

# Introduction to the Financial Statements



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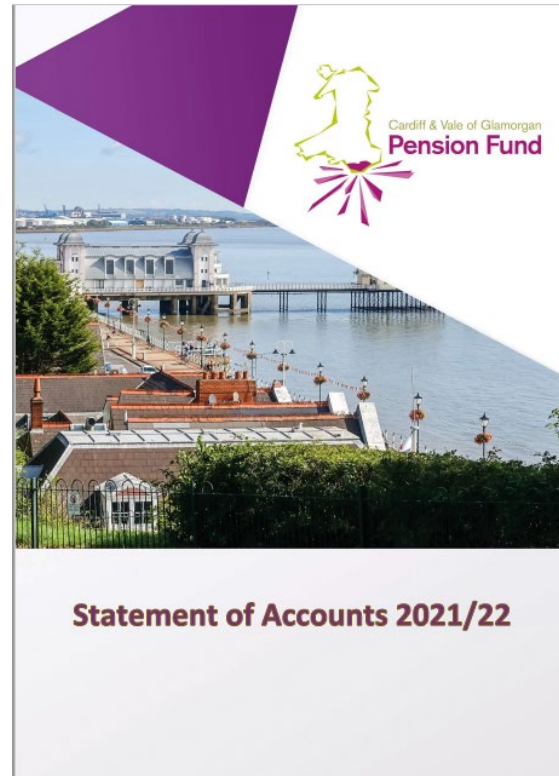
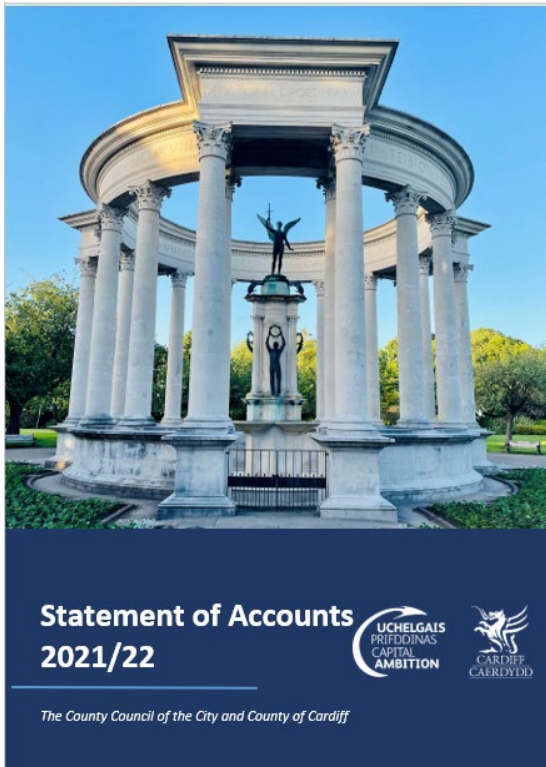
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## What is the Statement of Accounts?



The Statement of Accounts should answer the following questions:

- What did the authority's services cost in the year of account?
- Where did the money come from?
- What were the authority's assets and liabilities at the year end?

## Why are the Statements important?

- Preparation and publication of the Statement of Accounts is a statutory requirement
- They must provide a true and fair view of the Council's financial position
- Provides accountability to electors, tax and rent payers, those charged with governance, funders, employees etc.
- Allows comparison and benchmarking with other organisations
- Allows comparison across financial years
- Allows for consolidation for Whole of Government Accounts
- Public display of accounts allows interested parties to review and raise questions to the Council and its auditor

## The core financial statements

### **1. Comprehensive Income & Expenditure Statement**

Shows the accounting cost of providing services in accordance with proper accounting practices, and whether a surplus or deficit resulted from operations

### **2. Movement in Reserves Statement**

Shows the changes to the Council's reserves over the year:

- Usable Reserves (can be spent) - resulting from the authority's activities
- Unusable Reserves (cannot be spent) - deriving purely from accounting entries & statutory requirements

### **3. Balance Sheet**

Provides a snapshot of the value at the balance sheet date of the assets and liabilities of the Council – net worth and how financed

