

# Report

## Governance & Audit Committee

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### Part 1

Date: 11<sup>th</sup> November 2021

**Subject** **Response to ISA260 Report and Statement of Accounts Authorisation**

**Purpose** This report is to provide Governance & Audit Committee with an overview of the key aspects of Audit Wales' ISA260 Report, as well as the Council's response to any issues raised. This is to enable the committee to approve the signing of the accounts and complete the 2020/21 Statement of Accounts process.

**Author** Head of Finance / Assistant Head of Finance

**Ward** All

**Summary** The 2020/21 ISA260 Report, prepared by Audit Wales, outlines the fact that an overall unqualified audit opinion has been given. A total of three uncorrected misstatements remain within the accounts, alongside a range of misstatements that have been corrected. There were three matters of concern raised within the report, including the fact that not all members submitted a related party return. The appendices to this report provide context to the errors and misstatements identified, as well as outlining initial lessons learned and the Council's responses to questions raised at the previous Governance & Audit Committee meeting.

**Proposal** To note the contents of the ISA260 Report, the Council's response and to recommend approval of the 2020/21 Statement of Accounts.

**Action by** Head of Finance / Assistant Head of Finance

**Timetable** Immediate

This report was prepared after consultation with:

- Audit Wales
- Head of Finance

**Signed**

## Background

This paper is to be read in conjunction with the final 2020/21 Statement of Accounts and Audit Wales' ISA260 report, with the further information being contained in the appendices attached, detailed as follows:

### Appendix A – Briefing Note on the Statement of Accounts Audit Process 2020/21

This briefing note provides an overview of the context surrounding the 2020/21 accounts and audit process, before detailing the specific issues raised within the ISA260 Report and the Council's initial response to them. It should be noted that a more detailed lessons learned exercise will be reported to a future Governance & Audit Committee meeting.

### Appendix B – Statement of Accounts 2020/21 – Queries Received and Responses

This appendix provides a summary of the queries raised in the previous Governance & Audit Committee, at which the draft accounts were considered, and the Council's responses to those queries.

After consideration of this report, the final Statement of Accounts and the ISA260 Report, the Governance & Audit Committee are requested to authorise the Chair and Head of Finance to sign the 2020/21 Statement of Accounts.

## Risks

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
The Governance & Audit Committee do not approve the Statement of Accounts and the Council is unable to meet a statutory obligation.	High	Low	The Council has ensured the necessary controls are in place to be able to produce an accurate Statement of Accounts. Officers have worked closely with external auditors reviewing the accounts and have, wherever possible, amended the accounts in line with their recommendations.	Head of Finance, Assistant Head of Finance, Chief Accountant and wider Accountancy section.

\* Taking account of proposed mitigation measures

## Links to Council Policies and Priorities

The Council has a statutory duty (as set out in the Accounts and Audit (Wales) Regulations 2018) to produce an annual statement of accounts, which details the overall financial performance and financial position of the Council over the last two years.

## Options Available and considered

1. Authorise the Chair and Head of Finance to sign the 2020/21 Statement of Accounts.

2. Do not authorise the Chair and Head of Finance to sign the 2020/21 Statement of Accounts.

### **Preferred Option and Why**

Option 1 – the Statement of Accounts have been audited and an unqualified audit opinion has been issued, meaning the accounts show a true and fair reflection of the Council's financial position and are free from material misstatement.

### **Comments of Chief Financial Officer**

Decisions made on treasury matters will be made with a view to comply with the Treasury Management Strategy, Prudential Indicators, taking advice, where needed, from our Treasury Advisers.

### **Comments of Monitoring Officer**

There are no legal implications arising. The Council is fulfilling its statutory and regulatory requirements by seeking approval of the final accounts.

### **Comments of Head of People and Business Change**

There are no staffing implications arising from the report which is a key part of our regulatory framework and reflects sound financial management.

### **Comments of Cabinet Member**

N/A

### **Local issues**

N/A

### **Scrutiny Committees**

N/A

### **Fairness and Equality Impact Assessment:**

- **Wellbeing of Future Generations (Wales) Act**
- **Equality Act 2010**
- **Socio-economic Duty**
- **Welsh Language (Wales) Measure 2011**

For this report, a full Fairness and Equality Impact Assessment has not been undertaken. This is because this covering report and associated documents are not seeking any strategic decisions or policy changes, with their purpose being to report historical financial information. The Wellbeing of Future Generations (Wales) Act 2015 forms an integral part of the financial management of the Council.

