

COUNCIL:

12 SEPTEMBER 2019

**COMPLIANCE REPORTS 2018/19 - STATEMENT OF ACCOUNTS,
ANNUAL GOVERNANCE STATEMENT AND ANNUAL TREASURY
MANAGEMENT REPORT**

Appendix 9, Annexes B & C are not for publication as they contain exempt information of the description in paragraph 14 and 21 of schedule 12A of the Local Government Act 1972.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 2018/19 are 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 15 September immediately following the end of the financial year. The report also includes the Annual Governance Statement (AGS) which is required to be approved by Council.
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 2019.
3. In accordance with the Council's Treasury Management Policy Statement, the Annual Treasury Management Report for 2018/19 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 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.
5. 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.
6. The accounts were available for public inspection between 18 June 2019 and 15 July 2019 as required by the Public Audit (Wales) Act 2004 and Accounts and Audit (Wales) Regulations, 2014 (as amended).

7. The Audit Committee also met on the 10 September 2019 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.

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 on the statements as well as the AGS. The Council has continued its proactive approach to improvement of the statements in relation to readability, content and information provided. Work undertaken by Finance during the year includes:
 - a proactive approach and relationship with Wales Audit Office 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.
9. Following an extensive period of audit examination, there are no material misstatements which remain uncorrected.
10. 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.
11. 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.
12. Audit Committee will consider a future report setting out a potential approach to materiality and leaving misstatements as uncorrected. Wales Audit Office guidance for members when evaluating the impact of misstatements identified as part of the audit is included as Appendix 4.
13. The appendices to this report include Audit of Financial Statement reports (ISA 260’s) 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

14. The auditor's "Audit of Financial Statements Report" for the Council is attached as Appendix 5.
15. Wales Audit Office 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 Appendix 5.
16. 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 and Vale of Glamorgan Pension Fund Accounts

17. The auditor's "Audit of Financial Statements Report" for the Pension Fund is attached as Appendix 6.
18. Wales Audit Office 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.
19. The Wales Audit Office 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.

Cardiff Harbour Authority Accounts Cardiff Port Health Authority

20. The auditor's "Audit of Financial Statements Report" for the Cardiff Harbour Authority is attached as Appendix 7.
21. Wales Audit Office 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.
22. The Wales Audit Office 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.
23. 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 8.

Overview of the External Auditor's Audit Opinion

24. 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.
25. 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.
26. 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.

Annual Governance Statement (AGS)

The AGS was submitted to the Audit Committee on 25 June 2019 for review. Feedback from this review and the Wales Audit Office review have been considered and included in a revised statement included in Appendix 3.

Treasury Management Annual Report 2018/19

27. 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 2019, compliance with indicators set in the budget report for the year and sets out key issues that are being monitored closely in 2019/20 that could impact on treasury activities.
28. The Annual Report has been reviewed by Audit Committee on 10 September 2019 in accordance with their terms of reference.
29. The overall position on investments and external borrowing are:
 - At the 31 March 2019, investments stood at £93.3 million and were deemed to be fully recoverable. The overall level of interest receivable from treasury investments totalled £0.7 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 2018/19, with diversification sought where possible.
 - At the 31 March 2019, the Council had £721.9 million of external borrowing in order to pay for historical capital expenditure, with a further £45 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 external borrowing is 4.53% at the 31 March 2019 and total interest paid on the external debt, which includes the Housing Revenue Account, was £32.2 million.
30. An update on the 2019/20 Mid-Year Treasury Management position will be provided to Council in November 2019.

Legal Implications

31. The Report is reported to Council to meet statutory, regulatory and codified requirements to do so.

Financial Implications

32. This report is presented to Council in discharge of its duty to approve the Council's audited accounts on or before 15 September of the year relating to the end of the accounting period and also to receive the annual Treasury Management Report for 2018/19 in accordance with Council Treasury Management Policy.
33. 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 2020/21.

RECOMMENDATIONS

Council is requested to:

1. Approve the audited Statement of Accounts 2018/19 – County Council of the City and County of Cardiff as well as Cardiff Harbour Authority (Appendix 1).
2. Approve the Statement of Accounts 2018/19 – Cardiff and Vale of Glamorgan Pension Fund (Appendix 2).
3. Approve the Annual Governance Statement 2018/19 (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 2019 (Appendices 5, 6, 7 and 8).
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 2018/19 (Appendix 9).

CHRISTOPHER LEE
Corporate Director Resources

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 – Wales Audit Office - Guidance 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 and Vale of Glamorgan Pension Fund

Appendix 7 – Wales Audit Office - Audit of the Financial Statements Report 2018/19 (ISA 260) and Letter of Representation – Cardiff Harbour Authority

Appendix 8 – Wales Audit Office - Cardiff Port Health Authority Annual Report audit opinion

Appendix 9 – Treasury Management Annual Report 2018/19