Report

Governance & Audit Committee

Part 1

Date: 26th January 2023

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 2021/22 Statement of Accounts process.

Author Head of Finance / Assistant Head of Finance

Ward **All**

Summary The 2021/22 ISA260 Report, prepared by Audit Wales, outlines the fact that an overall unqualified audit opinion has been given. There were no uncorrected misstatements, as the Council was able to work through and process revisions whilst the ledgers remained opened for longer in anticipation of retrospective legislation and national accounting changes affecting fixed asset presentation. 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 2021/22 Statement of Accounts.

Action by Head of Finance / Assistant Head of Finance

Timetable Immediate

This report was prepared in consultation with:

- Audit Wales
- Head of Finance

Signed

Background

This paper is to be read in conjunction with the final 2021/22 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 2021/22

This briefing note provides an overview of the context surrounding the 2021/22 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 2021/22 – 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 2021/22 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 2021/22 Statement of Accounts.
2. Do not authorise the Chair and Head of Finance to sign the 2021/22 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

The report and attached appendices provide an overview of the process for completing the 2021/22 Statement of Accounts and external audit process. It confirms that, although elongated largely due to external factors, the process has been successfully concluded and an unqualified audit opinion has been given by the external auditor. It is, therefore, recommended that the accounts are approved.

It is noted that the ISA260 report contains three specific recommendations arising from the external auditor's work. An initial response has been provided against those three recommendations and officers will continue working through these, in collaboration with Audit Wales where relevant, to implement any necessary changes in advance of the 2022/23 closure of accounts process.

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 2021/22

Appendix A – Briefing Note on the Statement of Accounts Audit Process 2021/22

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 is provided prior to the following year's Statement preparation concluding.

Overview

3. Whilst restrictions have relaxed in 2022/23, the production of the 2021/22 Statement of Accounts was still 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. The 2021/22 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 underspend requires annual Member approval for its allocation and despite keeping the bottom line intact for subsequent allocation by Members after the May election this derived no significant time saving in the production of the accounts as colleagues still allocated other resourcing to specific reserves prior to the calculation of the net underspend and those still required approval. The reserve position only crystallised in the last week in May, and whilst the team was able to proceed on limited aspects of the balance sheet preparation in the meantime, reserves presentation certainty is fundamental to many notes. The accruals process (the creation of debtor and creditor balance) also overran from the date agreed within the timetable. Part of this remains due to the volume of necessary housekeeping undertaken during year end on outstanding purchase orders. Meeting the statutory deadlines remains extremely difficult and those Councils that manage to do so, are only able to, having moved much of that housekeeping and administration to during the year rather at the year end, so they can more quickly progress the Accounts preparation and production at year end.

   The team has also been facilitating the move towards a new ledger system, so it has needed to balance its time effectively through the audit process to progress both key priorities. Unhelpfully there has also been a need to accommodate significant movements in fixed asset reporting so it is very pleasing to note that the auditors intend to issue an unqualified opinion.

   Less satisfactory was a need to concede a compensatory entry of £893,000 to movement in reserves statement to allow that to balance. This was discussed with auditors as the Council had exhausted its review and it was hoped by making that adjustment and allowing the audit process to kick off, that a fresh pair of eyes and insight might better identify the cause, and whilst that has not proved the case, nevertheless the adjustment is well below audit material levels and as such does not compromise the quality of the accounts.

4. The draft ISA260 Report identifies a total of 8 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 2020/21, despite the considerable external volatility caused to fixed asset reporting subsequent to the draft accounts being prepared. In addition, 12 corrections of a presentational nature were addressed which did not materially alter the extent of information disclosed in the draft accounts.

5. Usually there are some corrections volunteered by Audit Wales that are not corrected. However, for 2021-22 **ALL** corrections were addressed and resolved. This is because the audit process has been longer than normal, and rather open ended as both the auditors and Council awaited an understanding of the national changes introduced retrospectively to asset reporting. At the time of writing this reprt CIPFA have still not issued its accounting bulletin on infrastructure assets, and the Council has amended its entries on the basis of the discussion taking place between auditors and CIPFA,. So it is pleasing that both the Council and auditors have reached agreement to be able to close off the audit so quickly to get the final accounts to this Committee.

