

COUNCIL:

27 SEPTEMBER 2018

**STATEMENT OF ACCOUNTS 2017/18 AND ANNUAL TREASURY
MANAGEMENT REPORT 2017/18**

REPORT OF THE CORPORATE DIRECTOR RESOURCES

Appendix 9, Annexes B & C are not for publication as they contain exempt information of the description in paragraph 14 and 21 of schedule 12A of the Local Government Act 1972.

Reason for this Report

1. The Statement of Accounts for 2017/18 is presented in order to meet the requirement of the Accounts and Audit (Wales) Regulations 2014 (as amended). This provides that the Statement of Accounts be approved by a relevant committee or by the Council meeting as a corporate body, such approval to take place before the 30 September immediately following the end of the financial year.
2. The International Standard on Auditing (ISA) 260 requires the Appointed Auditor to report to those charged with governance, on the key matters arising from the audit examination of the Statement of Accounts for the year ending 31 March 2018.
3. In accordance with the Council's Treasury Management Policy Statement, the Annual Treasury Management Report for 2017/18 is presented based on the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice.

Background

4. The audited Statement of Accounts for the County Council of the City and County of Cardiff (the Council) and the Cardiff Harbour Authority are shown in Appendix 1. Cardiff and Vale of Glamorgan Pension Fund audited Statement of Accounts for the financial year 2017/18 are shown in Appendix 2. Regulations and the Council's constitution require that the audited accounts are approved by Council by the 30 September. The Annual Governance Statement is attached at Appendix 3.
5. The draft accounts and Annual Governance statement were presented to the Audit Committee on 26 June 2018. Subsequent to this, they were presented to Wales Audit Office on 15 June 2018 for audit ahead of the statutory deadline of 30 June 2018.
6. The accounts were available for public inspection between 2 July 2018 and 27 July 2018 as required by sections 30 and 31 of the Public Audit (Wales) Act 2004 and

Regulations 13,15 and 16, of the Accounts and Audit (Wales) Regulations, 2005 (as amended).

7. The Audit Committee also met on the 18 September 2018 where the “Audit of Financial Statements Reports” for the Council, Cardiff and Vale of Glamorgan Pension Fund and Cardiff Harbour Authority were presented by Wales Audit Office. No further issues were raised by Audit Committee.

Issues

8. As part of its role in scrutinising the Council’s statement of accounts, Audit Committee has received a number of reports during the year. The Council has continued its proactive approach to improvement of the statements improving the readability, content and information provided. Work undertaken by Finance during the year includes:-
 - A proactive approach and relationship with WAO raising key issues likely to impact on the accounts prior to their development
 - Increasing the opportunity to undertake testing and review earlier
 - Agreement of audit deliverables with Wales Audit Office to support a continual improvement process in working papers
 - Support for audit including prompt responses to audit queries
 - Whilst very technical documents, improvements to the accounts themselves to set a base for future years.
9. Following an extensive three month external audit period from 15 June 2018, there are no material misstatements which remain uncorrected.
10. The attached appendices include audit reports (ISA 260’s) for the Council, Cardiff Harbour Authority, Cardiff and Vale of Glamorgan Pension Fund and Cardiff Port Health Authority which contain the main issues and corrections, deemed to be required to be brought to your attention.

The County Council of the City and County of Cardiff Accounts

11. The auditor’s draft “Audit of Financial Statements Report” for the Council is attached as Appendix 4.
12. WAO intend to issue an unqualified audit report on the financial statements once they have been provided with the Letter of Representation, which is included in Appendix 4. There are no misstatements identified in the financial statements, which remain uncorrected. Any corrected misstatements are shown in the Appendix.
13. The Audit of Financial Statements Report highlights a number qualitative and quantitative findings, which are summarised below:
 - The Council has generally sound accounting and financial reporting practices although there is scope for continued improvement to the quality and timeliness of some of the working papers submitted to us to support the draft financial statements.
 - We did not encounter any significant difficulties during the audit, however we experienced some delays in receiving supporting documentation requested during the audit process.

- There was one significant matter discussed and corresponded upon with management which we need to report to you. This issue relates to potentially significant liabilities arising from a purportedly undeclared landfill tax assessment which is disclosed in Note 31 to the accounts 'Contingent Assets/Liabilities'.
 - 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
14. In respect of the landfill tax assessment, the Council is in discussion with the HMRC and is being supported by an environmental tax specialist given the technical nature of the subject matter. This includes options for mitigation and any appeals process if this is deemed required. As highlighted in note 31 of the accounts, it is not possible to quantify or provide a reliable estimate of any liability at this stage.