### **Consultation**

N/A

### **Background Papers**

Statement of Accounts 2020/21  
ISA260 Report 2020/21

Dated: 4<sup>th</sup> November 2021

## **Appendix A – Briefing Note on the Statement of Accounts Audit Process 2020/21**

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### **Background**

1. As part of the external audit process, and finalisation of the annual Statement of Accounts process, Audit Wales have issued the Council with its draft ISA260 Report. This report provides their overriding audit opinion on the accounts, as well as drawing attention to the corrections that have been agreed and reflected in the accounts, as well as any misstatements that remain uncorrected. All of these matters have been discussed and agreed with the relevant Council officers.
2. This briefing note identifies key aspects of the ISA260 Report, provides context to the issues identified and outlines the steps being taken by the Council to address these issues, as well as considering other lessons to be learned. It should be noted that a more full discussion on the lessons learned will be held as part of the January Governance & Audit Committee meeting.

### **Overview**

3. The production of the 2020/21 Statement of Accounts was set against the continued backdrop of the COVID-19 pandemic, which impacted on the completion of the accounts in a number of ways. This included resource challenges within the small team primarily responsible for producing the accounts. As well as the resource challenges, the 2020/21 revenue outturn position was significantly more favourable than anticipated, resulting in a large underspend, partly driven by the late allocation of grant funding by WG to local authorities across Wales. This large underspend necessitated in-depth discussions regarding transfers to reserves which, because of the need for Cabinet approval, delayed the finalisation of the outturn position and, consequently, the production of the accounts by a number of weeks. As a consequence, meeting the statutory deadlines was extremely difficult and it is a credit to the individuals involved that the accounts, in draft form, were finalised as early as they were and that an overall unqualified audit opinion has been given.
4. The draft ISA260 Report identifies a total of 16 areas (either core statements or notes to the accounts) where corrections were agreed and reflected in the final accounts. In some cases, there may have been more than one correction required, albeit the theme of the corrections within those areas is broadly similar. Whilst this may seem like a high number, this is broadly comparable with the number in 2019/20. In addition, a number of the corrections required were presentational in their nature and did not materially impact upon the information disclosed in the accounts.
5. It should also be noted that three corrections were requested by Audit Wales, but not implemented by the Council. These are detailed below, as well as the rationale for not undertaking the adjustments. In addition, the report draws attention to an emphasis of matter, in relation to material uncertainty regarding valuations of land and buildings, although it is noted that this has not impacted upon the audit opinion. Furthermore, three matters for consideration were highlighted in the report, one of which, in relation to member declarations, is outlined in more detail below.

### Uncorrected misstatements

6. As outlined in the ISA260 Report, there were three misstatements identified by Audit Wales, which remain uncorrected within the final accounts. These misstatements total £625,000 and are outlined below:

<b>Misstatement</b>	<b>Explanation as to why this occurred</b>
A £264,000 overstatement of expenditure relating to recognition of future losses in the year, which is not permitted by the CIPFA Code.	This item prudently anticipated future income not being received and a provision was created in respect of such. Accounting convention precludes provisions in respect of debt/income not yet due. It would have been acceptable to use an earmarked reserve for this purpose instead, but Member approval of such isn't practical before the Governance & Audit Committee meeting.
A £208,000 overstatement of expenditure on training costs, which were accrued for incorrectly in the year.	This arose due to a lack of communication between two Council services, meaning that Finance were not made aware of the fact that said costs were now being funded directly via grant and were no longer a cost for the Council to bear.
A £153,000 overstatement of expenditure relating to the accrual of secondary pension contributions relating to Newport Transport Ltd.	This entry was included in the draft accounts, as it reflected the potential arrangement with regards to Newport Transport's pension liability at that time. An alternative course of action has subsequently been decided upon and this entry is therefore no longer required.