Recommendations provided in the ISA260

9. Auditors identify 3 areas which haven't impacted upon their ability to make a true and fair view judgement, but which it regards important for the Council to address subsequently

These include

- Review of those net nil book assets not addressed during the 2021/22 exercise
- Deficiencies in the volume of annual member declaration
- Further examination into £893k compensatory balancing adjustment affecting the Movement in Reserves Statement

Senior Council colleagues have provided a response to these in the draft ISA 260 together with indicative timescales.

Corrected misstatements

10. As outlined previously, there were a number of areas of the accounts which contained entries which have been revised between draft and final version. These changes 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.

Appendix A1 – Corrected Misstatements

Exhibit 3: corrections which affect the Council's reserve balances

Area of correction	Nature of correction	Reason for correction	**Reason for misstatement and steps taken to avoid similar future misstatements**
Comprehensive Income & Expenditure Statement (CIES): Inclusion of 'Cost of Living Support Scheme' grant funding.	To ensure that the grant income is recorded in the correct accounting period, as per the Code.	Our audit identified that Welsh Government 'Cost of Living Support Scheme' funding had not been included in the 2021-22 draft accounts. This funding comprised: • an 'agency' element of £7.6 million to be passed on directly to relevant households; and • a 'principal' discretionary element of £1.5 million, which the Council could allocate as it wishes. As the funding is to be paid out by the by the Council based on the Council Tax status of households on 15 February 2022, it should be accounted for in 2021-22. The Council has therefore corrected as follows: • the 'agency' element has been disclosed in Note 35 (Agency Income), with a corresponding debtor and creditor to reflect the funds receivable and payable. • The 'principal' element has been recorded as income in the CIES, with a corresponding transfer to earmarked reserves being made to cover the expenditure to be made in future years.	The Council was following previous audit advice which required us to remove debtor and creditor accruals from the 2020-21 accounts on the basis that the Council had no obligation/responsibility to incur any expense until it had received the resourcing. We thought that equally applied to this agency arrangement, as similarly we hadn't received the resourcing within 2021-22. However the audit view was that Minister's public statement in February was sufficient to convey a responsibility upon local authorities within 2021-22. In note 1 to the Accounts an additional section (page 61) has been added in respect of agency grant administration to the effect that *"where any agency grant has not physically been paid before the year end but the Council has agreed to the terms and conditions, the Council will adopt a debtor and equivalent creditor presentation in the year of signed acceptance for the funding."*

Comprehensive Income & Expenditure Statement (CIES): Inclusion of accrued income for care home services.	To ensure that the income is accrued for as care home services are provided, as required by the Code.	In the draft accounts the Council disclosed care home services income as a contingent asset - that is, not accruing for any income until care services ceased and charges could be made against residents' assets. Our review determined that this treatment was incorrect, and income should instead be accrued while care home services are being provided. The Council has performed an exercise to identify £2.9 million of gross income to be recognised in 2021-22 under this method, as well as a provision for irrecoverable debtors of £2.0 million. The resulting £0.9 million of net income has been transferred to an earmarked reserve in the final accounts. We are satisfied that these corrections have been appropriately made in the final accounts.	The contingent asset approach was agreed between auditors and Social Care service accountancy colleagues as part of the previous year's audit. So the 2021-22 draft presentation naturally followed that approach. Both contingent assets and liabilities notes are simply memorandum entries that are not backed by transactions in the ledger. Auditors have reviewed their previous recommendation and Instead favour a more tangible presentation of the income involved, matching it against the costs of providing the service in the year of occurrence. The revised presentation was calculated by accountancy staff appreciating an urgency to resolve, but Social care colleagues are still considering how the change could be embedded in their practices (e.g. using the corporate debtor or Social Care specific billing system, implications to annual statements, what is appropriate bad debt provision etc.) as an alternative to having to manually calculate the consequence as a year-end activity.

