

ERW JOINT COMMITTEE

Report of: **Director of Resources (ERW S151 Officer)**

Date: **15 July 2019**

ERW STATEMENT OF ACCOUNTS for 2018-19

1. ERW published its draft Statement of Accounts for 2018-19 (see Appendix A) on 30 May 2019 and aims to have them audited and approved by 15 July 2019. The deadlines required by the Accounts and Audit (Wales) (Amendment) Regulations 2018 were 15 June 2019 and 15 September 2019 respectively.
2. The Projected Budget Outturn for 2018-19 was considered by the ERW Joint Committee on 3 April 2019. The draft ERW Statement of Accounts for 2018-19 are subject to audit by ERW's external auditors, the Wales Audit Office (WAO). The WAO have completed their audit and have issued their Audit of Financial Statements Report and Audit Opinion (ISA 260), see Appendix B. The ERW Joint Committee need to review and formally approve the ERW Statement of Accounts for 2018-19.
3. ERW's Statement of Accounts must comply with Cipfa's Code of Practice on Local Authority Accounting (the Code), which is based on International Financial Reporting Standards (IFRS), and also the requirements of accounting and financing regulations of government. IFRS provides a comprehensive framework of mandatory requirements for the production of financial statements in the public and private sector and this framework is continually being refined.
4. The overall financial position of ERW is recognised in a number of core financial statements within the Statement of Accounts, namely the Comprehensive Income & Expenditure Statement (CIES), the Movement in Reserves Statement, the Balance Sheet and the Cash Flow Statement. These are prepared using International Financial Reporting Standards (IFRS).

Further details on these and other statements within the Statement of Accounts for 2018-19 are outlined below:

- **Narrative Report** (The Explanatory Foreword until 2016-17) - This was in a new format for 2017-18 and aims to communicate ERW's purpose, how it has performed in accordance with its overall strategy and against performance indicators over the year, and how it has allocated its resources in line with intended outcomes. It demonstrates collective performance over the year and how well ERW is equipped to deal with the challenges ahead and to continue delivering Education through Regional Working. It tells the story of ERW by providing a holistic, clear and well-structured view of its strategy, performance and future outlook.
- **Expenditure and Funding Analysis** (Categorised as a core financial statement for 2016-17 only) - This shows the reconciliation between how annual expenditure is used and funded from resources (cash basis) by ERW in comparison with those resources consumed or earned by ERW in accordance with generally accepted accounting practices (IFRS basis).
- **Comprehensive Income and Expenditure Statement (CIES)** - This shows the accounting cost in the year of providing services measured on an IFRS basis as opposed to the cost actually funded from taxation. The reconciliation to the taxation position, as represented by the actual funds available to ERW, is shown in the Expenditure and Funding Analysis.
- **Movement in Reserves Statement** - This shows the movement on the different reserves held by ERW analysed between usable reserves and unusable reserves held for financial accounting purposes.
- **Balance Sheet** - This sets out the financial position on 31 March in terms of the value of assets and liabilities recognised by ERW and the reserves held by ERW.
- **Cash Flow Statement** - This summarises the inflows and outflows of cash and cash equivalents with third parties arising from revenue and capital transactions.

5. **Local Authority Contributions**

During 2018-19, one Local Authority did not pay their annual contribution so a bad debt provision of 50% of the debt was accounted for in the draft Statement of Accounts for 2018-19. Following their issue, the annual contribution was paid but the Statement of Accounts for 2018-19 have not been adjusted as the sum involved is not material.

6. The ERW Joint Committee review of the Statement of Accounts for 2018-19 should be focused on the following issues:

(a) **Financial Reporting Standards**

The International Financial Reporting and Other Standards that have been issued have been applied as required by the Code.

The Code requires that ERW discloses information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the Code for the relevant financial year. There is one key change to accounting standards that will impact on ERW over the next three years - IFRS 16 leases, effective 2019-20, will replace the current leases standard IAS 17 and further details are shown on page 32 of the Statement of Accounts. The impact of this change is not considered to be material.

The ERW Statement of Accounts have been prepared in compliance with the Code for 2018-19.

(b) Accounting Concepts

The pervasive accounting concepts of “accruals basis” and “going concern” have been used in the preparation of the Core Accounting Statements and the qualitative characteristics of useful financial information continue to be employed, as shown on page 19 of the Statement of Accounts.

(c) Critical Judgments in Applying Accounting Policies and Estimation Risk

In applying the accounting policies set out in the Statement of Accounts for 2018-19, ERW has made judgments about the complex transactions and those involving uncertainty in future years and these are shown on page 20 of the Statement of Accounts.

The main risk areas appertaining to items in the current set of accounts and potentially impacting accounts in the future are shown on pages 20 and 21 of the Statement of Accounts.

(d) Accounting Policies

The accounting policies used to prepare the Core Financial Statements, the Supporting Notes and the Supplementary Financial Statements have been reviewed using the Code for 2018-19.

(e) Internal Control Issues

The ERW Head of Internal Audit Annual Assurance Opinion for 2018-19, to be considered by the ERW Joint Committee on 15 July 2019, confirms that there are no significant internal control issues which would impact upon the Statement of Accounts for 2018-19. However, her opinion concluded that overall, limited assurance is placed on the adequacy and effectiveness of governance, internal control, financial management and risk management arrangements in place.

All the audit reviews of the main financial systems (Pembrokeshire County Council) received an assurance rating of “substantial”.

(f) Wales Audit Office

The WAO have completed their audit of the Statement of Accounts for 2018-19 and have issued their Audit of Financial Statements Report and Audit Opinion (ISA 260), see Appendix B.

7. The Director of Resources (ERW S151 Officer), Head of Finance & Business Services (ERW Deputy S151 Officer) and ERW Senior Accountant will support the ERW Joint Committee at the meeting in reviewing the ERW Statement of Accounts for 2018-19 and the specific matters highlighted above.

RECOMMENDATIONS

- The ERW Joint Committee review the ERW Statement of Accounts for 2018-19 and consider the WAO Audit of Financial Statements Report and Audit Opinion (ISA 260).
 - The ERW Statement of Accounts for 2018-19 be approved and signed.
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Glossary of Terms:

WAO - Wales Audit Office

ISA 260 - WAO Audit of Financial Statements Report and Audit Opinion

CIPFA - The Chartered Institute of Public Finance Accountancy

The Code - CIPFA's Code of Practice on Local Authority Accounting

IFRS - International Financial Reporting Standards

CIES - Comprehensive Income & Expenditure Statement

SeRCOP - CIPFA Service Reporting Code of Practice