7. Correcting each of these misstatements would impact upon the General Fund balance held by the Council as at 31<sup>st</sup> March 2021. Therefore, in order to ensure that the total balance in the General Fund was unaffected, it would be necessary to action transfers involving earmarked reserves, which requires Cabinet approval. As a result, due to the time constraints involved, and the relatively modest impact upon the overall financial position, it has been decided not to correct these misstatements.
8. The impact of not correcting these misstatements will be seen as part of the financial monitoring position in 2021/22. In the case of the £264,000 provision, this amount will be transferred to earmarked reserves during 2021/22. The other two items will result in an improvement totalling £361,000 in the overall monitoring position due to these credit entries now being part of the position.

### Member declarations

9. One of the issues raised in the report is the fact that 9 out of the 50 members did not submit an updated declaration of interests. In addition, a number of submissions that were received were not of a suitable quality. It is recognised that it is not acceptable that a full set of returns was not received and all members in question will be contacted individually regarding the failure to return a submission. To reduce the chance of this happening again, the process for obtaining returns will be reviewed and consideration given to whether an alternative communication strategy is required when requesting declarations from

members. This will be discussed with both CMT and relevant officers within Democratic Services.

### Corrected misstatements

10. As outlined previously, there were a number of areas of the accounts containing misstatements, which have subsequently been corrected in the final accounts. These misstatements are listed in Appendix A1. Whilst the volume may initially appear high, it should be noted that the majority of these related to either presentational or classification issues and the impact upon the accounts was minimal. As well as listing these below, commentary has been added to explain the reasons for the misstatement being made in the first instance and any steps taken to reduce the chance of similar misstatements being made in the future.

### Initial lessons learned

11. A fuller reflection on lessons to be learned following the audit process will be considered over the coming weeks and months, with a further report to be brought to the next Governance & Audit Committee meeting. However, as well as the specific points outlined in the tables above, there are some initial reflections on areas where improvement could be sought in future years.

<b>Area for improvement</b>	<b>Actions to be considered</b>
<p><b>Internal recharges:</b> Issues continue to be identified in relation to the use of incorrect codes in processing internal recharges, resulting in some internal recharges not being eliminated as part of the accounts.</p>	<ul style="list-style-type: none"> <li>- Additional guidance and training to be rolled out to accountancy staff.</li> <li>- Consider an in-house sample testing of internal recharge journals to ensure that correct codes are being utilised.</li> </ul>
<p><b>Earmarked reserve approval:</b> One of the challenges encountered was the need to seek decisions regarding the allocation of the 2020/21 underspend to earmarked reserves. This required full Cabinet approval and added considerable delays to the production of accounts.</p>	<ul style="list-style-type: none"> <li>- Consider whether any early decisions can be taken, during the financial year in question, once it becomes evident that an underspend may emerge. This would minimise the volume of decisions required at year-end.</li> <li>- Consider the process for dealing with earmarked reserve transfers arising from the audit process itself and whether authority could be delegated to officers in relation to these decisions, thus avoiding the situation whereby some misstatements remain uncorrected in the final accounts.</li> </ul>
<p><b>Provisions:</b> The audit has made it clear that improvement is required in terms of the use of provisions in setting aside funds for future years, as well as the technical aspects connected with provisions, as highlighted in the uncorrected misstatement for £264k.</p>	<ul style="list-style-type: none"> <li>- Consider the introduction of a more robust quality assurance process for proposed transfers to provisions as part of the annual closing timetable.</li> </ul>
<p><b>Early audit testing:</b></p>	<ul style="list-style-type: none"> <li>- Work with Audit Wales to prepare a robust plan for early testing, ensuring</li> </ul>

<b>Area for improvement</b>	<b>Actions to be considered</b>
<p>Although information was provided to Audit Wales to allow early testing to take place, it transpired that some of this information was not reviewed until late in the audit process. This meant that the time taken by officers to prepare this information could have ultimately been used on accelerating the closing process.</p>	<p>that there is a clear agreement as to when early testing will take place. Early testing information to only be provided when there is evidence and a guarantee that the testing will take place before the main audit.</p>

