



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# Final Accounts Memorandum 2015-16

## **Newport City Council**

Audit year: 2015-16

Date issued: November 2016

Document reference: 645A2016



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).

# Contents

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 2015-16 financial statements and Whole of Government Accounts return.

**Appendix 1** contains recommendations to Newport City Council's management.

**Appendix 2** summarises our performance against agreed measures.

## Summary report

Introduction 4

The Auditor General issued an unqualified opinion on the 2015-16 financial statements of Newport City Council 5

We identified some issues with Newport City Council's Whole of Government Accounts return for 2015-16 6

## Appendices

Appendix 1 – Recommendations from our 2015-16 audit work 7

Appendix 2 – Wales Audit Office performance measures 11

# Summary report

## Introduction

- 1 The financial statements are an essential means by which Newport City Council (the Council) accounts for its stewardship of the resources at its disposal and its 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. 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 2015-16 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 2015-16 financial statements of Newport City Council

- 7 On 28 September 2016, the Auditor General issued an unqualified auditor's report on the financial statements.
- 8 We received a draft Statement of Accounts on 10 June 2016. An updated version of the Statement of Accounts, which included the group accounts and signed by the Head of Finance, was provided to us on 30 June 2016. This was in line with the requirements of the Accounts and Audit (Wales) Regulations 2014. We are pleased to report that there have been significant improvements in both the quality of the draft financial statements and the information available to support them. There are still areas where improvement can be made, the more significant areas 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 22 September 2016. 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 were three unadjusted misstatements: <ol style="list-style-type: none"> <li>1) The provision for Landfill Capping is overstated by £2m</li> <li>2) Revenue expenditure of £609,000 has been incorrectly treated as capital expenditure</li> <li>3) Revenue expenditure of £261,000 has been incorrectly treated as Revenue Expenditure Funded from Capital under Statute (REFCUS)</li> </ol>
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 significant improvements in the working papers provided to support the financial statements. There has also been an improvement in the quality of the financial statements. Notwithstanding the improvements, the post-audit financial

Reporting requirement	Audit findings
	statements incorporated a large number of agreed audit adjustments.
Matters specifically required by other auditing standards to be communicated to those charged with governance	There are 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	No other matters noted.

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

## We identified some issues with the Council's Whole of Government Accounts return for 2015-16

- 11 The Council was required to provide an unaudited WGA return to the Welsh Government by 12 August 2016. This return was submitted to the Welsh Government on 22 August 2016. We were required to complete our review by 19 October 2016. Our review was completed by 27 October 2016, after a number of audit queries were resolved.
- 12 Recommendations arising from our WGA audit are set out in Appendix 1.

# Appendix 1

## Recommendations from our 2015-16 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:

<b>Recommendation 1 – The process for compiling of the Whole of Government Accounts needs to improve in future years</b>	
<b>Findings</b>	<p>HM Treasury issue a Whole of Government Account (WGA) Management Review Checklist. The checklist is required to be completed before the WGA return is submitted as an unaudited version to the Welsh Government. The Checklist states <i>“Auditors have been advised not to start their audit until they receive a properly completed management review checklist”</i>. At the request of the audit team, the checklist was completed by management on 10 October 2016.</p> <p>Within each sheet of the WGA return there is a 'comments box'. The WGA Local Authority Guidance states that the comments boxes should be used to provide explanations “where a number is made up of several figures”. The purpose of the comments boxes is to provide an audit trail, where the figures are not easily identifiable from the financial statements. Our review identified that no comment boxes were completed.</p> <p>The working papers to support entries in the WGA return was provided the week of 17 October 2016. The review of the working papers resolved some of our queries. For our remaining queries to be resolved, various adjustments were made to the WGA return. Some of our queries could have been avoided, as they were known issues to management. For example, the use of a balancing figure to avoid a validation error for the opening pensions figure.</p> <p>As a result of the above issues, the audit of the WGA return was completed on 27 October 2016, missing the deadline set by the Welsh Government of 19 October 2016.</p>
<b>Priority</b>	High
<b>Recommendation</b>	<p>We recommend that for the 2016-17 WGA Return:</p> <ul style="list-style-type: none"><li>• the Management Review Checklist is completed to assist with the preparation of the return</li><li>• the Comments Box's with the return are completed to provide an audit trail to the Financial Statements</li><li>• working papers to support the Whole of Government Accounts return are provided at the same time as the return is provided for audit; and</li><li>• known issues identified by management are brought to the attention of the auditor at the outset to enable them to be resolved in a timely manner.</li></ul>

<b>Accepted in full by management</b>	Yes – agreed with recommendations although it should be acknowledged that WAO should schedule their review earlier also.
<b>Management response</b>	<p>In order to improve the process for WoGA we are reviewing the coding in relation to grants which caused the main issue on review, We will also improve the in-year work done on CPID transactions which was the issue which caused delay in submitting the draft return.</p> <p>There were few amendments required to be made between the draft and the final WoGA submitted, therefore if it can be arranged for WAO to review the draft WoGA accounts at the same time as the single entity accounts this would make a significant difference.</p>
<b>Implementation date</b>	Immediate

