

Introduction to the Financial Statements



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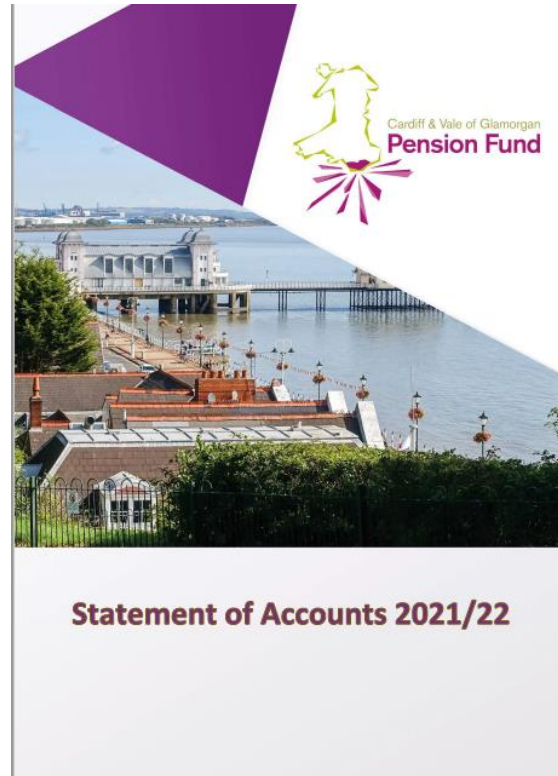
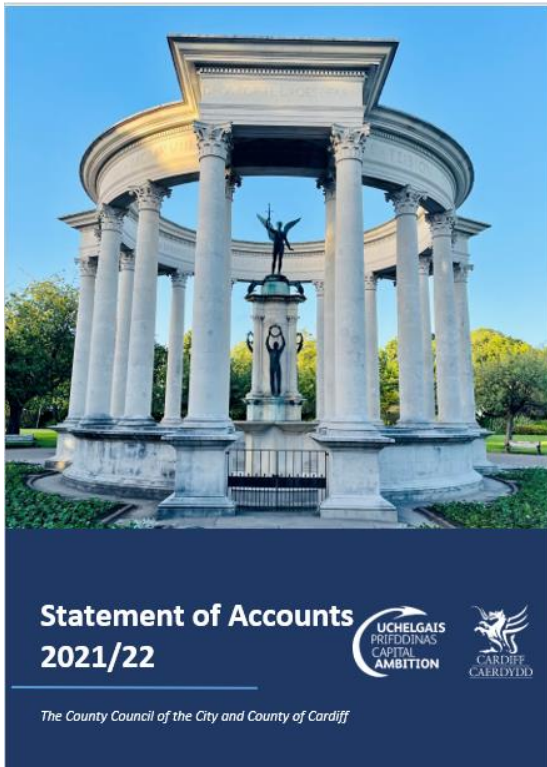
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What is the Statement of Accounts?



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:

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

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

Governance and Assurance Process

Governance Arrangements	
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



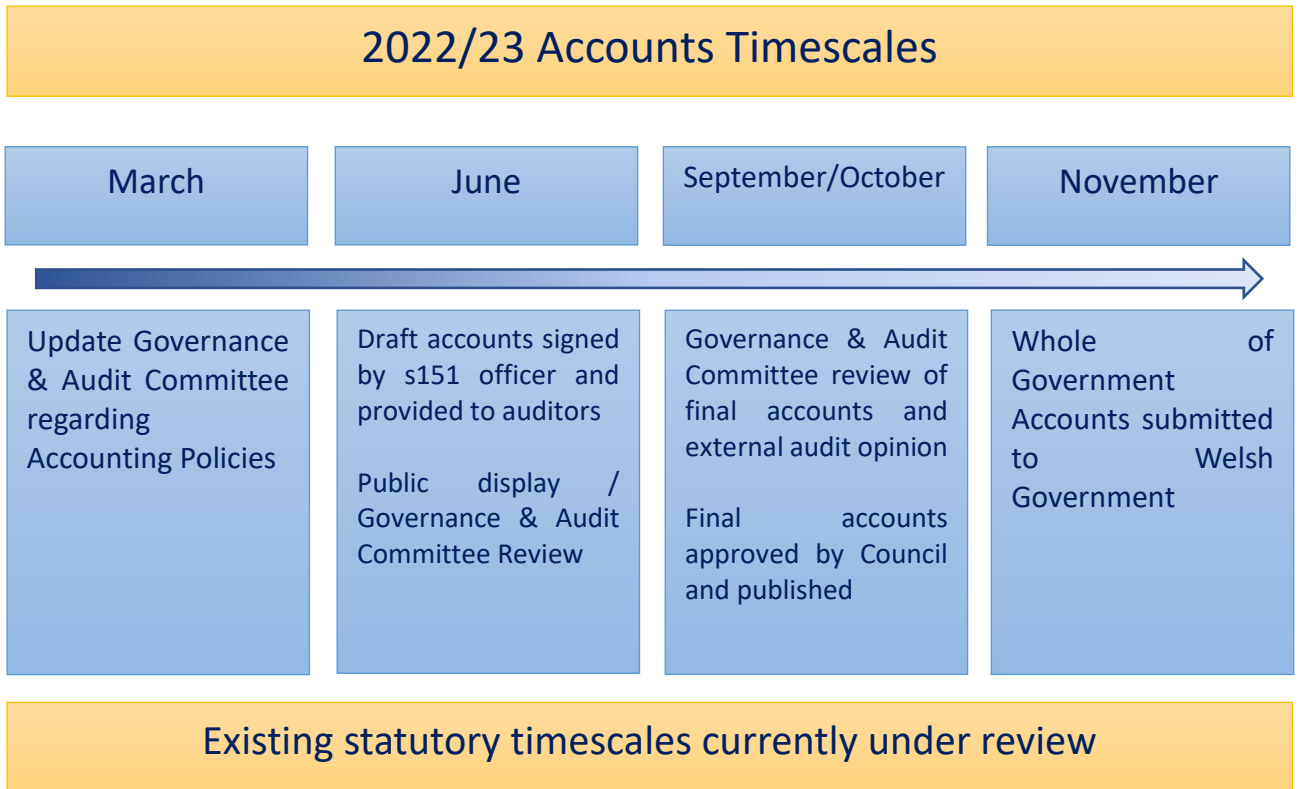
Audit of Financial Statements Report

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](#)