## Appendix A1 – Corrected Misstatements

Area of correction	Nature of correction	Reason for correction	Reason for misstatement and steps taken to avoid similar future misstatements
<p><b>Comprehensive Income and Expenditure Statement (CIES):</b> Removal of agency transactions and internal recharges.</p>	<p>To remove agency transactions and internal recharges, as required by the CIPFA Code.</p>	<p>Our audit identified:</p> <ul style="list-style-type: none"> <li>£4.3 million of income and expenditure in the Council's CIES relating to the Social Care Workers Scheme (one-off payments made by the Welsh Government, via Councils, to Social Care staff);</li> <li>£2.1 million of internal recharges between the Housing Benefit and Homelessness sections.</li> </ul> <p>The CIPFA Code requires the removal of agency transactions and internal recharges, which has been carried out in the final version of the accounts.</p>	<p>Reason: The Council received a list of grants agreed between Society of Welsh Treasurers group and WG to be categorised as agency transactions. This grant was omitted from that schedule.</p> <p>The recoding of items did not use internal recharge subjective code such that gross income/expenditure would have been doubled/overstated. The net position would still have been accurate.</p> <p>Learning: Accounting staff to be reminded of the importance of using appropriate detail codes in moving transactions within the ledger.</p>
<p><b>Note 26 and 43 (Pension Liability):</b> Inclusion of liabilities relating to Newport Transport Ltd.</p>	<p>To ensure that the Council's overall liability is recorded in line with the CIPFA Code.</p>	<p>During the audit, the Council informed us that it had agreed to assume responsibility for the pension liability of Newport Transport Ltd. employees who remained members of the Greater Gwent Pension Fund.</p> <p>Consequently, the net pension liability in the Council's final 2020-21 accounts has increased by £4.1 million. The Council have also increased the prior year pension liability in the final accounts by £3.8 million.</p>	<p>Reason: The basis of the agreement changed during closing process resulting in changes in responsibility and liability for deficits. The accounting entries were amended as a result to remain consistent.</p> <p>Learning: None</p>

## Appendix A1 – Corrected Misstatements

Area of correction	Nature of correction	Reason for correction	Reason for misstatement and steps taken to avoid similar future misstatements
		<p>This adjustment does not impact the Group accounts, where the pension liabilities of both entities have always been consolidated.</p>	
<p><b>Note 23 (Short Term Creditors):</b> Removal of post year-end transactions.</p>	<p>To remove transactions ineligible for inclusion in the 2020-21 accounts.</p>	<p>Our audit identified that:</p> <ul style="list-style-type: none"> <li>£2.0 million relating to a lease premium payment due in April 2021 had been incorrectly recorded as a creditor, as it related to an underlying lease agreement and was not a creditor at year-end.</li> <li>£968,000 of 'cash received in advance' relating to Welsh Government 2021-22 grants had been included within creditors. However, further investigation showed that the grant had not been received by the Council before year-end.</li> </ul> <p>These balances have consequently been removed from short-term creditors within the final accounts.</p>	<p>Reason: both were genuine errors, the latter transaction being categorised from a late letter received by WG, without checking funds had been received. Ordinarily both would have been spotted but for the pressure to catch up time to deliver draft accounts within prescribed timescales.</p> <p>Learning: to pause and check correspondence against transactions.</p>
<p><b>Note 14 (Property, Plant and Equipment):</b></p>	<p>To ensure that assets are accurately recorded</p>	<p>Our audit identified that:</p> <ul style="list-style-type: none"> <li>one asset with a net book value of £1.4 million was correctly transferred from 'Assets Under Construction' to 'Other Land and</li> </ul>	<p>Reason: the team didn't have services of a key individual who oversaw the fixed asset closure process traditionally. The double entry was</p>

## Appendix A1 – Corrected Misstatements

Area of correction	Nature of correction	Reason for correction	Reason for misstatement and steps taken to avoid similar future misstatements
Removal of incorrect asset balances.	within this disclosure note.	<p>Buildings' within Note 14. However, the balance within 'Assets Under Construction' was not removed from the draft accounts, so the asset was recorded twice.</p> <ul style="list-style-type: none"> <li>one asset with a net book value of £449,000 had been disposed of in 2018. This asset was therefore incorrectly included in the draft accounts.</li> </ul> <p>These asset balances have now been correctly removed in the final 2020-21 accounts.</p>	<p>missed in haste. The other entry was a genuine oversight.</p> <p>Learning: the accounting team undertaking the closure of accounts is very lean. There are increasing complexities in presentation to accommodate, it is important that corporately the timetable agreed is maintained, as this reduces the opportunity for reflection and review.</p>
<p><b>Note 21 (Cash and Cash Equivalents):</b> Correction of overstatement.</p>	To ensure that cash balances are accurately reflected.	<p>Our audit identified that the cash balance in the draft accounts was overstated by £493,000, with a corresponding understatement of debtors by the same amount in Note 20.</p> <p>This position has been corrected appropriately in the final accounts.</p>	<p>Reason: Late receipt of cash, especially where year-end coincides with Easter, can introduce a need for manual adjustment. This entry was processed following Audit sample check, but the corresponding entry to cancel out the correction in the future year was not completed.</p> <p>Learning: Accounting staff to be reminded of the importance of completing corresponding entries in the new year where applicable where a correction is done that affects the carry forward and brought forward balance within the ledger.</p>

