



Ein Rhanbarth ar Waith  
Education through Regional Working

# ERW Statement of Accounts for 2016-17

## Director of Finance (ERW S151 Officer)

Cynghrair o 6 awdurdod lleol yw ERW a reolir gan gyd-bwyllgor cyfansoddiadol cyfreithiol.  
Y nod yw gweithredu strategaeth a chynllun busnes rhanbarthol cytunedig a chefnogi gwelliant ysgolion.

ERW is an alliance of 6 local authorities governed by a legally constituted joint committee.  
Its aim is to implement the agreed regional strategy and business plan to support school improvement.



## **REVIEW OF ERW STATEMENT OF ACCOUNTS for 2016-17**

1. The Joint Committee aimed to publish its draft 2016-17 Statement of Accounts by 31 May 2017 and have them audited and approved by 31 July 2017. The deadlines required by the Accounts and Audit (Wales) Regulations 2014 were 30 June 2017 and 30 September 2017 respectively.
2. The Budget Outturn Monitoring Report for 2016-17 was considered by the Joint Committee on 20 February 2017. The draft Statement of Accounts for 2016-17, copy attached as an Appendix, were published on 5 June 2017 and are subject to audit by ERW's external auditors, the Wales Audit Office (WAO). The WAO have commenced their audit and should be in a position to issue their Audit of Financial Statements Report and Audit Opinion (ISA260) by the time of the Joint Committee meeting on 17 July 2017.
3. The Joint Committee need to review and formally approve the Statement of Accounts for 2016-17.
4. 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.
5. The overall financial position of ERW is recognised in a number of key statements within the Statement of Accounts, namely the Expenditure and Funding Analysis, Comprehensive Income & Expenditure Statement (CIES), Movement in Reserves Statement and the Balance Sheet.

Further details on these and other statements within the Statement of Accounts for 2016-17 are outlined below:

- **Narrative Report** (The Explanatory Foreword in previous years) – The purpose of the Narrative Report is to provide a commentary on the Statement of Accounts. It includes an explanation of key events and their effect on the Statement of Accounts.
- **Expenditure and Funding Analysis** (Categorised as a core financial statement for 2016-17) – This statement 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 the Authority in accordance with generally accepted accounting practices (IFRS basis).

- **Comprehensive Income and Expenditure Statement (CIES)** – The CIES reports on how ERW performed during the year and whether its operations resulted in a surplus or deficit. It shows the economic cost in the year of providing services. It analyses ERW’s day to day expenditure on the basis of the Cipfa Service Reporting Code of Practice (SeRCOP) groupings (including future pension costs etc.) on the basis of organisational structure.
- **Movement in Reserves Statement** – Reserves represent ERW’s net worth and show its spending power. They are analysed into two categories, usable and unusable.
- **Balance Sheet** – The balance sheet is a “snapshot” of ERW’s financial position at a specific point in time, showing what it owns (assets) and owes (liabilities) at 31 March.
- **Cash Flow Statement** – This sets out ERW’s cash receipts and payments during the year, analysing them into operating, investing and financing activities.

6. The Joint Committee review of the Statement of Accounts for 2016-17 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.

The standards introduced in the 2017-18 Code that are relevant are:

- Amendments to IFRS 10 Consolidated Financial Statements
- IFRS 12 Disclosure of Interests in Other Entities

The impact of the above changes is unlikely to be material but will result in some presentational changes and these will be disclosed in the 2017-18 Statement of Accounts.

The Statement of Accounts for 2016-17 have been prepared in compliance with the Code of Practice on Local Authority Accounting for 2016-17.

(b) **Accounting Concepts**

The following pervasive accounting concepts have been used in the preparation of the Core Accounting Statements:

- Accruals
- Going concern

The qualitative characteristics of financial information continue to be employed:

- Relevance
- Comparability
- Verifiability
- Timeliness
- Understandability
- Materiality
- Faithful Representation
  - Completeness
  - Neutrality
  - Free from error
- Primacy of legislative requirements

(c) **Critical Judgements in Applying Accounting Policies and Estimation Risk**

In applying the accounting policies set out in the Statement of Accounts for 2016-17, the Joint Committee has made judgements about the complex transactions and those involving uncertainty in future years.

