



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Audit of Financial Statements Report – Newport City Council and Newport City Council Group

Audit year: 2016-17

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We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

The team who delivered the work comprised Anthony Veale, Gareth Lucey and Ramim Khan.

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This document summarises the conclusions on the 2016-17 audit including our recommendations for the year. The Auditor General intends to issue an unqualified audit report on your financial statements. There are some issues to report to you prior to their approval.

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Summary report

Introduction

- 1 The Auditor General is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of Newport City Council and Newport City Council Group at 31 March 2017, and their income and expenditure for the year then ended.
- 2 We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might result in a reader of the accounts being misled.
- 3 The quantitative level at which we judge such misstatements to be material for the Council and the Group is £4.568 million. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity. For example, we adopt lower materiality levels for the audit of officers' remuneration and related party disclosures.
- 4 We are grateful to the Council and staff for their assistance, good quality working papers and draft accounts provided during the course of our audit.

Status of the audit

- 5 We received the draft financial statements for the year ended 31 March 2017 prior to the agreed deadline of 30 June 2017, and have now substantially completed the audit work.
- 6 We are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. The audit team has already discussed these issues with the Head of Finance.

Proposed audit report

- 7 It is the Auditor General's intention to issue an unqualified audit report on the financial statements once you have provided us with a Letter of Representation based on that set out in [Appendix 1](#).
- 8 The proposed audit report is set out in [Appendix 2](#).

Significant issues arising from the audit

Uncorrected misstatements

- 9 We set out below the misstatements we identified in the financial statements, which have been discussed with management but remain uncorrected, and request that these are corrected. If you decide not to correct these misstatements, we ask that you provide us with the reasons for non-correction.

- **Value of Newport Transport Ltd. depot understated by £376,000**

The Newport City Council Group (the Group) accounts contain land and buildings relating to both the Council and Newport Transport Ltd. The Group accounting policy for land and buildings states that such assets are to be revalued every five years at a minimum.

However, Newport Transport Ltd follow a different accounting policy where land and buildings are accounted for at historical cost at the time of purchase or acquisition, less accumulated depreciation and impairments. These assets are not revalued.

Consequently, the accounting policy followed by Newport Transport Ltd is not aligned with the accounting policy of the Group. Newport Transport Ltd only has one land and building asset recorded in its balance sheet – the Newport Transport bus depot. This has been included in the Group accounts at a net book value which is £376,000 below that provided by an external valuer in 2015.

Therefore, according to the Group accounting policy for property, plant and equipment, the value of the bus depot is understated by £376,000. Given the low value involved and the many accounting entries that would result, management have decided not to correct this item.

Corrected misstatements

- 10 There are misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process. They are set out with explanations in [Appendix 3](#).

Other significant issues arising from the audit

- 11 In the course of the audit, we consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you. There were some issues arising in these areas this year:

- **We have no concerns about the qualitative aspects of your accounting practices and financial reporting.**

We found the information provided to be relevant, reliable, comparable, material and easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear.

There has been further improvement in the working papers provided to support the financial statements this year. We have worked with management to review working papers on more significant or complex account areas early in the year, with a view to planning for future early closure of local government accounts.

A number of adjustments have been processed following the audit (as raised in [Appendix 3](#)) but these do not reflect any significant underlying issues with the Council's accounting practices. Some of the adjustments are large in value but it should be noted that none of the adjustments impact on the Council's General Fund balance.

- **We did not encounter any significant difficulties during the audit.**

We received information in a timely and helpful manner and were not restricted in our work.

- **There were some significant matters discussed and corresponded upon with management which we need to report to you.**

- **Sale of Friars Walk retail centre**

The Friars Walk retail centre was sold by Queensbury Real Estate (QRE) to the Talisker Corporation on 9 June 2017. This represented a material transaction after the balance sheet date. Details of this transaction were presented to Cabinet on 19 July 2017, and further explanation is now set out in the final Council accounts for 2016-17, within note 4 (events after the balance sheet date).

Given the date of this transaction, the sale of Friars Walk has no financial impact on the 2016-17 financial statements.

- **Group accounting policies**

The draft accounts set out a number of areas where the accounting policies of Newport Transport Ltd. differed from those of the Council. Our audit confirms that these policy differences do not result in any material differences to the financial statements. We have reported the key difference arising as a result of different accounting policies between the Council and Newport Transport Ltd in paragraph 12 above.

For presentational reasons, it was agreed to remove these differing policies from the Group accounts, and instead confirm that the Group accounting policies materially align to those used by the Council.

- **There are no other matters significant to the oversight of the financial reporting process that we need to report to you.**

- **We did not identify any material weaknesses in your internal controls.**

- **There are not any other matters specifically required by auditing standards to be communicated to those charged with governance.**

Recommendations arising from our 2016-17 audit work

- 12 The recommendations arising from our financial audit work will be reported separately in a Financial Accounts Memorandum, which we expect to present to the Audit Committee in November 2017. We will follow up progress on recommendations during next year's audit. Where any recommendations are outstanding, we will report them to you in next year's report.

