

Archwilydd Cyffredinol Cymru  
Auditor General for Wales



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

# Audit of Financial Statements Report

## Newport City Council

**Audit year:** 2015-16

**Issued:** September 2016

**Document reference:** 523A2016

# Status of report

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This document has been prepared as part of work performed in accordance with statutory functions.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 Code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties.

In relation to this document, the Auditor General for Wales and the Wales Audit Office are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at [info.officer@audit.wales](mailto:info.officer@audit.wales).

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The Auditor General intends to issue an unqualified audit report on your financial statements. There are some issues to report to you prior to their approval.

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# Summary report

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## Introduction

1. The Auditor General is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of Newport City Council (the Council) at 31 March 2016 and its income and expenditure for the year then ended.
2. We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might result in a reader of the accounts being misled.
3. The quantitative level at which we judge such misstatements to be material for the Council is £4.5m. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity.
4. International Standard on Auditing (ISA) 260 requires us to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
5. This report sets out for consideration the matters arising from the audit of the financial statements of the Council for 2015-16, that require reporting under ISA 260.

## Status of the audit

6. We received a draft set financial statements for the year ended 31 March 2016 on 10 June 2016. An updated version of the statements which included the group accounts and signed by the Head of Finance, was provided to us on 30 June 2016.
7. We have now substantially completed the audit work, which is subject to:
  - Checking procedures applicable to the second draft of the financial statements which includes adjustments arising out of our audit work (we are scheduled to receive this second draft of the financial statements on 13 September 2016); and
  - Our final stage audit review.
8. We are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. The audit team has already discussed these issues with the Head of Finance.

## Proposed audit report

9. It is the Auditor General's intention to issue an unqualified audit report on the financial statements once you have provided us with a Letter of Representation based on the template set out in [Appendix 1](#).
10. The proposed audit report is set out in [Appendix 2](#).

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## Significant issues arising from the audit

### Uncorrected misstatements

11. We set out below the misstatements we identified in the financial statements, which have been discussed with management but remain uncorrected, and request that these are corrected. If you decide not to correct these misstatements, we ask that you provide us with the reasons for non-correction.

12. **The Provision for Landfill Capping is overstated by £2m**

The Landfill Capping provision as at 31 March 2016, is £5.751m. This is primarily made up of 'capping' costs which amount to £4.750m.

The capping cost is based on a cost per square metre multiplied by the total area of the landfill site. Our audit work identified that:

- a) The cost per square metre was determined by using previous costs of capping on existing landfill sites (the sites referred to as Cell 1 and Cell 2). The costs relating to Cell 1 varied significantly to those of Cell 2. Discussions with the Civil Engineer confirmed that cost relating to Cell 1 should be excluded from the calculation, as Cell 1 costs involved works which provided no additional benefit. The Civil Engineer confirmed that future capping work would be similar to that undertaken on Cell 2, and therefore Cell 2 costs are more appropriate in estimating future capping costs. This results in the cost per square meter reducing.
- b) The uncapped area against which the provision has been applied is approximately 96,500m<sup>2</sup>. Discussions with the Civil Engineer confirmed that the 96,500m<sup>2</sup> included an area for Cell 4, which has not yet been built. It is not appropriate to place a provision on a landfill site which does not exist. The Civil Engineer confirmed that removing Cell 4 results in the uncapped area to reduce to approximately 78,500m<sup>2</sup>.

The combined effect of reducing the cost per square metre and the uncapped area results in an estimated provision value of £2.7m, which is some £2m lower than the amount included in the Statement of Accounts.

The aftercare element of the provision amounts to £1.0m which is based on information dating back to 2004. Whilst we have confirmed that this element of the provision is not materially misstated, management have recognised that a further review of the total landfill provision (capping and aftercare) is required and have provided assurances that this will be undertaken during 2016/17.

13. **Revenue expenditure of £609,000 has been incorrectly treated as capital expenditure.**

Expenditure of £609,000 has been capitalised and included as an Asset under Construction. The expenditure relates to (i) Network Services Charges covering a period of 36 months; (ii) Wi-Fi Network Fees covering a period of 36 months; and (iii) Network Services Connection Fees. The funding for this expenditure came from the

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UK Department for Culture, Media & Sport and the Council has treated it as Capital Income. The overall impact of this incorrect accounting treatment is:

- Property, Plant and Equipment (Assets under Construction) is overstated by £609,000;
- Taxation and Non-Specific Grant Income (Capital Grants and Contributions) is overstated by £609,000;
- Gross Expenditure is understated by £314,000;
- Gross Income is understated by £314,000;
- Debtors (Prepayments) is understated by £295,000; and
- Creditors (Deferred Grant Income) is understated by £295,000.