Area of correction	Nature of correction	Reason for correction	Reason for misstatement and steps taken to avoid similar future misstatements
<p><b>Note 5 (Major Sources of Uncertainty):</b> Removal of 'material valuation uncertainty' for pension fund assets.</p>	<p>To ensure that only genuine 'material valuation uncertainties' are disclosed.</p>	<p>Our audit confirmed that a previous 'material valuation uncertainty' relating to certain investment assets held by the Greater Gwent Pension Fund no longer applied for 2020-21. As such, the narrative disclosure for the pension liability within Note 5 has now been amended to remove any reference to such an uncertainty this year.</p>	<p>Reason: A genuine error, with information not updated from previous years</p> <p>Learning: to pause ensure a comprehensive review is carried out on all aspects of the statement of accounts. However, due to the tighter deadlines now becoming a reality, this will be difficult to do unless the whole Council takes responsibility for keeping to the deadlines set.</p>
<p><b>Note 14 (Property, Plant and Equipment):</b> Inclusion of revaluation data for PFI assets.</p>	<p>To ensure that data relating to PFI assets is complete.</p>	<p>Our audit identified that £6.4 million of downward revaluations and £1.0 million of written-back depreciation figures for PFI assets within Note 14 had not been included within the draft accounts. These figures have now correctly been included in the final accounts disclosure.</p>	<p>Reason: Again, this was down to the team not having the services of a key individual who oversaw the fixed asset closure process traditionally. The disclosure note was missed due to time constraints</p> <p>Learning: the accounting team undertaking the closure of accounts is very lean. There are increasing complexities in presentation to accommodate, it is important that corporately the timetable agreed is maintained, as this reduces the opportunity for reflection and review.</p>
<p><b>Note 14 (Property, Plant and Equipment):</b> Correction of capital commitments.</p>	<p>To ensure that capital commitments are accurately disclosed.</p>	<p>Our audit identified that capital commitments were overstated by £11.9 million as various commitments were originally included despite there being no legal or contractual commitment in place at year-end. These amounts have been removed from the disclosure in the final accounts.</p>	<p>Reason: The Council receives details of this from Norse. It is a memorandum account and doesn't reflect a reconcilable figure within the Council's ledger.</p> <p>Learning: the process has been amended to require Norse to provide contract details when</p>

Area of correction	Nature of correction	Reason for correction	Reason for misstatement and steps taken to avoid similar future misstatements
			issuing the first cert payment for any contract, so the Finance colleagues can more easily confirm the extent of contracts in existence.
<p><b>Note 17 (Financial Instruments):</b> Various presentational amendments.</p>	<p>To accurately present this disclosure note in line with other accounts disclosures.</p>	<p>Our audit identified that short-term borrowings and long-term creditors were disclosed incorrectly within Note 17, meaning that totals did not reconcile to the Balance Sheet by an offsetting amount of £7.0 million. This position has now been corrected.</p>	<p>Reason: The working paper was correct, figures were transposed incorrectly into Statement of Accounts report, and would have been spotted but for haste.</p> <p>Learning: corporately to be disciplined about the timetable agreed, so that preparation of accounts doesn't swallow up vital quality control and review time.</p>
<p><b>Note 26 (Capital Adjustment Account):</b> Correction of Minimum Revenue Provision (MRP).</p>	<p>To accurately record MRP in line with underlying legislation.</p>	<p>Our audit identified that MRP had been understated within the Capital Adjustment Account by £1.1 million, with an offsetting £1.1 million overstatement of 'Capital Expenditure charged against the Council Fund balance' This has now been corrected in the final accounts, with no effect on the final CAA balance.</p>	<p>Reason: genuine error</p> <p>Learning: none</p>
<p><b>Note 31 (Officer Remuneration):</b> Amendment of Council disclosures on senior employees.</p>	<p>To accurately present these disclosures in line with the Accounts &amp; Audit Regulations (Wales) 2014.</p>	<p>Our audit identified a number of required amendments throughout this note relating to senior officer remuneration, to ensure that disclosures complied with the requirements of underlying legislation. These amendments have been made and we are satisfied that the final disclosure is appropriate.</p>	<p>Reason: The ledger transactions will record remuneration gross, increasingly things like salary sacrifice schemes raise presentation considerations.</p> <p>Learning: a review proposed to check how iTrent populates the ledger with salary information to ascertain whether sub costs can</p>