Exhibit 4: corrections which do not affect the Council's year-end reserve balances

Area of correction	Nature of correction	Reason for correction	Reason for misstatement and steps taken to avoid similar future misstatements
Note 8 (Nature of Expenses): Overstatement of income and expenditure.	To ensure that income and expenditure is appropriately recorded.	Our audit identified that £1.8 million of income relating to the sale of land had been incorrectly recorded in the Council's ledger, leading to both income and expenditure being overstated by this amount. This correction has now been made in the final accounts.	The Council records all sales receipts against a revenue code during the year, and at year end journals to reserves those that are significant enough to be capital receipts. Because any transfer to reserves is a debit, that transaction has been picked up as expenditure within the nature of expenses table, such that both income and expenditure in the CIES are overstated by the same amount. Going forward, colleagues instead need to debit the income code where it is moving such capital receipts thereby reducing the level of income recorded and avoiding the creation of an extra expense.
Property Plant & Equipment (Note 14): Removal of assets no longer in Council use with a zero net book value.	To ensure that only assets still in use by the Council are included in the accounts.	As per Exhibit 2, our audit identified £23.0 million of property, plant and equipment assets with a net book value of zero in the draft accounts. £12.8 million of those assets were confirmed as no longer in use by the Council, and so therefore needed to be removed from the 2021-22 accounts. This correction has now been made in the final accounts.	The Council planned to undertake that assessment as part of its data cleansing exercise when migrating to a new fixed asset register. The headline statements aren't overstated as the balance sheet reflects the asset value net of accumulated depreciation, and so with these assets where the economic life of these assets has been fully utilised they derive no value in the accounts, however in note 14 the gross book value and accumulated depreciation ought to be written out of fixed asset register when disposed of., and the audit issue identifies an historic weakness in the disposal notification process.

			An extraordinary exercise was carried out which had the effect of reducing overstatement uncertainty to below auditor materiality levels, but there are still some assets that due to time constraints it wasn't possible to establish whether the Council was still using or had disposed of. One of the 3 audit recommendation is that that review should continue during 2022-23.
Property Plant & Equipment (Note 14): Uplifts to values of 'depreciated replacement cost' assets.	To ensure that asset values held in the Balance Sheet are materially reasonable for 2021-22.	As per **Exhibit 2**, and in line with many other Councils in Wales, the Council has undertaken an exercise to uplift the value of assets valued using the 'depreciated replacement cost' method in 2021-22 using appropriate industry indices. This results in asset values being increased by £11.6 million in the final accounts when compared with the draft accounts. We are satisfied that by following this approach, the values of such assets in the 2021-22 accounts are materially reasonable in the final accounts.	During the audit process, auditors explained that their quality assessment process from the previous year had highlighted a need for them to check with those Councils that used a rolling periodic basis of valuation how or if it considered latest valuation results and whether they ought to also affect assets valued previously in the 5 year cycle. As part of the annual valuation report provided by surveying staff, their professional opinion indicates whether there is any interrelation, commonly for instance schools valuations versus community assets has very little natural overlap other than where there is a fundamental change in building regulation affecting all classes. However this year's accounts preparation period coincided with a significant perceived increase in construction inflation, and so the Council undertook a subsequent desk based exercise during the audit process to inflate the carrying value of all assets where the valuation methodology reflected replacement cost and the last valuation preceded 2021-22.

			It intends to continue to do this annually whilst construction inflation remains so volatile.
Note 18 (Financial Instruments): Correction of Tredegar House Lease debtor.	To ensure that the long-term debtor is accurately reflected in line with the Code.	Our audit identified that the long-term debtor for the prepayment of a lease amount to the National Trust for Tredegar House had been overstated by £472,000. This debtor has now been corrected in the final accounts.	This remains quite a technical consideration. During the draft account preparation, in a change from the historic presentation, to aid transparency for the reader the obligation to pay National Trust a repairing contribution in the future was treated as a creditor as it is an outflow of resourcing from the Council. Auditors reminded accounting staff of their previous belief that such a contribution should be treated as lease incentive and therefore be annualised before being taken off any rental due to derive a net income/debtor. The accounting entry was reversed to revert to historic presentation and the matter is closed in respect of 2021/22 accounts Senior colleagues are reviewing whether the historic reporting adequately reflects the substance of the legal agreement rather than its legal form as the debtor balance reported doesn't in fact relate to net rent as there is no actual rental due from National Trust under the agreement. But any change in presentation would affect future years
Short-Term Creditors (Note 23):	To ensure that balances included in the accounts relate to 2021-22 activity.	Our audit identified £798,000 of creditors relating to homelessness accommodation in 2022-23 that should not have been accounted for in 2021-22. A corresponding debtor was also set up to recognise	The issue arose as Welsh Government forward funded 2022-23 homelessness expenditure as part of the 2021-22 grant process. This introduced a degree of confusion amongst service colleagues in