Cardiff and Vale of Glamorgan Pension Fund Accounts

15. The auditor's draft "Audit of Financial Statements Report" for the Pension Fund is attached as Appendix 5.
16. WAO intend to issue an unqualified audit report on the financial statements once they have been provided with the Letter of Representation, which is included in Appendix 5. There are no misstatements identified in the financial statements, which remain uncorrected. Any corrected misstatements are shown in the Appendix.
17. The Audit of Financial Statements Report highlights a number qualitative and quantitative findings, which are summarised below:
- We have no concerns about the qualitative aspects of your accounting practices and financial reporting.
 - We did not encounter any significant difficulties during the audit.
 - There were no significant matters discussed and corresponded upon with management which we need to report to you.
 - 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 that we have not reported to you already.
 - There are not any other matters specifically required by auditing standards to be communicated to those charged with governance.

Cardiff Harbour Authority Accounts Cardiff Port Health Authority

18. The auditor's draft "Audit of Financial Statements Report" for the Cardiff Harbour Authority is attached as Appendix 6.
19. WAO intend to issue an unqualified audit report on the financial statements once they have been provided with the Letter of Representation, which is included in Appendix 6. There are no misstatements identified in the financial statements, which remain uncorrected. Any corrected misstatements are shown in the Appendix.

20. The WAO Audit of Financial Statements Report also highlights a number qualitative and quantitative findings, which are summarised below:
- We have no concerns about the qualitative aspects of your accounting practices and financial reporting.
 - We did not encounter any significant difficulties during the audit.
 - There were no significant matters discussed and corresponded upon with management which we need to report to you.
 - 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 that we have not reported to you already.
 - There are not any other matters specifically required by auditing standards to be communicated to those charged with governance.
21. The external auditor is also required to audit the annual return of the Cardiff Port Health Authority (CPHA) and the audit opinion is attached at Appendix 7.

Overview of the External Auditor's Audit Opinion

22. Local authority financial statements are complex and can be difficult to understand: they must comply with CIPFA's Local Authority Code of Practice, which is based on International Financial Reporting Standards (IFRS), and also the requirements of accounting and financing regulations of central government. A summary Statement of Accounts note is included at Appendix 8, extracting the main statements.
23. Following the period of external audit it is pleasing to note that any recommended amendments and qualitative findings following a thorough audit are minimal for an authority the size and complexity of Cardiff. Officers of the Council have worked extremely closely with Wales Audit Office in support of their audit role and will take forward any recommendations from the Audit.
24. Future years changes in the Statement of Accounts include:-
- Implementation of new accounting requirements such as International Financial Reporting Standard (IRFS) 9 - Classification of Financial Instruments which is due to be considered for the 2018/19 financial year and IFRS 16 Leases, for the 2019/20 Accounts.
 - The need to minimise the period over which the accounts are prepared and also audited as a result of changes in legislation.

Treasury Management Annual Report 2017/18

25. The Treasury Management Annual Report is attached at Appendix 9. It sets out the economic background within which treasury activities were conducted, the position on investments and borrowing at 31 March 2018, it indicates compliance with indicators set in the budget report for the year and sets out key issues that are being monitored closely in 2018/19 that could impact on treasury activities.

26. The Annual report has been reviewed by Audit Committee on 18 September 2018 in accordance with their terms of reference and they were content with the evidence provided in the report to support compliance with the Treasury Management Principles.
27. The overall position on investments and external borrowing are:
 - At the 31 March 2018, investments stood at £59.1 million and were deemed to be fully recoverable. The overall level of interest receivable from treasury investments totalled £0.4 million.
 - The organisations with whom the Council invest with continue to be monitored closely by the Council together with its Treasury Advisors. This is in accordance with the criteria set out in the Council's Investment Strategy for 2017/18, with diversification sought where possible. An update on the 2018/19 Mid Year Treasury Management position will be provided to Council in a further report.
 - At the 31 March 2018, the Council had £693 million of external borrowing in order to pay for historical capital expenditure, with a further £58 million being internal borrowing. The former is predominantly made up of fixed interest rate borrowing from the Public Works Loan Board payable on maturity. The average rate on the Council's borrowing is 4.64% at the 31 March 2018 and total interest paid on the external debt, which includes the Housing Revenue Account, was £31.8 million.

