

AUDIT COMMITTEE:

10 SEPTEMBER 2019

STATEMENT OF ACCOUNTS 2018/19

REPORT OF THE CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 5.2

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

3. The audited Statement of Accounts for the County Council of the City and 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 2018/19 are shown in Appendix 2. Regulations and the Council's constitution require that the audited accounts are approved by Council by the 15 September. The Annual Governance Statement is attached at Appendix 3.
4. The draft accounts and Annual Governance statement were presented to the Audit Committee on 25 June 2019. Subsequent to this, they were presented to Wales Audit Office ahead of the statutory deadline of 15 June 2019.
5. The accounts were available for public inspection as required by the Public Audit (Wales) Act 2004 and the Accounts and Audit (Wales) Regulations, 2014 (as amended). Audit committee members were also given this same period of extended time in order to review the accounts and submit questions on the accounts to officers.

6. The final accounts and Annual Governance Statement for 2018/19 are to be submitted for Council approval at the meeting on the 12 September 2019 and will be published online thereafter.

Issues

7. The Council has continued its proactive approach to improvement of the statements in relation to readability, content and information provided. Work undertaken by Accountancy 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 earlier testing and review of any notes to the accounts
 - agreement of audit deliverables with Wales Audit Office to support a continual improvement process in working papers
 - support for audit including prompt and more complete responses to queries to facilitate the audit.
8. Following the period of external audit to the date of this report, there are currently no material misstatements which remain uncorrected. The attached appendices include Audit of Financial Statement 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, where relevant, deemed to be required to be brought to your attention.
9. Historically, the Council has always 'corrected' all amendments required in producing the final statement of accounts. However, moving forward, the Council will need to consider the acceptability of the final statements containing non-material misstatements. This is due to the earlier statutory deadlines for submission, audit and approval of the final accounts in future years as some issues identified during the audit may:
 - not be material to the accounts and the impact on the readers interpretation of the accounts
 - may be technical adjustments only have no impact on the in year financial performance of the Council
 - may be corrected in the following financial year as part of annual review processes
 - may require a significant level of officer time to feed through in to the accounts, particularly given the integration of various notes.
10. Acceptance of uncorrected misstatements which is already common place in other local authorities, will support the Council in meeting significantly condensed timescales for the approval of the Council's accounts in future years. For 2020/21 this is 31 July 2021.
11. Officers will bring forward for Audit Committee consideration a future report setting out a potential approach to materiality and leaving misstatements as uncorrected. Wales Audit office guidance for Audit Committee members when evaluating the impact of misstatements identified as part of the audit is included 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 5
13. There are no misstatements identified in the financial statements, which remain uncorrected. Any corrected misstatements are shown in Appendix 5.
14. The Audit of Financial Statements Report highlights a number of other qualitative and quantitative findings and recommendations with the main comments 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, albeit information in respect of technical accounting adjustments were in some cases delayed
 - 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, but we have identified some areas for improvement
 - There are no other matters specifically required by auditing standards to be communicated to those charged with governance
 - There were two significant matters discussed and corresponded upon with management which we need to report to you. Firstly impact on the pension fund liability in respect to a legal judgement impacting on the national Local Government Pension Scheme after the accounts were prepared and also to seek updates on the continuing discussions with HMRC in respect to Landfill Tax.

Cardiff Harbour Authority Accounts

15. 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 Appendix 6.
16. The WAO Audit of Financial Statements Report indicates there were no other qualitative and quantitative findings as summarised below:
 - We have no concerns about the qualitative aspects of your accounting practices and financial reporting
 - 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

17. 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 Appendix 7.
18. The WAO Audit of Financial Statements Report indicates there were no other qualitative and quantitative findings as 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
 - There are not any other matters specifically required by auditing standards to be communicated to those charged with governance.

Annual Governance Statement (AGS)

19. Some amendments have been made since the Draft AGS was submitted to the Audit Committee on 25 June 2019 and they can be summarised as below:
- The Governance Framework has now been split into its two constituent parts Core and Supporting Principles (Paragraph 8).
 - Additional paragraph inserted in respect to partnership working which had been referenced in the 2017/18 AGS. (Paragraph 50)
 - Paragraph on Cardiff City Transport Services Ltd (Cardiff Bus) was amended in order to explain the intended outcomes sought by the intervention of reviewing the composition of the Board. (Paragraph 62)
 - The AGS Action Plan was amended to highlight the position of the significant issues identified for 2017/18 and 2018/19. (Paragraphs 113 to 117)
 - Additional paragraph inserted to explicitly provide an opinion on the level of assurance of Cardiff's governance arrangements.

Looking Forward

20. Future years changes in the Statement of Accounts include:
- The need to continue to minimise the period over which the accounts are prepared, audited and published as a result of changes in legislation. The 2020/21 accounts will need to be approved by 31 July 2021 and will need consideration of changes to governance, Council processes and audit approach in order to meet this timescale
 - The need to consider the acceptability of uncorrected misstatements to meet condensed timeframes for approval of the accounts

- Implementation of new accounting requirements such as changes to leasing potentially from 2020/21.

Legal Implications

21. No direct legal implications arise from this report.

Financial Implications

22. This report provides Audit Committee Members with the accounts to be submitted to Council for approval at its meeting on 12 September 2019. 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

23. That the Statement of Accounts for 2018/19 and Annual Governance Statement be noted.

CHRISTOPHER LEE

Corporate Director Resources

10 September 2019

The following appendices are attached:

Appendix 1 – Statement of Accounts 2018/19 – County Council of the City and County of Cardiff as well as Cardiff Harbour Authority

Appendix 2 – Statement of Accounts 2018/19 – Cardiff and Vale of Glamorgan Pension Fund

Appendix 3 – Annual Governance Statement 2018/19

Appendix 4 – Guidance for Audit Committee members when evaluating the impact of misstatements

Appendix 5 – Wales Audit Office - Audit of the Financial Statements Report 2018/19 (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 2018/19 (ISA 260) and Letter of Representation – Cardiff Harbour Authority.

Appendix 7 – Wales Audit Office - Audit of the Financial Statements Report 2018/19 (ISA 260) and Letter of Representation – Cardiff and Vale of Glamorgan Pension Fund