Area of correction	Nature of correction	Reason for correction	Reason for misstatement and steps taken to avoid similar future misstatements
			be more clearly identified and described separately.
<p><b>Note 34 (Grant Income):</b> Correction of disclosures.</p>	<p>To accurately present this disclosure note in line with other accounts disclosures.</p>	<p>Our audit identified a number of amendments to this stand-alone disclosure note:</p> <ul style="list-style-type: none"> <li>• As noted in <b>Exhibit 2</b>, Social Services COVID-19 Related Grants were overstated by £4.3 million, as this relates to agency income and expenditure.</li> <li>• Regeneration, Investment and Housing COVID-19 Related Grants were overstated by £4.3 million. This amount related to agency funding from the Welsh Government to be passed on to third parties.</li> <li>• Non-Ring-Fenced Government Grants were £3.9 million lower than recorded within the CIES.</li> <li>• £2.6 million of 'grant support' relating to interest-free Welsh Government loans was not recorded.</li> <li>• Other minor amendments were required to other grant income amounts disclosed.</li> </ul> <p>The disclosures for the above grants have been amended in the final accounts.</p>	<p>Reason: The £4.3m is same issue as explained in item 1. This is a memorandum note that isn't reconciled to particular transactions.</p> <p>Learning: to ensure that there are simple 'checks' in place within our working papers which will highlight any areas within the accounts which should be the same.</p>
<p><b>Note 35 (Agency Expenditure and Income):</b> Correction of disclosures.</p>	<p>To ensure that this note is disclosed in line with the CIPFA Code.</p>	<p>Our audit identified that further information and clarification was required in this disclosure, to show not just relevant grant income received but also relevant expenditure and outstanding balances.</p> <p>This information has now been set out as required in the final accounts.</p>	<p>Reason: This was the first time that this note has been included within the statement of accounts due to the increase in agency costs as a result of Covid-19 grants.</p> <p>Learning: to ensure that any new notes are compliant with the CIPFA code.</p>

Area of correction	Nature of correction	Reason for correction	Reason for misstatement and steps taken to avoid similar future misstatements
<p><b>Note 36 (Related Parties):</b> Corrections to various areas of the disclosure.</p>	<p>To ensure that related parties are appropriately disclosed in line with the CIPFA Code.</p>	<p>Our audit identified a number of required corrections to the related parties disclosure note, such as:</p> <ul style="list-style-type: none"> <li>• the inclusion of transactions and balances relating to Newport Transport Ltd.;</li> <li>• amendments to Member and Officer disclosures;</li> <li>• changes to a number of entries for entities controlled or significantly influenced by the Council.</li> </ul> <p>These disclosures have now been corrected.</p>	<p>Reason: Newport Transport accounts presentation has been significantly affected by pension liability changes, which weren't know or anticipated at draft accounts preparation. The closing process involved more chasing and reminders of outstanding declaration than is normal, which does have a knock-on effect of being able to complete notes and keep to timetable.</p> <p>Learning: There was some apparent confusion in the disclosures made. Provide a briefing note to assist members/senior officers, and potentially start that request for information in January to give greater chance all will be received by end of March.</p>
<p><b>Note 45 (Contingent Assets):</b> Disclosure of relevant assets arising.</p>	<p>To ensure that contingent assets are disclosed in line with the CIPFA Code.</p>	<p>Our audit identified that at year-end, the Council had accrued a total of £2.6 million of income from ongoing residential care placements. This income had not been included in the accounts given the uncertainty over the amounts that will be received. Amounts are instead recognised once the debts crystallise and the Council attempts to recover monies.</p> <p>This accounting treatment is appropriate, but a narrative contingent asset disclosure has now been included in the final accounts to explain this position.</p>	<p>Reason: The Council hasn't historically accrued for income that it expects to receive where that necessitates a sale of customers assets. The AW observation provides a refinement/improvement in transparency.</p> <p>Learning: The existing approach is satisfactory and acceptable. Review whether there are advantages to more formally accrue for income.</p>