**14. Revenue expenditure of £261,000 has incorrectly been treated as Revenue Expenditure Funded from Capital under Statute (REFCUS).**

Para 4.6.31 of the Code of Practice on Local Authority Accounting (the Code) states that legislation in England, Northern Ireland and Wales allows some expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a non-current asset. These items are generally grants and expenditure on property not owned by the authority.

We identified expenditure of £261,000 incurred by the Council on administrative services (e.g. help filling out forms) for (i) the Disabled Facilities Grant; and (ii) Safety at Home Grant, which has been classified as REFCUS. The expenditure has not been incurred on items which are capital in nature, and as a result, it is incorrect to classify this expenditure as REFCUS. The impact of this incorrect accounting treatment is:

- Usable Reserves - Council Fund Balance is overstated by £261,000; and
- Unusable Reserves - Capital Adjustment Account understated by £261,000.

### Corrected misstatements

- 15.** There are misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process. They are set out with explanations in [Appendix 3](#).

### Other significant issues arising from the audit

- 16.** In the course of the audit, we consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you. There were some issues arising in these areas this year:
- **Whilst there have been significant improvements in the qualitative aspects of your accounting practices and financial reporting, some issues could improve further**

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There has been significant improvement in the working papers provided to support the financial statements and Council Officers have put in considerable time and effort in order to achieve this. There has also been an improvement in the quality of the financial statements. We found the information provided to be relevant and reliable. We conclude that accounting policies are appropriate.

Notwithstanding the improvements, the post-audit financial statements have incorporated a large number of agreed audit adjustments (see Appendix 3). We will hold discussions with officers to identify further improvements for future years.

- **We did not encounter any significant difficulties during the audit.**  
We received information in a timely and helpful manner and were not restricted in our work.
- **There were some significant matters discussed and corresponded upon with management which we need to report to you.**
  - i. We held a number of discussions with the Head of Finance and Deputy Head of Finance regarding the loan given to Queensbury Real Estate (Newport) Ltd for the Friar's Walk Development.
  - ii. As a result of this, further disclosure has now been included within the financial statements in Note 17 (short term debtors) and note 43 (contingent liabilities). We identified that the accounting treatment for leases has not been reviewed for a number of years, and have recommended that a detailed review is undertaken in 2016/17 to identify those leases that may meet the definition of finance leases.
- **There are no other matters significant to the oversight of the financial reporting process that we need to report to you.**
- **We did not identify any material weaknesses in your internal controls.**
- **There are no other matters specifically required by auditing standards to be communicated to those charged with governance.**

## Recommendations arising from our 2015-16 financial audit work

17. The recommendations arising from our financial audit work will be set out in a more detailed Financial Statements Memorandum. We will follow up progress on the recommendations during next year's audit. Where any recommendation are outstanding, we will report them to you in next year's report.

## Independence and objectivity

18. As part of the finalisation process, we are required to provide you with representations concerning our independence.

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- 19.** We have complied with ethical standards and in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between the Wales Audit Office and the Council that we consider to bear on our objectivity and independence.



# Appendix 1

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## Letter of Representation

[Council's letterhead]

Auditor General for Wales  
Wales Audit Office  
24 Cathedral Road  
Cardiff  
CF11 9LJ

Date

## Representations regarding the 2015-16 financial statements

This letter is provided in connection with your audit of the financial statements of Newport City Council for the year ended 31 March 2016 for the purpose of expressing an opinion on their truth and fairness and their proper preparation.

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 the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16; 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;

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- 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 Newport City 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.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

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:

- **Landfill Capping Provision Overstated by an estimated £2m**

The Landfill provision is made up of two elements – one which is overstated and the other understated although in the case of one element, the potential correction is not known with any degree of reasonable confidence at this point. In overall 'net' terms, any potential adjustment is highly unlikely to be material to the financial statements. Given that both elements of the provision require a review in the current financial year,

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we propose to do this work 'once' and correct it for the 2016/17 accounts. Any correction made now would need further adjustment as we complete a more thorough review in the current year and therefore given not material, we propose to do this review once.

- **Revenue Expenditure of £609,000 Capitalised**

This was a specific capital grant and therefore accounted for as such. It is for a limited time period and the errors are not material and have no impact on Council reserves and mainly affect the Balance Sheet. Given this – we propose to treat this spend as capital in this limited time period.

- **Revenue Expenditure Funded from Capital under Statute overstated by £261,000**

All Council's capitalise a proportion of their DFG's officer's time/cost and we need time to work with Housing staff to consider the audit findings and ascertain a reasonable amount of costs which can be capitalised and which is justifiable. The impact on 2015/16 is immaterial to the Council's financial position. Given these, no adjustment made.

## Representations by the Audit Committee

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 the Audit Committee on the 22 September 2016.

