



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# Final Accounts Memorandum 2017-18 - **Newport City Council and Newport City Council Group**

Audit year: 2017-18

Date issued: November 2018

Document reference: 906A2018-19



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# Contents

This document, which has been prepared and presented on behalf of the Auditor General, summarises the conclusions on the audit of the 2017-18 financial statements of Newport City Council and Newport City Council Group.

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

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# Summary report

## Introduction

- 1 The financial statements are an essential means by which Newport City Council (the Council) and Newport City Council Group (the Group) account for their stewardship of the resources at their disposal and their 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 and the Group. 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 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 2017-18 WGA.
- 6 However, due to changes in HM Treasury guidance this year, the Council fell below the thresholds required for an audit of its WGA return. As such, while the Council has still submitted a WGA return as required, for the first time this year we have not been required to audit this return.

## The Auditor General issued an unqualified opinion on the 2017-18 financial statements of Newport City Council and Newport City Council Group

- 7 On 25 September 2018, the Auditor General issued an unqualified auditor's report on the financial statements of the Council and the Group.
- 8 We received an approved draft Statement of Accounts prior to 30 June 2018, in line with the requirements of the Accounts and Audit (Wales) Regulations 2014. There have been clear improvements in the quality of the draft financial statements and the information available to support them over recent years. However, there remain some improvements to be made, the more significant of which 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 20 September 2018. 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 was one unadjusted misstatement. The Newport Transport Ltd bus depot was held in the Group accounts at a value £434,000 lower than that provided by an external valuer.
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	No major weaknesses were noted. We have worked with management to review more significant or complex account areas earlier in the audit process, to meet upcoming faster closing deadlines.
Matters specifically required by other auditing standards to be communicated to those charged with governance	There were 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	There were no other relevant matters of governance interest to be reported.

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

# Appendix 1

## Recommendations from our 2017-18 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:

### Exhibit 2: Recommendation 1

Recommendation 1 – Group accounts	
<b>Findings</b>	<p>During our audit we identified a number of errors in the compilation of the Group accounts which took significant time to correct. It appears that the Council experienced delays in obtaining relevant information from Newport Transport Ltd. Consequently, there was limited time for management to process information in the Group accounts and carry out an appropriate quality assurance review.</p> <p>In addition, our 'Audit of Financial Statements' report outlined an unadjusted immaterial misstatement of £434,000. This resulted from differing accounting policies being applied for the valuation of fixed assets.</p>
<b>Priority</b>	High
<b>Recommendation</b>	<p>With approval of the 2018-19 draft accounts required by 15 June 2019 (approximately two weeks earlier than last year), the Council should liaise with Newport Transport Ltd to ensure that all required deliverables will be received in time to meet this deadline. This should ensure that the Group accounts can be prepared and reviewed appropriately by management prior to approval, reducing the level of errors noted during our audit.</p> <p>Further, the Council should liaise with Newport Transport Ltd to harmonise the company's accounting policy for fixed asset valuations with that of the Group.</p>
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	<p>Newport Transport have been made aware of the timescales and requirements for earlier closure in 2019/20 and have agreed to meeting these.</p> <p>We will liaise with Newport Transport to get them to change their valuation on their balance sheet, which will sort out the mismatch between the NCC policy and the Group accounts.</p>
<b>Implementation date</b>	Immediate

Exhibit 3: Recommendation 2

<b>Recommendation 2 – coding of payroll expenditure</b>	
<b>Findings</b>	<p>In Appendix 3 of our 'Audit of Financial Statements' report we outlined material classification errors in Note 8 of the financial statements. In particular, £5.8 million of payroll costs had been incorrectly classified as 'other services expenditure' in the note (although this error did not affect the Council's overall expenditure total or General Fund balance).</p> <p>On review, management identified that this classification error arose from the Education service area journaling payroll transactions incorrectly in the ORACLE ledger between 'sub-codes', to allow them to analyse expenditure on a specific project. This process affected the classification of expenditure within the financial statements.</p>
<b>Priority</b>	High
<b>Recommendation</b>	<p>The Council should confirm appropriate means for service areas to analyse income and expenditure within the ORACLE ledger that uses the appropriate coding for the statement of accounts.</p> <p>For example, ORACLE allows such analysis through the use of separate 'option codes' which provide further analysis that should not affect classification within the financial statements.</p>
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	<p>Appropriate colleagues have been made aware of the importance of appropriate coding in relation to the statement of accounts.</p> <p>In relation to this specific issue the changes to coding are immediate.</p>
<b>Implementation date</b>	Immediate

Exhibit 4: Recommendation 3

<b>Recommendation 3 – government grant income audit trail</b>	
<b>Findings</b>	<p>As part of our audit work we select a sample of government grant income amounts received by the Council during the year, agreeing amounts to award letters (or other correspondence) and confirming that sufficient expenditure has been incurred to recognise the full grant that year.</p> <p>As part of our 2017-18 testing of grant income we reviewed the Education Improvement Grant (EIG). Expenditure under this grant is largely devolved to the budgets of individual schools. While it was evident that the grant had been passed to the schools, it proved difficult for management to confirm that appropriate expenditure had been incurred by individual schools during the year to match the conditions of the grant.</p> <p>We were eventually able to confirm that sufficient expenditure had been incurred to recognise the full grant in the year, but this took significant effort from both management and the audit team.</p>
<b>Priority</b>	Medium
<b>Recommendation</b>	The Council should ensure that an adequate audit trail is in place to corroborate expenditure recorded against grant income each year. This will allow the audit team to complete testing of grant income in a more efficient manner during our final audit visit.
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	The schools team will liaise with schools to agree what evidence and working papers is required to be kept to ensure sufficient evidence is kept to corroborate expenditure against the grant.
<b>Implementation date</b>	January 2019



# Appendix 2

## Wales Audit Office performance measures

We agreed a range of targets for the delivery of our work as set out in our 2018 Audit Plan. I have summarised our performance against these targets below.

### Exhibit 5 – Performance measures

Planned output	Target	Outcome
Audit of the Financial Statements Report	September 2018	Presented to Audit Committee on 20 September 2018
Opinion on Financial Statements	September 2018	Audit Opinion signed on 25 September 2018
Final Accounts Memorandum	November 2018	Presented to Audit Committee on 22 November 2018

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