

ERW JOINT COMMITTEE

Report of: Director of Resources (ERW S151 Officer)

Date: 13 November 2020

ERW STATEMENT OF ACCOUNTS for 2019-20

1. ERW published its draft Statement of Accounts for 2019-20 (see Appendix A) on 24 July 2020 and aims to have them audited and approved by 13 November 2020. The deadlines required by the Accounts and Audit (Wales) (Amendment) Regulations 2018 were 15 June 2020 and 15 September 2020 respectively. Due to the Covid-19 outbreak, we were unable to comply, but in accordance with Regulation 10 (4) we published a statement on the ERW website setting out the reasons for non-compliance and the actions to be taken to ensure compliance as soon as possible.
2. The projected Outturn for 2019-20 was considered by the ERW Joint Committee on 21 July 2020 as part of the Financial Update report. The draft ERW Statement of Accounts for 2019-20 are subject to audit by ERW's external auditors, Audit Wales. Audit Wales have completed their audit and have issued their Audit of Accounts 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 2019-20.
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 2019-20 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. **Uncorrected Misstatement**

There is an understatement of £124,000 on the net pension fund liability in the Balance Sheet and Note 15.4, due to an incorrect re-measurement adjustment in 2018-19. This means the net pension fund liability is understated at 31 March 2019 and 31 March 2020 by £124,000. This understatement has not been corrected for the following reasons:

- The understatement was identified near to the end of the audit of the Statement of Accounts, after all other amendments had substantially been completed.
- The value of the understatement is below the materiality threshold of £1.3m.

6. The ERW Joint Committee review of the Statement of Accounts for 2019-20 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 Statement of Accounts have been prepared in compliance with the Code for 2019-20.

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.

Last year it was highlighted that IFRS 16 Leases would replace the current IAS 17 Leases standard for 2019-20. However, the CIPFA/LASAAC Local Authority Accounting Code Board has agreed to defer the implementation of IFRS 16 Leases for one year in-line with the Government's Financial Reporting Advisory Board's proposals for Central Government Departments. This will mean the effective date for implementation is now 01 April 2021. Further details are shown on page 16 of the Statement of Accounts.

Amendments to IAS19 Employee Benefits will be applicable for the 2020-21 financial year.

The Accounts and Audit (Wales) (Amendment) Regulations 2018 require the signing, approval and publication of the Statement of Accounts by 31 July for years ending 31 March 2021 onwards.

The impact of the above changes are not considered to be material.

(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 16 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 2019-20, ERW has made judgments about the complex transactions and those involving uncertainty in future years and these are shown on page 17 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 17 and 18 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 2019-20.

(e) Internal Control Issues

The ERW Head of Internal Audit Annual Assurance Opinion for 2019-20, to be considered by the ERW Joint Committee on 13 November 2020, confirms that there are no significant internal control issues which would impact upon the Statement of Accounts for 2019-20. 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 received an assurance rating of “substantial”.

(f) Audit Wales

Audit Wales have completed their audit of the Statement of Accounts for 2019-20 and have issued their Audit of Accounts Report and Audit Opinion (ISA 260), see Appendix B.

7. The Director of Resources (ERW S151 Officer) and ERW Principal Accountant will support the ERW Joint Committee at the meeting in reviewing the ERW Statement of Accounts for 2019-20 and the specific matters highlighted above.

RECOMMENDATIONS

- The ERW Joint Committee review the ERW Statement of Accounts for 2019-20 and consider the Audit Wales Audit of Accounts Report and Audit Opinion (ISA 260).
- The ERW Statement of Accounts for 2019-20 be approved and signed.

Glossary of Terms:

Audit Wales - Formerly known as Wales Audit Office (WAO)

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

IAS - International Accounting Standards

CIES - Comprehensive Income & Expenditure Statement

SeRCOP - CIPFA Service Reporting Code of Practice