Area of correction	Nature of correction	Reason for correction	Reason for misstatement and steps taken to avoid similar future misstatements
<b>Various:</b> Other presentational changes to supporting notes.	To ensure that all disclosures are accurately presented.	A number of other narrative, presentational and minor amendments were made to supporting notes throughout the final financial statements.	N/A

## Appendix B - Statement of Accounts 2020/2021 - Received Queries & Responses

This paper records the nature and extent of queries raised in relation to the draft Statement of Accounts presented to Governance & Audit Committee of 29<sup>th</sup> July 2021. The consequence of such has been either to explain the existing reporting or consider presentational changes to the Accounts alongside the robust audit process that can also introduce amendment.

Query	Response	Effect on the Accounts
Cllr Hourahine asked if underspend on Welsh Government grants will be subject to claw back?	The Senior Finance Business Partner explained that they are not subject to claw back.	None
Cllr Jordan asked what is meant by slippage?	The Senior Finance Business Partner explained that slippage accounts for an underspend in the capital programme, it is called slippage because it slips back into the next financial year	None
Cllr White remarked that page 57 of the report is blank, why is this?	The Senior Finance Business Partner explained that this is because the report won't be issued until the final set of accounts are published, once the external audit is closed	None
Cllr Giles asked if the capital spend in schools in Band B- is that running on time?	The Senior Finance Business Partner explained that with Band B, there wasn't much slippage in 2020/21, so at the moment the programme is running on time. Over the summer there will have to be a lot of work to ensure that runs on time. We will need to communicate closely with Welsh Government to ensure the success of this. Cllr Giles replied that the Band B funding is vital to support our children, so it is good news that the programme is running on time.	None
The Chair remarked that the overall capital underspend this year was 21%. Year on	The Head of Finance explained that a lot of slippage is related to	None

Query	Response	Effect on the Accounts
<p>year we always underspend on the capital budget by 20-30%. Why is there continual underspend if the money is there? Is there a problem with project management?</p>	<p>grants-related works and they are not confirmed until well into the financial year, which gives less time to plan and deliver on those projects. Additionally, the Capital Programme is perhaps too ambitious, £25 million seems to be our spending capacity. However, expecting this to increase with the Band B programme as this is a high spending programme. £100 million budget this year which is unrealistic, a re-profile of the programme is needed. A new capital programme is starting in 18 months' time. We need to do more work to be realistic about the capacity of the organisation to deliver these projects- particularly as a lot of these projects are very complicated and delivered by third parties. It is largely a capacity issue rather than a poor management issue. Annual grants which are not given in good time is the main issue behind this, as with other councils. When the grants do come, they come with timescales, which is often done at the expense of other programmes.</p>	
<p>Cllr Hourahine asked if some of the longer-term schemes could be managed by Turnkey (e.g. outsourcing a contract for it)?</p>	<p>The Head of Finance explained that if we don't have experience or capacity internally, we need to have that project management bought in as part of the overall contract. This issue is therefore a live conversation.</p>	<p>None</p>
<p>The Chair made reference to the McCloud judgement on</p>	<p>The Senior Finance Business Partner explained</p>	<p>The paragraph was amended to remove</p>