### **4. Cash Flow Statement**

Shows the changes in cash and cash equivalents of the authority

## Disclosure Notes

The Statement of Accounts also contains:

<b>A Narrative Report</b>	A user-friendly description of performance, identifying key events and the impact on the financial statements
<b>Accounting Policies</b>	Sets out the accounting rules the authority has followed when compiling the financial statements
<b>Critical Judgements</b>	Shows the key areas where officers have made judgements about the application of the accounting policies
<b>Statement of Responsibilities</b>	Responsibilities of those charged with governance and S151 officer in preparing the statements
<b>Notes to the Accounts</b>	Provide further details on the accounts e.g. related parties, liabilities, Joint Committees, provisions and earmarked reserves
<b>Property, Plant and Equipment</b>	Accounting valuation of assets, such as dwellings, property, art. Capital expenditure and how it is paid for. Sale of assets
<b>Employee Remuneration</b>	A note providing details of the pay of the most senior officers, all officers' remuneration disclosed in bands and the cost of redundancies
<b>Financial Instruments</b>	A note identifying the monetary contracts between entities e.g. investments, borrowings
<b>Related Party Disclosures</b>	Identifies any transactions with the Council's related parties (bodies or individuals that have the potential to control or influence the Council, or to be controlled or influenced by the Council)

## Supplementary statements

The Statement of Accounts also contains additional statements to meet specific reporting requirements:

<b>Housing Revenue Account (HRA)</b>	Where income from rents and related expenditure is required to be ring fenced by statute
<b>Trust Funds</b>	Where the Council is a trustee or administers a charity
<b>Cardiff Harbour Authority</b>	To meet requirements of the Harbours Act 1964
<b>Group Accounts</b>	Shows the combined statements where the Council has material interests in subsidiaries, associates and joint ventures e.g. Cardiff Bus

## Governance and Assurance Process

<b>Governance Arrangements</b>	
Prepared in accordance with Accounting Standards	Prepared in accordance CIPFA Code of Practice
Public display of accounts and questions of auditor	Reviewed by Governance & Audit Committee / Signed by S151 / Approved by Council
Prepared in line with CIPFA disclosure checklist and toolkits	Subject to an external audit
Prepared in accordance with Accounts and Audit Regulations (Wales)	Produced by a team with strong, technical accounting expertise
Published in Welsh and English	Completed in line with statutory deadlines

## External audit of the financial statements

### Audit Wales Role re Financial Statements

To determine if the accounts are prepared in accordance with the relevant legislation and accounting standards.

### Concept of Materiality

- Not seek to obtain absolute assurance on the truth and fairness of the financial statements and related notes, but adopt a concept of materiality
- The objective is to identify material misstatements, that is, those that might result in a reader of the accounts being misled
- Materiality level is reported to Governance & Audit Committee prior to completion of the audit