Independence and objectivity

- 13 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 14 We have complied with ethical standards and in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between the Wales Audit Office and the Council that we consider to bear on our objectivity and independence.

Appendix 1

Final Letter of Representation

[Audited body's letterhead]

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

21 September 2017

Representations regarding the 2016-17 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 2017 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 2016-17; 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:

Value of Newport Transport Ltd. depot understated by £376,000

The statement of accounts for the Group are based on the consolidation of Newport City Councils and Newport Transport Ltd single entity accounts. The value of the asset that has been consolidated into the Group accounts is that which is included in the Newport Transport Ltd accounts. Due to the accounting treatment used by Newport Transport Ltd and those required to be used as per the accounting policy for the group, there is a small difference in the valuation that is recorded as per the latest valuation undertaken by Newport Transport.

Due to the small value and the complex nature of the transactions that would need to be put through the accounts it has been decided we will not make an adjustment for this.

Representations by the Audit Committee

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for ensuring that the company maintains adequate accounting records.

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 21 September 2017.

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/S151 Officer

John Baker
Chair of Audit Committee

Date: 21 September 2017

Date: 21 September 2017

Appendix 2

Proposed audit report of the Auditor General to Newport City Council

Auditor General for Wales' report to the Members of Newport City Council

I have audited the accounting statements and related notes of:

- Newport City Council; and
- Newport City Council Group

for the year ended 31 March 2017 under the Public Audit (Wales) Act 2004.

Newport City Council's accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes.

Newport City Council Group's accounting statements comprise the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet, the Group Cash Flow Statement and the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17 based on International Financial Reporting Standards (IFRSs).

Respective responsibilities of the responsible financial officer and the Auditor General for Wales

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 21, the responsible financial officer is responsible for the preparation of the statement of accounts, including Newport City Council Group's accounting statements, which gives a true and fair view.

My responsibility is to audit the accounting statements and related notes in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors.

Scope of the audit of the accounting statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements and related notes sufficient to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to Newport City Council and Newport City Council Group's circumstances and have been consistently applied and adequately disclosed; the

reasonableness of significant accounting estimates made by the responsible financial officer and the overall presentation of the accounting statements and related notes.

In addition, I read all the financial and non-financial information in the Narrative Report and Annual Governance Statement to identify material inconsistencies with the audited accounting statements and related notes and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Opinion on the accounting statements of Newport City Council

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Newport City Council as at 31 March 2017 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17.

Opinion on the accounting statements of Newport City Council Group

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Newport City Council Group as at 31 March 2017 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17.

Opinion on other matters

In my opinion, the information contained in the Narrative Report and Annual Governance Statement is consistent with the accounting statements and related notes.

Matters on which I report by exception

I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

- adequate accounting records have not been kept;
- the accounting statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit;
- The Annual Governance Statement does not reflect compliance with guidance.

Certificate of completion of audit

I certify that I have completed the audit of the accounts of Newport City Council in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

For and on behalf of
Huw Vaughan Thomas
Auditor General for Wales
28 September 2017

24 Cathedral Road
Cardiff
CF11 9LJ

Appendix 3

Summary of corrections made to the draft financial statements which should be drawn to the attention of Newport City Council

During our audit we identified the following misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

There are no corrections which affect the Council's General Fund balance.

Exhibit 1: corrections to the financial statements which do not affect the General Fund

Value of correction	Nature of correction	Reason for correction
£5.2 million decrease in income and expenditure within the Comprehensive Income and Expenditure Statement (CIES).	To remove income and expenditure which does not relate to Council activity in 2016-17.	The Council processes payroll for Newport Live. In prior years, staff costs for leisure were correctly recorded in the Council's accounts, but Newport Live is now independent of the Council. Newport Live staff costs for 2016-17 had been incorrectly charged to expenditure, with recharges recorded as income. This correction reduces both income and expenditure in the CIES. Therefore, it does not affect the General Fund.
£4.9 million increase in expenditure within the CIES.	To recognise impairment of assets transferred to operational use in 2016-17.	Our audit identified two assets with a cost of £4.9 million within 'assets under construction', despite being brought into operational use. These assets are now transferred to 'other land and buildings' with a value of £1 each as they relate to landfill sites. The difference has been charged as an impairment to the CIES. This correction increases the CIES 'deficit on provision of services' by £4.9 million, but does not affect the General Fund.
£3.7 million decrease in income and expenditure within the CIES.	To remove internal recharges that have been incorrectly recorded in 2016-17.	Internal recharges incurred by schools have been incorrectly included in the CIES. Therefore, expenditure recorded within 'schools' and income recorded within 'education' needs to be removed. This correction reduces both income and expenditure in the CIES. Therefore, it does not affect the General Fund.

