the Chair and Head of Finance to sign the 2022/23 Statement of Accounts.

### **Preferred Option and Why**

Option 1 – the Statement of Accounts have been audited and an unqualified audit opinion has been issued, meaning the accounts show a true and fair reflection of the Council's financial position and are free from material misstatement.

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

The report and attached appendices provide an overview of the process and outcome of the 2022/23 Statement of Accounts and external audit process. It confirms that the process has been successfully concluded and an unqualified audit opinion has been given by the external auditor. It is, therefore, recommended that the accounts are approved.

It is noted that the ISA260 report contains only one specific recommendation arising from the external auditor's work. Whilst this recommendation represents the continuation of an issue identified in the previous year's audit, significant progress has been made in reducing the number of entries contributing to that issue. The new process introduced in response to last year's ISA260 Report will be reviewed and embedded throughout the remainder of the 2023/24 financial year.

Overall, the number of issues and misstatements identified in the ISA260 Report is relatively low and represents a positive outcome, when considering the scale and complexity of the Statement of Accounts and the constrained timescales that officers have to work within in order to meet statutory deadlines.

### **Comments of Monitoring Officer**

There are no legal implications arising. The Council is fulfilling its statutory and regulatory requirements by seeking approval of the final accounts.

### **Comments of Head of People, Policy and Transformation**

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 Generation (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 covering report and associated documents are not seeking any strategic decisions or policy changes, with their purpose being to report historical financial information. The Wellbeing of Future Generations (Wales) Act 2015 forms an integral part of the financial management of the Council.

In terms of the Wellbeing of Future Generations (Wales) Act, and the five ways of working contained within it, this report highlights examples of these being supported. This report is a backwards looking report of the financial activities of the Council and the Audit confirms that the Council complied with the CIPFA code of practice.

In the case of the Welsh Language, the service will continue to ensure that, wherever possible, services or information is available in the medium of Welsh.

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. Nothing in this report is considered to have a direct equality impact.

## **Consultation**

N/A

## **Background Papers**

Draft Statement of Accounts 22/23

Dated: 23<sup>rd</sup> November 2023