Removal of balances relating to 2022-23.		Welsh Government Hardship Funds receivable to cover this expenditure. These balances have now been correctly removed.	the treatment, which has been corrected as described in the preceding column.
Group accounts (Note 5): Removal of historic valuation adjustment for Newport Transport Ltd. depot.	To ensure that the valuation of the depot is appropriately recorded.	Our audit identified that the Newport Transport Ltd. depot was revalued at 31 March 2021, in line with the Group's accounting policies. However, a historic valuation adjustment of £413,000 was retained in the group accounts working papers, inflating the value of the asset. This historic adjustment has now been removed in the final group accounts.	An oversight when amalgamating the accounting statement for the two organisations.

Exhibit 5: corrections relating to presentation/disclosure matters only

Area of correction	Nature of correction	Reason for correction	Reason for misstatement and steps taken to avoid similar future misstatements
Property, Plant & Equipment (Note 14): Reclassification of in-year asset additions.	To ensure that asset additions are correctly classified in the accounts.	Our audit identified that £409,000 of 'vehicles, plant and equipment' additions had been incorrectly classified as 'assets under construction' in the draft accounts. This amount has now been correctly classified in the final accounts.	This relates to the incorporation of Newport's share of City Deal's activities and where the officer followed the previous year's convention in amalgamating the records, not appreciating that the asset had moved its operational status and therefore was no longer "under construction".
Capital Commitments (Note 14): Reduction in value of commitments.	To ensure that capital commitments are accurately disclosed in the final accounts.	Our audit identified that for one contract commitment within the City Services section, the value of that contract was overstated by £629,000 within working papers.	Transposition error derived from a calculation of payment still due, which would not have been reconcilable with any equivalent figure on the ledger.

		The value of this commitment has now been correctly reduced in the final disclosure.	
Capital Commitments (Note 14): Amendments to comparative figures.	To ensure that comparative figures accurately reflect the audited 2020-21 accounts.	Our audit identified a number of differences to the comparative capital commitments disclosures for 2020-21 in this year's draft accounts, totalling £11.9 million. These comparatives have now been corrected to bring the figures in line with the audited 2020-21 accounts.	Oversight, colleague picked up the comparative figure from an earlier rather than final version of the working paper from the previous year. There is always potential to have multiple versions of the same note but staff have been reminded about the discipline to rename older file version accordingly or archive them , so that the latest version is always apparent
Note 18 (Financial Instruments): Misclassification of short-term and long-term borrowings.	To ensure that balances are appropriately disclosed in line with the Code.	Our audit identified that £4.4 million of borrowings had been incorrectly disclosed as long-term borrowings in the Balance Sheet, as they were due within 12 months and therefore were short-term in nature. This classification has now been corrected.	The definition of long term borrowing for Statement of Accounts purposes and for treasury management purposes are subtly different. For instance, in treasury management terms, long term borrowing equates to any loan with a maturity profile greater than one year, which is a consideration at the outset of the arrangement and is retained as a classification for the life of the loan. Shor term borrowing will instead be those loan arranged and redeemed within a year. Conversely the accounts reflects the passage of time and so long term borrowing which is due to be redeemed within the next 12 months is more accurately reported to the reader as short term borrowing.
Provisions (Note 24): Reclassification of income subsidy liability.	To ensure that liabilities are correctly classified in line with the Code.	During the audit we were informed that the income subsidy obligation to the owners of the Friars Walk shopping centre (£500,000 per annum) had been transferred to a third party and was now payable under a fixed contract. Therefore, the remaining	The change in arrangement hadn't been communicated to the staff preparing the accounts who continued to report it on its historic basis.