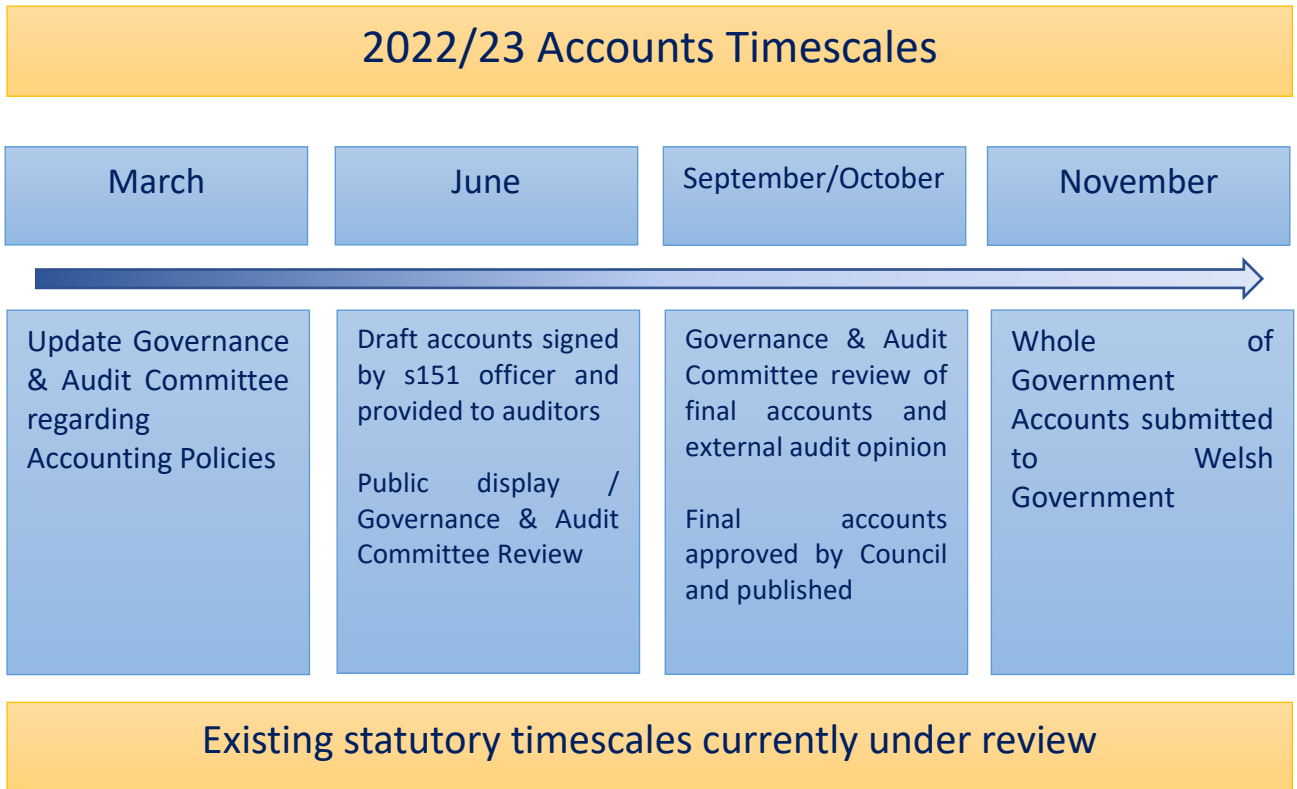
### Audit of Financial Statements Report

Details the results of financial audit – Received by Governance & Audit Committee and Council

- Provides our proposed opinion on the truth and fairness of the Financial Statements
- Summarises the extent of any corrected / uncorrected errors identified from our audit work

Council approves the final audited Statement of Accounts

Timetable





## Potential questions

*to support review of public reporting and accountability*

- Is the narrative report:
  - consistent with financial challenges and risks facing the authority?
  - readable and understandable by a lay person?
- Is there a better way information could be communicated or presented?
- Have significant changes been adequately explained?
- Are there references to additional notes where additional information is available?
- Are the statements consistent with what is known about financial performance over the year?
- Are accounting policies and treatments applied suitable and for material transactions?
- Are movements in borrowing and investments in line with the Treasury Management Strategy?
- Are there clear reasons for the creation of provisions and earmarked reserves?
- Are the accounts clear, concise, and easy to follow?
- Do the accounts or supporting information present any concerns about the Council's financial liabilities, resilience, or sustainability?
- Do officers have the resources, skills, and systems to comply with standards and challenges?
- Does the audit report identify any material weaknesses or risks?
- Is there a cost/benefit assessment to be made?
  - different judgements
  - areas where estimation techniques are required
  - minimum levels / thresholds to which policies should be applied
  - level of disclosure
- Do these transactions or adjustments have any implications for in year performance and Council tax or rent payable? Or are they just technical accountancy adjustments?
- What is an acceptable level of materiality given the size and complexity of the Council?
- Should all audit issues identified require amendment or can a level of materiality be applied?

## Where to find further information

- CIPFA Guide to Understanding Local Authority Financial Statements
- Role of Auditor General / Audit Wales – Member introduction slides
- Published Statement of Accounts - [website](#)