

AUDIT COMMITTEE:

8 September 2020

DRAFT STATEMENT OF ACCOUNTS 2019/20

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 4.2

Reason for this Report

1. The Audit Committee Terms of Reference sets out their responsibility for Financial Reporting:
 - To 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.
 - To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts
2. The CIPFA Audit Committee Guidance (2018) sets out the details of core knowledge and application of knowledge.

Details of core knowledge	Area of application of knowledge
Understanding of good financial management principles	Reviewing the financial statements prior to publication
Role of the Chief Finance Officer (CFO)	Receiving the external audit report and opinion on the financial audit
Awareness of the financial statements that a local authority must produce and the principles it must follow to produce them	Reviewing both internal and external audit recommendations relating to financial management and controls
	Reviewing how the role of the CFO is met

3. This report has been prepared to provide Audit Committee Members with an opportunity to review and provide comments on the draft 2019/20 Statement of Accounts of:
 - Cardiff Council including Cardiff Harbour Authority - **Appendix 1**
 - Cardiff and the Vale of Glamorgan Pension Fund - **Appendix 2**
4. The accounts were signed by the Responsible Finance Officer on 15 June and 17 July respectively and are currently the subject of external audit.

Background

5. The Local Government (Wales) Measure 2011 identifies the review of the Council's Statement of Accounts as a specific function of the Audit Committee.
6. The Statement of Accounts are complex and must meet a number of requirements. They are prepared in accordance with a Code of Practice developed by the Chartered Institute of Public Finance and Accountancy (CIPFA), legislative and Companies Act requirements where relevant.

Preparation and publication of the Statement of Accounts:

- is a statutory requirement
- aims to provide a true and fair view of the Council's financial position
- provides accountability – Electors, tax and rent payers, pensioners, those charged with governance, funders, employees etc.
- allows comparison / benchmarking across organisations
- allows comparison across financial years
- allows for consolidation for Whole of Government Accounts
- allows interested parties to review and raise questions to Council and its auditor

Issues

7. The Council's statement of accounts includes:
 - narrative report
 - accounting policies
 - core financial statements
 - disclosure notes to the accounts
 - supplementary statements including Housing Revenue Account, Trust Funds, Cardiff Harbour Authority and also group accounts which consolidates the position to include the unaudited financial position of Cardiff City Transport Services Limited (Cardiff Bus).
8. Notes included in the Council's Statement of Accounts, either as a result of legislative or accounting requirements, include:
 - disclosures on financial instruments (financial assets and financial liabilities)
 - capital expenditure and financing
 - remuneration and
 - reserves and provisions.
9. Committee have previously been provided with a document prepared by CIPFA – Understanding Local Authority Financial Statements. This is a background paper which may assist members of Audit Committee and other users to understand the format of the accounts.

Changes in the 2019/20 Draft Accounts

10. CIPFA continues to encourage Councils to streamline wording and the content of accounting policies, some of which may have been in place for a number of years. We continue to do so in terms of improved presentation and readability, also simplification where feasible in order to prepare for earlier deadlines in future years.

11. The main changes in the 2019/20 code issued by CIPFA related to the treatment of:
 - Transfers of Investment Property
 - Foreign Currency Transactions and Advance Consideration
 - Financial Instruments: Prepayment features with Negative Compensation

These are either not relevant or deemed not to have a material impact on the accounts or financial performance.

12. It was recognised that these are complex documents and to support members in undertaking their scrutiny role, audit committee members were provided with the opportunity of an extended period of time to review and comment on the statements in the same way as last year, between 17 July and 14 August 2020, providing circa 4 weeks for members to review the documents.