		balance of £5.0 million (classified as a provision in the draft accounts) should be classified as a creditor. This amount has now been appropriately reclassified.	
Note 31 (Officer Remuneration): Amendment of Council disclosures on senior employees.	To accurately present these disclosures in line with the Accounts & Audit Regulations (Wales) 2014.	Our audit identified a number of required amendments in this note relating to senior officer remuneration and grouped pay bandings, 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.	It is often one of the more complicated notes to prepare. The format of the senior officers' note changed markedly in 2021-22 reflective of a new structure. This resulted in many individuals being reported in multiple lines as their job titles changed. In some case the job titles were very similar. Despite increased review, unfortunately errors in presentation were not spotted.
Note 35 (Agency Income): Removal of receipts and payments for prior years.	To ensure that the disclosure only includes income relevant to 2021-22.	Our audit identified that £36.7 million of receipts and payments of business support grants relating to 2020-21 activity had been incorrectly recorded in this disclosure. These amounts have now been correctly removed from this stand-alone disclosure in the final accounts.	The agency note reflects costs incurred on behalf of Welsh Government. The volume and costs included in that table are the amounts excluded from the Council's activities. The table was a new note the previous year, and it was mistakenly assumed that it would be ok to amalgamate 2020-21 and 2021-22 exclusions into the one table rather than report separately. The solution was instead to provide two separate tables.
Note 36 (Related Parties): Corrections to various areas of the disclosure.	To ensure that related parties are appropriately disclosed in line with the CIPFA Code.	Our audit identified a number of required corrections to the related parties disclosure note, such as: • the amount of trade commissioned from companies in which Members had an interest, and the number of Members who had an interest in such companies;	Simple error

		• disclosure of which members and officers have CSC Foundry Ltd. as a related party; and • disclosure of correct totals and balances for the Cardiff Capital Region City Deal. These amendments have been made and we are satisfied that the final disclosure is appropriate.	
Group accounts (Note 16): Reclassification of revaluation reserve for Newport Transport Ltd.	To ensure that the revaluation reserve is correctly classified in the final group accounts.	Our audit identified that the revaluation reserve applicable to Newport Transport Ltd. (totalling £1.2 million) had been incorrectly included within the 'profit and loss' row within Note 16 of the group accounts. This amount has now been correctly re-classified within the 'revaluation reserve' row in the final accounts.	As per note 5
Group accounts (CIES): Reclassification of Newport Transport Ltd. administrative expenses.	To ensure that such expenditure is correctly classified in the group accounts in line with the Code.	Our audit identified that £5.6 million of administrative expenses for Newport Transport Ltd. had been incorrectly classified as 'other operating expenditure'. This is the incorrect classification under the CIPFA Code. This amount has now been separately disclosed in the group CIES in the final accounts, meeting the requirements of the CIPFA Code.	Council staff have agreed a more appropriate classification with auditors
Group accounts (Balance Sheet): Reclassification of deferred government grants.	To ensure that such liabilities are correctly classified as 'short-term' or 'long-term'.	Our audit identified that £5.0 million of long-term deferred government grants relating to Newport Transport Ltd. had been incorrectly consolidated as 'other short-term liabilities' in the group Balance Sheet. This amount has now been correctly reclassified as 'other long-term liabilities' in the final accounts.	As note 5

Various: 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.	

Appendix B - Statement of Accounts 2021/2022 - Received Queries & Responses

This paper records the nature and extent of queries raised in relation to the Statement of Accounts.

- There have been no queries raised by members of the public during the inspection process.
- The queries raised by auditors are captured above and have all been responded to, and
- the following reflects the minutes of the Governance and Audit Committee that received the draft accounts in July.

Councillor Jordan went through the total expenditure for 2022-23 on page 88 and asked why the amount was £11.5M, whereby previous years, the sum was quite low, by comparison.

Response The Assistant Head of Finance advised that there was an actual cost and budgeted cost. One of the main aspects of capital finance and capital reporting was that there was slippage, therefore a capital programme could extend across multiple years. Finance set a budget with a five year window based on the anticipated spend each year. Ultimately, schemes would slip, the pandemic was a factor and could also include factors such as weather and school building project if there was a delay, or underestimating the planning for the period. Slippage was a common occurrence and what had happened on this occasion was that we had an ambitious capital programme which had seen an increase in the anticipated spend because of the delivery of a number of high profile schemes which had pushed on the spending a number of years. This was the highest spending by the Council in 2022-23 and this was acknowledged, at the moment we're looking at re-profiling to reduce to a more realistic deliverable figure in this financial year. When we report our first capital monitoring position, which would go to Cabinet in September, what you would see is a product of that re-profiling exercise. As a result that would go down and shifted into future years. One of the high-profile schemes was Bassaleg High school scheme and this would be monitored and adjusted accordingly.

