

Audit of Accounts Memorandum – Newport City Council & Newport City Council Group

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Audit of Accounts Memorandum

Introduction

- 1 This report is an addendum to our Audit of Accounts Report that we presented to you on 28 September 2020. The report sets out the recommendations arising from our audit of the 2019-20 accounts for Newport City Council and Newport City Council Group.
- 2 We should like to take this opportunity to once again thank all your staff who helped us throughout the audit.

Recommendations from this year's audit

- 3 We summarise in **Exhibits 1 to 3** our recommendations arising from this year's audit.

Exhibit 1: matter arising 1

Matter arising 1 – accruals for goods not received	
Findings	As reported in our Audit of Accounts Report (paragraph 18), our audit testing of creditors identified three out of 19 sampled transactions where goods or services were incorrectly accrued for in the 2019-20 accounts, despite not being delivered to the Council until 2020-21. In response to this issue, additional detailed audit procedures were required at short notice to provide assurance that this issue would not likely lead to a material misstatement. We are satisfied that was the case for 2019-20.
Priority	High
Recommendation	The Council should ensure that year-end accruals are only raised for goods or services that have been received by the Council before financial year-end.
Benefits of implementing the recommendation	This will reduce the risk of potential material errors arising within creditors in future financial years. Furthermore, this will improve the accuracy of the Creditors' note within the financial statements and reduce the need for additional unplanned audit procedures.

Matter arising 1 – accruals for goods not received

Accepted in full by management	Yes
Management response	The period for closedown of the financial year coincided with the first lockdown due to the pandemic. Therefore, it is recognised that there were different priorities and new ways of working that would mean processing of accruals was more susceptible to error. However, we will stress the importance of processing of accruals correctly within the closedown memo.
Implementation date	Immediate

Exhibit 2: matter arising 2**Matter arising 2 –quality of working papers**

Findings	<p>The Council provided electronic working papers to support our audit of the financial statements. On review, we identified that some of these working papers were not the final version, or more than one version was provided.</p> <p>There were also examples of working papers containing 'hard-coded' figures, which meant that we could not immediately identify how the figures in the draft accounts were derived. Consequently, for these areas we required further review and discussion with Council staff to understand the evidence provided.</p>
Priority	Medium
Recommendation	<p>The Council should ensure that only the final version of working papers that support the financial statements are provided for audit.</p> <p>Furthermore, working papers should avoid the use of 'hard-coded' figures to demonstrate how figures have been derived within the working paper.</p>

Matter arising 2 –quality of working papers

Benefits of implementing the recommendation	This should reduce audit queries and avoid time being spent reviewing the incorrect version of working papers.
Accepted in full by management	Yes
Management response	This finding will be shared with officers responsible for providing working papers. We have also been in discussion with Audit Wales about providing working papers through file-sharing websites, in order to have one version that is used by officers and Audit Wales.
Implementation date	April 2021

Exhibit 3: matter arising 3

Matter arising 3 – incorrect classification of Cash and Cash Equivalents

Findings	<p>Our audit testing of Cash and Cash Equivalents identified several items incorrectly classified as such, including:</p> <ul style="list-style-type: none">• £15.0 million of borrowings;• £3.7 million of repayable loans issued to developers; and• £2.5 million of investments. <p>These classification errors took additional time to resolve during our audit, given their complexity and impacts on other disclosure notes within the accounts.</p>
Priority	Medium
Recommendation	The Council should ensure only those items meeting the definition of cash and cash equivalent are defined as such within the financial statements.

Matter arising 3 – incorrect classification of Cash and Cash Equivalents

Benefits of implementing the recommendation	This will improve the accuracy of the Cash and Cash Equivalents note and reduce amendments to the financial statements arising from our audit work.
Accepted in full by management	Yes
Management response	Finance colleagues will review the issues that arose during 2019/20 and correct for 2020/21. A peer review will also be undertaken on this in detail to ensure it meets the accounting practice.
Implementation date	April 2021



Audit Wales

24 Cathedral Road

Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

E-mail: info@audit.wales

Website: www.audit.wales

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