Changes in Regulations as a result of Covid 19

13. Regulations in respect to the signing and approval of the 2019/20 Accounts were extended nationally as a result of COVID 19. Deadline for draft accounts to be prepared and signed by Responsible Finance Officer was moved to 30 August 2020 from 15 June and for the accounts to have been audited and published by 30 November 2020 instead of 15 September. These timescales in respect to preparation and audit of accounts timescales were highlighted by Audit Wales in their Audit Plan for 2019/20.
14. In order to allow a period for both Council and the external audit team to manage risk, it was accepted that approval of the Accounts by Council by 15 September 2020 was not possible, so the target for approval for audited accounts was set to October 2020 in conjunction with Audit Wales. Recognising the challenges of shrinking deadlines for the signing and audit of the accounts in future years, finance officers wanted to retain their targeted date for signing and submission for audit of the Council's accounts by 15 June 2020.

Review of approach to amending misstatements identified during the audit

15. The Council's historic practice has been that all misstatements identified during the audit have been amended. Most, if not all changes post audit are accounting amendments only, that have no impact on the level of Council Tax or rent payable and very often would be self-adjusting in future years.
16. There is a significant cost in terms of time and resource compared to the benefit of amending some misstatements, which would not change the user of the accounts understanding of the financial position and performance of the Council.
17. Whilst all misstatements would continue to be reported as part of the auditor's report, consideration will be given to not all misstatements being amended, an approach consistent in other local authorities and in accordance with Audit Wales Guidance – **Appendix 3**. Misstatements below a materiality level will only be amended following an assessment as to the impact on the accounts and the reader of the accounts using the Council's judgement as to materiality and cost versus benefit of making the change.

Progress since signing of the draft accounts

18. Following signing of the Accounts by the Responsible Finance Officer, the sections below highlight the key activities to date:
- The accounts were sent to Audit Wales on 15 June for Cardiff Council including Cardiff Harbour Authority; and 17 July for the Cardiff and the Vale of Glamorgan Pension Fund
 - The accounts for Cardiff Council were published on the Council's website together with a public notice of inspection period of 20 working days from 15 July 2020.
 - The draft accounts were circulated to members of the Committee to undertake their responsibilities
 - Council officers have responded to and continue to respond to queries raised by the Audit Wales team
 - Residents will have the opportunity to question the auditor on 01 September in line with the requirements set out in the Public Notice of Audit

External Audit Update

19. The external auditor will provide a verbal update to committee on progress of the audit including the following:
- Impact of Covid 19 on audit approach
 - Key issues arising from the audit to date
 - Proposed timetable for completion of the audit and issue of Audit Reports for relevant bodies.

Next steps

20. The Council working with the auditor continues to aim for approval of relevant financial statements by Full Council at its meeting of 22 October 2020 and for these to be published thereafter. This timetable however does not align with scheduled Audit Committee meetings.

In order to discharge the Committees responsibilities in relation to the external auditor's report, arising from the audit of the accounts, it is proposed that Audit Wales reports in relation to the financial Statements will be circulated to Committee electronically. This is the same approach adopted in relation to the draft financial statements. If the audit report raises significant concerns then a meeting of the Audit Committee would be held to discuss the audit findings.

Legal Implications

21. No direct legal implications arise from this report.

Financial Implications

22. No direct financial implications arise from this report.

RECOMMENDATIONS

23. That Audit Committee:

- 1 Note the 2019/20 Draft Statement of Accounts for Cardiff Council including Cardiff Harbour Authority and Cardiff and the Vale of Glamorgan Pension Fund.
- 2 Note that the audited Statements will, prior to being presented to Council, be sent electronically to the Committee in October along with the final audit reports for comment.
- 3 Note the Audit Wales progress in respect to the external audit of the 2019/20 statements and provide comments in relation to the update to be provided.

CHRISTOPHER LEE

Corporate Director Resources
8 September 2020

The following web links and attachments are attached:

Appendix 1 - Unaudited Draft Statement of Accounts 2019/20 – Cardiff Council including, Cardiff Harbour Authority and Trust Funds

Appendix 2 - Unaudited Draft Statement of Accounts 2019/20 – Cardiff and Vale of Glamorgan Pension Fund

Appendix 3 - Audit Wales Misstatement Flow Chart

Background Papers

Understanding Local Authority Financial Statements (CIPFA – 2016)