Legal Implications

28. The Accounts and Audit (Wales) Regulations 2014 as amended, make provision with respect to the accounts and audit of local government bodies in Wales whose accounts are required to be audited in accordance with Part 2 of the Public Audit (Wales) Act 2004. The body of the report sets out how the provisions are being met. The Report is reported to Council to meet statutory, regulatory and codified requirements to do so.
29. In respect of note 31 to the Council's accounts and paragraph 12 of the report, (reference to landfill tax assessment and Contingent Assets/ liabilities), it is noted that the Council is in discussion with the HMRC and is being supported by specialist tax advisers. This matter will be kept under review and appropriate legal advice will be provided as required.

Financial Implications

30. This report is presented to Council in discharge of its duty to approve the Council's audited accounts on or before 30 September of the year relating to the end of the accounting period and also to receive the annual Treasury Management Report for 2017/18 in accordance with Council Treasury Management Policy.
31. The Council's financial standing as set out in the Financial Statements, the Appendices and this report will be considered as part of the budget report for 2019/20.

RECOMMENDATIONS

Council is requested to:

1. Approve the audited Statement of Accounts 2017/18 – County Council of the City and County of Cardiff as well as Cardiff Harbour Authority (Appendix 1).

2. Approve the Statement of Accounts 2017/18 – Cardiff and Vale of Glamorgan Pension Fund (Appendix 2)
3. Approve the Annual Governance Statement 2017/18 (Appendix 3)
4. Note the Audit reports of the Wales Audit Office on the Statement of Accounts of County Council of the City and County of Cardiff, Cardiff and Vale of Glamorgan Pension Fund, Cardiff Harbour Authority and Cardiff Port Health Authority for the year ending 31 March 2018 (Appendices 4, 5, 6 and 7).
5. Note the final Letters of Representation for the County Council of the City and County of Cardiff, Cardiff and Vale of Glamorgan Pension Fund and Cardiff Harbour Authority.
6. Note that the following documents will be formally signed at the conclusion of the meeting:
 - Statement of Accounts for County Council of the City and County of Cardiff – Lord Mayor and Corporate Director Resources
 - Statement of Accounts for Cardiff and Vale of Glamorgan Pension Fund – Lord Mayor and Corporate Director Resources
 - Statement of Accounts for Cardiff Harbour Authority – Corporate Director Resources
 - Annual Return of Cardiff Port Health Authority – Lord Mayor and Corporate Director Resources
 - Annual Governance Statement – Leader of the Council and Chief Executive
 - Audit Certificate for the County Council of the City and County of Cardiff, Cardiff and Vale of Glamorgan Pension Fund and Cardiff Harbour Authority – Appointed Auditor, Wales Audit Office. To be signed at a later date.
 - Letters of Representation for the County Council of the City and County of Cardiff – Corporate Director Resources and Lord Mayor
 - Letter of Representation for Cardiff and Vale of Glamorgan Pension Fund – Corporate Director Resources and Lord Mayor
 - Letters of Representation for Cardiff Harbour Authority – Corporate Director Resources and Lord Mayor
7. Note the Treasury Management Annual Report for 2017/18 (Appendix 9).

CHRISTINE SALTER
Corporate Director Resources

The following appendices are attached:

Appendix 1 – Statement of Accounts 2017/18 – County Council of the City and County of Cardiff as well as Cardiff Harbour Authority

Appendix 2 – Statement of Accounts 2017/18 – Cardiff and Vale of Glamorgan Pension Fund

Appendix 3 – Annual Governance Statement 2017/18

Appendix 4 – Wales Audit Office - Audit of the Financial Statements Report 2017/18 (ISA 260) and Letter of Representation – County Council of the City County of Cardiff

Appendix 5 – Wales Audit Office - Audit of the Financial Statements Report 2017/18 (ISA 260) and Letter of Representation – Cardiff and Vale of Glamorgan Pension Fund

Appendix 6 – Wales Audit Office - Audit of the Financial Statements Report 2017/18 (ISA 260) and Letter of Representation – Cardiff Harbour Authority

Appendix 7 - Cardiff Port Health Authority Annual Report audit opinion

Appendix 8 – Summary Statement of Accounts 2017/18

Appendix 9 – Treasury Management Annual Report 2017/18