Value of correction	Nature of correction	Reason for correction
£605,000 decrease in expenditure within the CIES.	To capitalise expenditure incorrectly taken to the CIES in 2016-17.	Expenditure relating to demolition of a Council-owned building had been incorrectly charged to the CIES as 'revenue expenditure funded from capital under statute'. This correction reduces the CIES 'deficit on provision of services' by £605,000, but does not affect the General Fund.
£278,000 decrease in expenditure within the CIES.	To accurately record the increase in accumulated absence provision in 2016-17.	Our audit identified an overstatement of this provision, which shows the value of annual leave accrued by staff. This correction reduces the CIES 'deficit on provision of services' by £278,000, but does not affect the General Fund.

Exhibit 2: corrections relating to presentational/disclosure matters only

Area of correction	Nature of correction	Reason for correction
2015-16 Comprehensive Income & Expenditure Statement: Classification of income and expenditure.	To ensure that income and expenditure is classified in the correct CIES service areas.	The CIPFA Code required the CIES service areas to be revised for both the current and prior years. We reviewed this new disclosure during our audit and identified £10.2 million of 'education' expenditure that should be reclassified to 'schools' in the 2015-16 CIES.
Note 8 (I&E Analysed by Nature): Classification of income and expenditure.	To ensure that this disclosure is presented in line with the CIPFA Code.	Our audit identified a number of misstatements in this note (a new requirement in the CIPFA Code for 2016-17). Changes have therefore been made to the classification of income and expenditure in this note, for both the current and previous financial years.
Note 11 (Other Operating Expenditure): Removal of incorrect precepts and levies.	To ensure that this disclosure is presented in line with the CIPFA Code.	This note initially included precepts for the Home Office and Gwent Archives totalling £458,000. Our audit confirmed that these were not precepts or levies, and as such should not be included in this note.
Note 30 (Officer Remuneration): Amendment of senior officer disclosures for the Council.	To ensure that this disclosure is presented in line with the Accounts & Audit Regulations (Wales) 2014.	Our audit of this disclosure identified a number of presentational errors. Amendments have been made to this note, and consequently we are satisfied that this disclosure now complies with the Regulations.

Area of correction	Nature of correction	Reason for correction
Note 30 (Officer Remuneration): Amendment of remuneration ratio disclosure.	To ensure that this disclosure is presented in line with the Accounts & Audit Regulations (Wales) 2014.	Our audit identified that teachers had been omitted from the draft ratio calculations. This impacts on the median remuneration (which is now disclosed as £21,745) and the ratio itself, which now changes to 1:6.3.
Note 30 (Officer Remuneration): Removal of exit packages agreed in 2015-16.	To ensure that this disclosure is presented in line with the Accounts & Audit Regulations (Wales) 2014.	The total exit package cost included £111,238 in relation to packages agreed in 2015-16 but not paid until 2016-17. This disclosure should reflect those packages agreed in 2016-17 only. These prior year costs have therefore been removed from the table, with text added to separately disclose the amount paid in the year relating to 2015-16.
Note 34 (Capital Expenditure & Financing): Various amendments to the calculation.	To ensure that this disclosure is presented in line with the CIPFA Code.	A number of amendments have been made to this note to ensure that the Capital Financing Requirement (CFR) is correctly calculated and presented. Consequently, the closing CFR has increased by £300,000 to £279.4 million.
Note 35 (Operating Leases - Lessor): Reclassification of finance leases and correction of disclosure.	To ensure that this disclosure is presented in line with the CIPFA Code.	This schedule currently includes an operating lease of £64.395 million relating to the Kingsway Shopping Centre, already recognised as a finance lease in the financial statements. Our audit confirms that this is a finance lease, and that it should be removed from this schedule of operating leases. The draft disclosure also overstated future lease commitments as it included payments made in 2016-17.
Group Accounts: Removal of Newport Transport Ltd accounting policies and other presentational changes.	To ensure that this disclosure is presented in line with the CIPFA Code.	The draft accounts included a number of accounting policies of Newport Transport Ltd which differed from those of the Council. On review, these differences had no material effect on the Group accounts so they have been removed to allow clearer presentation. Also, a number of other amendments have been made to disclosures within the Group accounts.
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 4

Wales Audit Office performance measures

We have agreed a range of targets for the delivery of our financial audit work and I have summarised our assessment of achievements against these targets below:

Exhibit 3: Performance measures

Planned output	Target	Outcome
2017 Audit Plan	March 2017	March 2017
Opinion on Financial Statements	September 2017	September 2017
Audit of Financial Statements Report & Management Letter	September 2017	September 2017

The estimated audit fee set out in our Audit Plan was £191,900. We are estimating that our actual audit fee will be in line with our original estimate.

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