

SUBJECT:	STATEMENT OF ACCOUNTS 2018/19
MEETING:	Audit Committee
DATE:	12th September 2019
DIVISIONS/WARD AFFECTED:	All Authority

1. PURPOSE:

- 1.1 The purpose of this report is to provide a final draft of the statement of accounts for the Authority for 2018/19, subsequent to the audit process undertaken by Wales Audit Office (WAO).
- 1.2 This report and the final statement of accounts at Appendix 1 should be read in conjunction with the WAO "ISA260" report which is the auditor's final report on its findings during the audit process. The ISA260 report is presented by the WAO as a separate agenda item at this meeting.
- 1.3 This report also provides members a copy of the 2018/19 "Joint progress document" at Appendix 2 which outlines the year-end financial reporting refinements agreed between the Authority and the WAO to ensure that the Authority continues to provide high quality year-end financial statements in a timely manner.
- 1.4 The Statements in relation to the Trust Funds, will be considered at the November Council meeting, once those audits have been completed.

2. RECOMMENDATIONS:

- 2.1 That the final Monmouthshire County Council Statement of Accounts for 2018/19 (Appendix 1), be accepted as a True and Fair view of the Council's Statement of Accounts and approved for publication by the statutory deadline of 15th September 2019.
- 2.2 That the year-end financial reporting refinements outlined in the Joint progress document (Appendix 2) are accepted and implemented where agreed by the Authority in preparation for the 2019/20 statement of accounts.

3. KEY ISSUES

- 3.1 Under current legislation for Wales, the draft statement of accounts are to be produced by the 15th June (30th June in 2017/18). The Council concluded the process on the 4th June 2019 and the draft statements were handed over for audit. An audited statement of accounts (Appendix 1) must be published by the Authority by 15th September (30th September in 2017/18).
- 3.2 Under proposed legislation, from the 2020/21 financial year, the deadline for production of the draft statement of accounts will be brought forward from 15th June to 31st May. It also proposes that the date that the Council must consider, approve and publish an audited Statement of Accounts will be brought forward from 15th September to 31st July.

- 3.3 Having given consideration to the logistics of presenting the audited accounts to both Audit Committee and Council prior to 15th September and ultimately 31st July given the shorter time period available, Council at its July meeting delegated responsibility for approving the audited statement of accounts to this Audit Committee meeting as a one year trial.
- 3.4 The audited statement of accounts, shown in Appendix 1 incorporates the corrected misstatements that were highlighted by the WAO during their audit process and a summary of these is listed as an appendix to WAO's ISA260 report.
- 3.5 It is pleasing to note the auditors intend to provide an unqualified opinion on the Accounts, and management would wish to acknowledge the strength of the working relationship between Council and WAO, and the professional and helpful way that audit colleagues have conducted their activities.
- 3.6 WAO have highlighted three "uncorrected misstatements" within their ISA260 report which the Authority acknowledges and accepts but is not incorporating within the revised primary statements in the statement of accounts:

- **Pension Liability understated by £1,941,000 following the McCloud ruling**

In December 2018, the Court of Appeal ruled against the Government, holding that changes made to pension schemes discriminated against a group of firefighters and a group of judges on the grounds of age. These cases are referred to as McCloud.

This judgement has implications for other public sector pension schemes including the Greater Gwent Pension Fund, of which the Council is a member. It is anticipated that the costs of providing a remedy to affected employees will be significant, with the pension scheme actuaries estimating additional potential liabilities to the Council of £1,941,000. The impact on the financial statements is that Long-term Creditors (Liability related to defined benefit pension scheme) and Unusable Reserves (Pension Reserve) is understated by £1,941,000.

Management commentary: The background and estimated financial effect is outlined comprehensively in note 13.7(f) to the statement of accounts, but the primary statements have not been altered until it is clearer as to central government's response. The ministerial statement on the matter concluded that the government respects the Court's decision and will engage fully with the Employment Tribunal to agree how the discrimination will be remedied. It is felt premature to alter the pension scheme liabilities figures until it is better understood whether that remedy will result in the review of those original 2015 reforms, or if they remain intact, whether the anticipated additional pension liability clarified through legal challenge will be afforded by central government, or passed on to scheme recipients/employing authorities to afford.

- **Non consolidation of related business and operations**

The Authority has consolidated the Cardiff Capital Region City Deal joint committee, but has chosen not to consolidate the other associates and joint ventures (as detailed in Note 16.6 Related Business and Operations). Consolidating under the equity method, the impact on the financial statements is that Net Assets and Reserves are understated by £800,000.

Management commentary: The Authority makes it clear in its accounting policies that consolidation of interests in other entities will only be made where they are sufficiently material when reviewing both quantitative and qualitative information. When reviewing the remaining entities, consolidation is not deemed necessary within the statements and the Authority considers that it would add very little value to the reader of the accounts to do so. In order to ensure compliance with the Code requirements, a range of narrative disclosures have been made within note 16.6.

- **Expenditure overstated by £178,705 as prepayment journal not posted at year-end**

During interim expenditure testing, three transactions were identified as requiring prepayment adjustments to be made at year end. Following up at final audit, none of these transactions had been adjusted. The actual error from our sample testing was £28,301.

Projecting this error across our population of "Other Service Expenditure" (as per Note 11.2) results in a total estimated error of £178,705. The impact on the financial statements is that Prepayments is understated by £178,705 and Expenditure is overstated by £178,705. It is noted that a similar error was reported in last year's ISA260 (£177,000), and therefore the impact on the CIES is trivial.

Management commentary: The reality is the Accounts reasonably reflect 12 months' worth of service and expenditure, and to correct would introduce artificial variance in any comparison between years. Audit colleagues calculate the effect as being £178,705, but ignore the adjustments that would be made in bringing forward expenditure from previous financial year such that the net effect of the adjustment is anticipated to have a trivial effect on bottom line of Accounts. With statutory deadlines for the production of the statement of accounts being brought forward further in future years it is accepted that more estimation will be required in order to meet these timescales and that despite best efforts trivial errors such as these may become more numerous.

- 3.7 The Joint progress document (Appendix 2) outlines the year-end financial reporting refinements agreed between the WAO and the finance section. In a change of procedure from previous years, this report is being provided alongside the final statement of accounts and ISA260 report to ensure that the findings are considered in a timely manner and that work towards implementing these refinements can be started as soon as possible.

4. REASONS

- 4.1 To review the audited statement of accounts, noting conclusion of the external audit process and endorsing the Statement of Accounts as a "true and fair" view to Council in readiness for publication by the statutory deadline.
- 4.2 To consider and accept the findings of the WAO audit process, in particular those highlighted as "uncorrected" and "corrected" misstatements within the ISA260 report.
- 4.3 To consider and accept the year-end financial reporting refinements outlined in the Joint progress document and ensure the Authority works towards implementation of these refinements in preparation for the 2019/20 statement of accounts.

5. RESOURCE IMPLICATIONS

- 5.1 As outlined in the respective Accounts to be found in the Appendices.

6. CONSULTEES

Strategic Leadership Team
Cabinet Members
Head of Legal Service

7. BACKGROUND PAPERS

Appendix 1: Statement of Accounts 2018/19
Appendix 2: Joint progress document 2018/19

8. AUTHORS:

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9. CONTACT DETAILS

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