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:

Signed by:

Meirion Rushworth  
Head of Finance

John Baker  
Chair of Audit Committee

Date: 22 September 2016

Date: 22 September 2016

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# Appendix 2

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## Proposed audit report of the Auditor General to the Members of Newport City Council

### **Auditor General for Wales' report to the Members of Newport City Council**

I have audited the accounting statements and related notes of:

- Newport City Council; and
- Newport City Council Group

for the year ended 31 March 2016 under the Public Audit (Wales) Act 2004.

Newport City Council's accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes.

Newport City Council's Group accounting statements comprise the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet and the Group Cash Flow Statement and the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 based on International Financial Reporting Standards (IFRSs).

### **Respective responsibilities of the responsible financial officer and the Auditor General for Wales**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 19, the responsible financial officer is responsible for the preparation of the statement of accounts, including Newport City Council's Group accounting statements, which gives a true and fair view.

My responsibility is to audit the accounting statements and related notes in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors.

### **Scope of the audit of the accounting statements**

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements and related notes sufficient to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to Newport City Council's and Newport City Council Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the responsible financial officer and the overall presentation of the accounting statements and related notes.

In addition, I read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited accounting statements and related notes and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me

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in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

### **Opinion on the accounting statements of Newport City Council**

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Newport City Council as at 31 March 2016 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16.

### **Opinion on the accounting statements of Newport City Council Group**

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Newport City Council Group as at 31 March 2016 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16.

### **Opinion on other matters**

In my opinion, the information contained in the Narrative Report is consistent with the accounting statements and related notes.

### **Matters on which I report by exception**

I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

- adequate accounting records have not been kept;
- the accounting statements are not in agreement with the accounting records and returns;  
or
- I have not received all the information and explanations I require for my audit;
- the Governance Statement does not reflect compliance with guidance.

### **Certificate of completion of audit**

I certify that I have completed the audit of the accounts of Newport City Council in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

For and on behalf of  
Huw Vaughan Thomas  
Auditor General for Wales  
28 September 2016

Wales Audit Office  
24 Cathedral Road  
Cardiff  
CF11 9LJ

## Appendix 3

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### Summary of corrections made to the draft financial statements which should be drawn to the attention of the Audit Committee

During our audit we identified the following misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

Value of correction £'000	Nature of correction	Reason for correction
84,888	<b>Balance Sheet</b> Increase in short-term debtors. Decrease in long-term debtors.  <b>Note 15 – Long-Term Debtors</b> Decrease to remove Friars Walk and Kings Hotel. Narrative explaining difference with balance sheet amount removed.  <b>Note 17 – Short-Term Debtors</b> Increase to include Friars Walk and Kings Hotel.	Debtors for the Friars Walk Development and Kings Hotel Development incorrectly recognised as long-term debtor instead of a short term debtor.
191	<b>Note 35 – Leases</b> Increase in future minimum lease payments for operating leases as a lessor.	Amended disclosure as balance did not agree to supporting documentation.
32	<b>Note 30 – Officer Remuneration</b> Increase in remuneration for the Head of Adult and Community Services post.	Amended disclosure to correctly show the amount paid to the Head of Adult and Community Services.
61	<b>Note 30 – Officer Remuneration</b> Increase in remuneration for the Head of Streetscene post.	To correctly disclose the amount paid to the Head of Streetscene post.
337	<b>Comprehensive Income and Expenditure Statement – Gross Other Operating Income and Expenditure</b> Decrease in other operating expenditure. Increase in other operating income.	Other operating expenditure and income to be disclosed gross to ensure agreement to Note 9 – Other Operating Expenditure.

2,814	<b>Note 21 – Provisions</b> Decrease in accumulated absences provision.	Provision to be calculated in line with the Local Government CIPFA Code 2015-16.
Narrative	<b>Note 30 – Officer Remuneration</b> Correction to five senior post titles.	Updated disclosure of post titles for five senior officers from November 2015.
2,196	<b>Note 13 – Heritage Assets</b> Increase in Revaluations of the Museum Collection.	Updated disclosure of the 2015 Valuation Report for the Museum Collection.
223	<b>Note 34 – Capital Financing and Capital Expenditure</b> Decrease in Revenue Expenditure Funded from Capital Under Statute. Decrease in Long Term Debtors.	Updated disclosure/classification of cash amount received against the Kings Hotel Development debtor.
441	<b>Note 34 – Capital Financing and Capital Expenditure</b> Decreased in government grants and other contributions.  <b>Note 23 – Unusable Reserves, Capital Adjustment Account</b> Decrease in capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing.	Recognition of VVP grant funds transferred from the Kings Hotel Development debtor.
218	<b>Note 34 – Capital Financing and Capital Expenditure</b> Increase in movements unsupported by government financial assistance.	Recognition of timing difference of VVP grant funds transferred from the Kings Hotel Development debtor.
200	<b>Note 34 – Capital Financing and Capital Expenditure</b> Increase in assets acquired under PFI contracts.	Disclosure of the adjustment to the PFI addition for the Southern Distributor Road.
Narrative	<b>Note 12 – Property, Plant and Equipment</b>  The impact of impairments and revaluations to be disclosed separately.	Amended disclosure to comply with the Local Government CIPFA Code 2015-16.



