

**AUDIT COMMITTEE:**

**18 SEPTEMBER 2018**

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**STATEMENT OF ACCOUNTS 2017/18**

**REPORT OF THE CORPORATE DIRECTOR RESOURCES**

**AGENDA ITEM: 5.2**

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**Reason for this Report**

1. The Audit Committee's Terms of Reference requires that Audit Committee:-
  - Review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account the internal audit opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk and internal control.
  - Review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
  - Consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.
2. To provide Audit Committee Members with an update following the audit of the draft accounts by Wales Audit Office (WAO), prior to submission to Council.

**Background**

1. The audited Statement of Accounts for the County Council of the City & County of Cardiff and the Cardiff Harbour Authority are shown in Appendix 1. Cardiff and the 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.
2. 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. Appendix 4 provides feedback on specific information requested by Audit Committee members following their review in June 2018.
3. The accounts were available for public inspection 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).

4. The final accounts and Annual Governance Statement for 2017/18 are due to go to Council for approval at the meeting on the 27 September 2018 and will be published thereafter.

## **Issues**

At the meeting in June 2018 audit committee were made aware of administrative changes in approach compared to previous years following changes in regulations. The Cardiff & the Vale of Glamorgan Pension Fund accounts and the Annual Governance statement (AGS) for the Council and Pension Fund are now standalone documents outside of the Council's Statement of Accounts.

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 of any notes to the accounts which were prepared in advance of sign off by the Corporate Director Resources on 15 June 2018.
- 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 includes:-
  - improved narrative report in line with best practice
  - additional tables to support the understanding and readability of the accounts e.g. Financial Instruments.
  - implementation of audit recommendations following analytical review, comparisons to CIPFA disclosure checklist and issues raised in previous years
  - earlier review and agreement of accounting policies
  - consolidating new Joint committees to maintain the approach that consolidates existing Joint Committees.

5. Following the period of external audit from 15 June 2018 to the date of this report, there are currently no material misstatements which remain uncorrected. The attached appendices include audit reports (ISA 260's) for Cardiff Council, Cardiff Harbour Authority and Cardiff and the Vale of Glamorgan Pension Fund, 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 (the Council)**

6. 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.
7. There are no misstatements identified in the financial statements, which remain uncorrected. Any corrected misstatements are shown in the Appendix.

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 30 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

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 30 of the accounts, it is not possible to quantify or provide a reliable estimate of any liability at this stage.

### **Cardiff Harbour Authority Accounts**

8. 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.
9. 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.

## **Cardiff and the Vale of Glamorgan Pension Fund Accounts**

10. 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 7. There are no misstatements identified in the financial statements, which remain uncorrected. Any corrected misstatements are shown in the Appendix.
11. WAO Audit of Financial Statements Report also highlights a number qualitative findings, as follows:
  - 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.

## **Looking Forward**

12. 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.

## **Legal Implications**

13. No direct legal implications arise from this report.

## **Financial Implications**

14. This report provides Audit Committee Members with the accounts to be submitted to Council for approval at its meeting on 27 September 2018. The report follows the external audit of the accounts and includes both qualitative findings and highlights any significant amendments made to the accounts following the audit.

## **RECOMMENDATIONS**

15. That the Statement of Accounts for 2017/18 and Annual Governance Statement be noted.

**CHRISTINE SALTER**

Corporate Director Resources

11 September 2018

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 – Response to specific queries raised by Audit Committee following their review of the draft accounts in June 2018.

Appendix 5 – 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 6 – 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 7 – Wales Audit Office - Audit of the Financial Statements Report 2017/18 (ISA 260) and Letter of Representation – Cardiff Harbour Authority