



Civic Centre/Canolfan Ddinesig
Newport/Casnewydd
South Wales/De Cymru
NP20 4UR

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

5 September 2019

Representations regarding the 2018-19 financial statements

This letter is provided in connection with your audit of the financial statements (including that part of the Remuneration Report that is subject to audit) of Newport City Council and Newport City Council Group for the year ended 31 March 2019 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 CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018-19; 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;
- 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 Newport City Council Group 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.

There are no material differences between the accounting policies of Newport City Council and Newport City Council Group.

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:

Understatement of pension liability by £2.562 million arising from the McCloud judgement

The McCloud judgement is a complex matter which is yet to be fully resolved. An Employment Tribunal will further consider these specific cases in the summer of 2020, where it will determine an appropriate remedy to those affected individuals (it is expected that this remedy will then be applied across all affected pension schemes).

Given the current uncertainty surrounding the exact remedy to be applied, that the current estimate of the impact by the Council's actuary (£2.562 million) is not material to the Council's accounts, and the adjustment would be reversed out through the pension reserve (therefore no impact on the general fund) we determine that it is reasonable to account for this as a contingent liability rather than increasing the pension liability at this stage.

Any updated position will be reflected in the updated valuations received from the actuaries in 2019/20 and will be accounted for at that point.

Accounting treatment of loan modifications under IFRS 9

While the accounting treatment for the gain arising from this loan modification is not strictly in line with CIPFA Code requirements, we believe that this treatment discloses the impact of IFRS 9 in a meaningful

way. The CIPFA Code treatment would lead to an increase in the Council's General Fund being displayed in the Movement in Reserves Statement, this however is purely an accounting treatment adjustment and does not create a cash backed reserve. Therefore we believe showing an increase in the general fund reserve during the financial year would be inappropriate and while it doesn't follow the Code exactly, the overall impact to the reserves is the same.

As the amount is not material to the Council's accounts (and will only reduce to zero over the remaining life of the loan in question) we do not propose to amend this item.

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 5 September 2019.

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/Section 151 Officer
Date: 5 September 2019

John Baker
Audit Committee
Date: 5 September 2019