Narrative	<p><b>Note 12 – Property, Plant and Equipment</b></p> <p>Renaming of ‘Accumulated Depreciation and Impairment’ to ‘Accumulated Depreciation’.</p>	Amended disclosure for ‘impairments’ in this section of Note 12.
200	<p><b>Note 12 – Property, Plant and Equipment</b></p> <p>Increase in additions under PFI assets.</p>	Amended disclosure and adjustment of PFI lifecycle relating to the Southern Distributor Road.
Narrative	<p><b>Note 29 – Members Allowances and Expenses</b></p> <p>Disclosure to be amended to show only the total of members allowances and expenses paid in the year.</p>	Amended disclosure to follow the Local Government CIPFA Code 2015-16 requirement.
279,721	<p><b>Balance Sheet</b></p> <p>Decrease in other long-term liabilities Additional line for pension liability</p>	Amended disclosure to ensure balances agree to Note 15, Financial Instruments and Note 41, Defined Schemes (benefits pension schemes).
284	<p><b>Note 15 – Financial Instruments</b></p> <p>Increase in the fair value of other long-term loans</p>	Amended disclosure of the financial liabilities included in the Balance Sheet to reflect fair value.
189	<p><b>Note 15 – Financial Instruments</b></p> <p>Increase in interest expense.</p>	An adjustment to reverse out interest recharged to education projects.
1,072	<p><b>Note 32 – Grant Income</b></p> <p>Decrease in housing benefit subsidy grant.</p> <p><b>Note 28 – Amounts Reported for Resource Allocation Decisions</b></p> <p>Decrease in government grants and contributions. Increase in fees, charges and other service income.</p>	Adjustment for income not related to housing benefit from the housing benefit subsidy grant.
4,455	<p><b>Note 15 – Financial Instruments</b></p> <p>Increase in interest expense.</p>	Presentational disclosure to recognise the premium paid on redemption of loans.
415	<p><b>Note 35 – Leases</b></p> <p>Operating leases as a lessee: Decrease in payments due not later than on year. Increase in payments due later than one year and not later than five years.</p>	Amended disclosure to correct the analysis of remaining lease periods and annual lease amounts.

	Decrease in amount due later than five years.	
198	<b>Note 35 – Leases</b> Operating leases as a lessor: Decrease in amount receivable later than five years.	Disclosure of the correct term on the lease for the Chartist Tower.
596,870	<b>Note 25 – Cash Flow Statement - Investing Activities</b> Removal of purchase of short-term and long term investments.	Amended disclosure as short and long-term investments had been double-counted (presentational disclosure).
596,330	<b>Note 25 – Cash Flow Statement - Investing Activities</b> Removal of proceeds from short-term and long term investments.	Amended disclosure as short and long-term investments had been double-counted (presentational disclosure).
2,433	<b>Note 14 – Investment Properties</b> Decrease in rental income from investment property.	Amended disclosure of fair value adjustments to correct the value received from rental income.
10,579	<b>Comprehensive Income and Expenditure Statement</b> Removal of gross expenditure recorded against taxation and non-specific grant income. Decrease in income recorded against taxation and non-specific grant income.	Removal of the Council Tax Reduction Scheme income to ensure proper presentational disclosure.
142	<b>Note 32 – Grants Income</b> Decrease in income and expenditure for the Supporting People Grant.	Adjustment of grant underspends incorrectly recorded against expenditure.
272	<b>Note 32 – Grants Income</b> Decrease in income against the GEMS Grant  <b>Note 28 – Amounts Reported for Resource Allocation Decisions</b> Decrease in government grants and contributions. Increase in fees, charges and other service income.	Re-classification of the costs of an administration fee incorrectly disclosed as grant income.
1,658	<b>Note 17 – Short-Term Debtors</b> Decrease in Central Government Bodies.  <b>Note 20 – Short- Term Creditors</b> Decrease in Central Government Bodies.	Amended disclosure as NNDR was shown as a creditor and a debtor. Net position now shown within debtors.

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1,128	<b>Note 17 – Short-Term Debtors</b> Increase in General.  <b>Note 20 – Short- Term Creditors</b> Increase in General.	Amended disclosure of the 'Houses to Homes' debtor.
3,733	<b>Note 15 – Financial Instruments</b> Decrease long- term creditors. Decrease short-term creditors. Decrease long-term debtor.	Amended disclosure to correctly record the creditor for the Tredegar House lease.
Narrative	<b>Note 35 – Leases</b> Inclusion of Tredegar House lease.	Amended disclosure to include the lease that was excluded from this Note.

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