**Recommendation 2 – A detailed review of leases should be undertaken to identify those that may meet the definition of Finance Leases**

<b>Findings</b>	Our review of leases identified that some existing leases could meet the definition of Finance Leases. From discussions with management, we have agreed that the Council will undertake a detailed review of leases in 2016-17, to identify those leases that may meet the definition of a Finance Lease. The audit team will seek to review the Council's findings as soon as it is available.
<b>Priority</b>	High
<b>Recommendation</b>	We recommend that a detailed review of leases is undertaken to identify those leases that may meet the definition of a Finance Lease, and suitable accounting treatment of those leases should be implemented.
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	We would, where appropriate, to undertake early review of provisions and leases and get these signed off by WAO prior to submission of draft accounts.
<b>Implementation date</b>	January 2017

**Recommendation 3 – A detailed review of the Provision for Landfill Capping and Aftercare costs should be undertaken**

<b>Findings</b>	As reported in the Audit of Financial Statements Report presented to the Audit Committee, the provision for Landfill Capping in the 2015-16 financial statements is overstated by £2m. Furthermore, the aftercare element of the provision (of
-----------------	--



	£1m) is based on information dating back to 2004. From discussions with management, we have agreed that the Council will undertake a review of the total landfill provision (capping and aftercare costs) in 2016-17. The audit team will seek to review the Council's findings as soon as it is available.
<b>Priority</b>	High
<b>Recommendation</b>	We recommend that a detailed review of the landfill provision (capping and aftercare costs) is undertaken during 2016-17.
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	We would, where appropriate, to undertake early review of provisions and leases and get these signed off by WAO prior to submission of draft accounts. The appropriate engineer has already begun the review of this provision and is working to the timescales for early 2017.
<b>Implementation date</b>	January 2017

**Recommendation 4 – Decisions regarding the approval of pay grades and market supplements of Senior Officers should be documented**

<b>Findings</b>	<p>Our review of Senior Officer Remuneration identified that the Head of Adult Services and the Head of Streetscene &amp; City Services were appointed at the top of the pay grade, with the Head of Adult Services also in receipt of a Market Supplement.</p> <p>The Council's Pay and Reward Policy states that for Senior Officers (Heads of Service, Strategic Directors and Chief Executive) the decision to award a market supplement or starting pay above the grade minimum, is delegated to the Appointments Committee.</p> <p>We requested documented evidence that such approval was granted by the Appointments Committee and were informed by management there was no documented evidence. Management were able to provide us with an email from the Chair of the Appointments Committee confirming the awards made to the Head of Adult Services. We did not receive any such confirmation for the Head of Streetscene &amp; City Services.</p>
<b>Priority</b>	High
<b>Recommendation</b>	Decisions regarding the approval of pay grades and market supplements of Senior Officers by the Appointments Committee should be fully documented and retained to support decisions.
<b>Accepted in full by management</b>	Yes

<b>Management response</b>	In future recruitment processes a formal minute in relation to starting salary will be taken at appointment panels for Chief Officer and above.
<b>Implementation date</b>	Immediate

**Recommendation 5 – Procedures over the preparation of Group Accounts should be improved**

<b>Findings</b>	<p>2015-16 was the first time that the Council prepared Group Accounts to consolidate Newport Transport Limited. Our review of the Group Accounts resulted in a number of adjustments being made.</p> <p>The Consolidation of Newport Transport Limited Accounts with Newport City Council's Accounts requires improvement in order to avoid the number of adjustments that were made.</p>
<b>Priority</b>	High
<b>Recommendation</b>	Procedures over the preparation of Group Accounts should be improved.
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	2015/16 was the first year of consolidating Group Accounts, which was a significant positive given the emphasis of matter in 2014/15. However, it is agreed a number of improvements can still be made and management will contact Newport Transport to ensure we receive timely and accurate information from their accounts to consolidate into the Group Accounts.
<b>Implementation date</b>	April-May 2017

# Appendix 2

## Wales Audit Office performance measures

We agreed a range of targets for the delivery of our work as set out in our 2016 **Audit Plan**.

I have summarised our performance against these targets below:

Planned output	Target	Outcome
Audit of the Financial Statements Report	September 2016	Presented to Audit Committee 22 September 2016
Opinion on Financial Statements	September 2016	Audit Opinion signed on 28 September 2016
Final Accounts Memorandum	October 2016	Issued in November 2016 **

\*\* The planned target for the Final Accounts Memorandum of October 2016 was missed as a result of the delay in completing our review of the WGA return.

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](mailto:info@audit.wales)

Website: [www.audit.wales](http://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](mailto:post@archwilio.cymru)

Gwefan: [www.archwilio.cymru](http://www.archwilio.cymru)