Query	Response	Effect on the Accounts
<p>pensions, and asked what is the main point being made in the document? What is the impact expected to be? Could it be worded differently to make it easier for the reader to understand and get a sense for what the impact is likely to be?</p>	<p>that the impact is recorded in past service cost in the actuarial report received which is included in the balance sheet. Final impact of the pension scheme won't be known until a later date, but we could look at expanding that section. The Chair commented that the numbers being included there confuses the reader.</p> <ul style="list-style-type: none"> <li>- the presentation has been simplified to remove figures</li> </ul> <p>The Head of Finance remarked that the focus of this note needs to be related to uncertainty, and this section could be slightly reduced.</p> <p>Gareth Lucey (Audit Wales) explained that his team have been following up on that and his audit team, will have a final review of that issue and discuss with the Senior Finance Business Partner as appropriate</p>	<p>figures and reduce potential for any confusion</p>
<p>The Chair commented that regarding the risk statement, there is still a material uncertainty. Why is this the case, is this specific to this sector?</p>	<p>The Senior Finance Business Partner replied that if we leave material uncertainty in the report, we will leave in the emphasis of matter paragraph in the Audit Certificate (as last year)</p> <p>The External Audit Team are following up with Norse as to why this material uncertainty remains this year</p> <p>At the start of the pandemic, various professional bodies required caveats put upon the robustness of their estimation approaches as they were designed to operate in more traditional</p>	<p>During the audit it became apparent that some of these professional bodies had reviewed their risk outlook, and RICS and pension fund actuaries risk caveats have been removed.</p>

Query	Response	Effect on the Accounts
	<p>market conditions. As Covid 19 has remained an issue during 2020-21 these caveats were carried through into 2020-21 presentation.</p>	
<p>The Chair queried regarding the Friar's Walk issue- what is the difference in the £5 million in the accounts and the £7.5 million referred to elsewhere? In addition to this, how much have we had to write off due to Friar's Walk?</p>	<p>The Head of Finance explained that when we left Friar's Walk (a number of years ago), there were two amounts, one being the shared income that we would share with owners of scheme (£7.5 million). As part of purchase, there was also an income subsidy that the Council signed up to- if income levels fell under a certain amount, the Council would top up. The maximum liability amount of that is around £7.5 million. We had financial provision for the income subsidy, and after that sale the Council had full financial coverage (either through provision or reserve) to cover that off. In due course we will release these provisions or reserves.</p> <p>Retail has gone through a challenging time over the past few years which may have some impact.</p> <p>In summary, the accounts have got full coverage either in liability or reserves in terms of income subsidy and the long-term debtor. Loathe to write off long term debtor currently as it is still operating to date. The scheme is still operating and therefore that long term debtor is still there- but it is covered if we did have to write it off.</p> <p>The Head of Finance assured the Chair that this</p>	<p>None</p>

Query	Response	Effect on the Accounts
	is something the Council keep a close eye on.	
The Chair made a query on page 53 of the accounts. The first line reads 'any recommendations made by the Council's external auditors (Audit Wales) are acted upon, and instead volunteered "agreed recommendations"'.	The Head of Finance agreed that this should be changed to reflect the process accurately.	Added word, <i>Agreed</i>
The Chair queried regarding the remuneration section. When there was an interim CEO, there is a gap in the dates, is this due to there not being a CEO at that time?	The Head of Finance explained that the current CEO was appointed by full Council in July 2021, there was not a formal appointment before this point. Beverly Owen was an acting/interim CEO during this time, but this was an informal appointment. The Senior Finance Business Partner explained that if she was in an interim position, she didn't receive any remuneration for that, which is why it is not reflected in the accounts. The Chair asked if we could have a footnote to explain this gap as it was a complicated situation. The Senior Finance Business Partner agreed to go back and check the details of this and would update the record if needed.	None.  Upon review, the presentation is correct and consistent with the Council's Constitution and member decision making in recording a period where the Council did not have a Chief Executive.
Cllr Hourahine asked if each building is assessed separately with regards to building life?	The Senior Finance Business Partner explained that the system for this has been the same for the past 5 years. Each building would be assessed separately by the valuers every 5 years. The revaluation process means	None

Query	Response	Effect on the Accounts
	this is a viable way of doing this.	

The Chair also explained he had spotted some grammar/spelling inconsistencies, and sent details of those subsequently.

There were also some queries within that list too, some of which had a crossover to items raised and answered above during the meeting, and others that predominantly related to the Head of Finance forward.

These were gratefully received and have been reviewed and adjusted as appropriate.

No other queries have been received since. That concludes the extent of the queries raised in relation to draft accounts provided, and demonstrates a process whereby they have all been considered/addressed.

Alongside the work of Audit Wales, who can also volunteer refinements in presentation, Members of Governance & Audit Committee can derive a reassurance that the final Statement of Accounts presented to October Committee reflects a true and fair view, and it is requested that they be endorsed and approved as such.