Councillor Cocks referred to page 86 regarding the staff savings during the pandemic where some services not running at the time.

Response: It was explained that ….In light of this, was there a backlog of services and projects because of the pandemic and what was the process of looking at this and a strategy in place to address this. The Revenue underspend would not be rolled forward as it would with capital underspend however funding would be ear marked for specific purposes, in terms of where there might be a backlog. There was a process around this and for the 2022- 23 revenue budget there was a covid risk mitigation fund. For the previous two years, the WG had provided a hardship fund to cover those additional costs and that ended for 2022- 23. The Council therefore created its own internal fund which would be used on a priority basis to address legacy issues, one of which was backlog issues in service delivery additional funding could be applied for and funding could be allocated. This was seen in some of the schools. There was a mixed approached but was being acknowledged and monitored.

D Reed, Co-opted Member referred to pensions on page 92 and the £72M dip for this financial year was this a one off occurrence or was it a trend.

Response: The Assistant Head of Finance advised that some of the explanation was there was a reduction in liability, which was a positive move. A lot of this was around performance and investments, going forward it was difficult to see how it would go, with the current economic situation. Interest rates had started to incrementally increase and it was anticipated to increase further and there was a potential for funding would perform well. There were two elements, the other element was future liability as life expectancy increased, liability increases, it was therefore reasonable to say that investment might not perform as they had. The Head of Finance advised that this would be a long term liability looking at a 20 year horizon in terms of employer/employee contribution rates and in terms of managing the funds over that time horizon. It was important to say that we would be looking at this over the long term in dealing with the evaluation at present.

The Co-opted Member asked if that had any impact on the usable reserves.

Response: The Chief Accountant and Project Manager advised that this was a long term commitment to liability. This year was unusual on the back of the previous financial year, this was therefore a rebalancing of the equity portfolio based on the Stock Market crash as a result of pandemic. This was however bouncing back into a state of normality but taking into context the previous dip from the last year.

The Chair asked given that the draft Statement of Accounts was submitted to Audit Wales, was there a notice published by Newport City Council that if anyone wanted to raise any issues about the statement of accounts they could so with Audit Wales through Newport City Council?

Response: The Chief Accountant and Project Manager advised that Finance were in the process of putting formal notification on the notice board at main reception and through the customer contact centre and published on internet signposting people on how to access this.

Whilst not recorded in the minutes, there was a subsequent debate about why the Accounts at the end of the year exhibited different values to the revenue monitoring received by Members during the year. It was explained that the Accounts,

- Are prescriptive in format and design (Accounting policies and standards). They tend to be public focussed, and involve a degree of external assessment/validation.
- There is no budgetary or variance component, and the accounts are assessed on a "true and fair view" basis rather than absolute accuracy.
- The balance sheet, movement in reserves and cashflow statement are unique to Statement of Accounts presentation and not a feature of management accounts reporting.

It was explained that the Comprehensive Income and Expenditure Statement (CIES) has the same roots as the Council management accounting revenue performance at month 12, but includes additional entries/adjustments to the balance sheet that have a revenue impact but are not afforded by a charge to the taxpayer e.g. Impairment of fixed assets, depreciation, pension fund accounting, amalgamation of City Deal and Newport Transport entries, treatment of year end surpluses and deficits etc.

The Expenditure and Funding analysis is the sector's attempt to bridge the gap between management accounting reporting and the statutory accounting report, but unfortunately it doesn't do that in a particularly intuitive fashion. Finance colleagues agreed to look at whether they could make the presentation any simpler. It has not been possible to make any material changes to the presentation during the audit process this year due to the significant efforts necessary to and fixed asset reporting, other than to reorder the main CIES table presentation ahead of details of expenditure and funding analysis so that the reader at least gets an understanding of the overall position before any explanation of how it was derived.

That concludes the extent of queries raised during the audit process. Alongside the work of Audit Wales, who can also volunteer refinements in presentation, Members of Governance & Audit Committee can derive a reassurance that a continual learning and improvement environment exists and that the final Statement of Accounts presented here reflects a true and fair view, and it is requested that the Accounts be endorsed and approved as such.