Although there is a high degree of uncertainty about the future level of funding for local government, to date Education has been a priority for the Welsh Government. Therefore, while some grants may be reduced and given the small number of employees directly employed by ERW, there is insufficient evidence to conclude that the Joint Committee activities will be severely impaired or reduced in future years.

In certain instances it has been necessary to estimate the changes made in the accounts using historical experience, current trends etc. Actual results may be different from the assumptions made and consequently may affect the charges made in future years' accounts.

The main risk areas are set out in the following tables:

<b>Issues appertaining to items in the current Statement of Accounts:</b>		
<b>Item</b>	<b>Risk</b>	<b>Potential Affect</b>
Contractual Obligations	Incorrect quantifications and legal challenge	Additional charge to the Joint Committee and its Partner Authorities
Grant Funding	Claimed ineligible expenditure	Loss of grant with expenditure to be funded from core or grant clawback
Pension Liability	Actuarial assumptions incorrect	Increased Employer Contributions at future date

<b>Issues potentially impacting the Statement of Accounts in the future:</b>		
<b>Item</b>	<b>Risk</b>	<b>Potential Affect</b>
Confirmation of Regional Position as Delivery Mechanism for School Improvement	Increased funding from WG and subsequent expectations	Inability to respond to increasing expectations of regional working
Changes in Political Priorities	Reduced funding	Reduction in service, or cessation of regional working
Educational Outcomes	Pupils Attainment does not Improve at the necessary pace	Loss of future grant funding/Local Authorities having to change support levels to ERW
Grant Funding	Claimed ineligible expenditure	Loss of grant with expenditure to be funded from core or grant clawback
Delay in Receiving Grant Funding	Committed expenditure not being eligible. Poor planning	Loss of grant with expenditure to be funded from core or grant clawback
Demographic Change	Assumptions Incorrect	Increased service & contractual costs
Grant Funding/Brexit	Loss of grant from Welsh Government & Europe	Reduction in service provision
Governance	Decisions not made in timely manner	Delay in improvements  Budget over/under spends & loss of grant funding
Transformation/ Alternative Service Delivery	Changed ways of working do not deliver assumed financial savings	Budget over/under spend  Separate accounting arrangements

<b>Issues potentially impacting the Statement of Accounts in the future:</b>		
<b>Item</b>	<b>Risk</b>	<b>Potential Affect</b>
Welsh Language Standard	Assumption incorrect	Increased service & contractual costs
Wellbeing of Future Generations Act	Act not considered in decision making	Cost of corrective action
Grant funding withheld by Welsh Government	ERW not adhering to regional nature of grant conditions	Schools do not access the support required

(d) **Accounting Policies**

The accounting policies used to prepare the Core Accounting Statements, the Supporting Notes and Supplementary Financial Statements have been reviewed using the Code for 2016-17.

(e) **Internal Control Issues**

The ERW Head of Internal Audit Annual Assurance Opinion for 2016-17, to be considered by the Joint Committee on 17 July 2017, confirms that there are no significant internal control issues which would impact upon the Statement of Accounts for 2016-17.

(f) **Wales Audit Office**

The Wales Audit Office have commenced their audit of the Statement of Accounts for 2016-17 and should be in a position to issue their Audit of Financial Statements Report and Audit Opinion (ISA 260) by the time of the Joint Committee meeting on 17 July 2017.

7. The Director of Finance (ERW S151 Officer) and Head of Finance & Business Services (ERW Deputy S151 Officer) will support the Joint Committee at the meeting in reviewing the Statement of Accounts for 2016-17 and the specific matters highlighted above.

8. **RECOMMENDATIONS**

- (a) The Joint Committee review the ERW Statement of Accounts for 2016-17 and consider the WAO Audit of Financial Statements Report and Audit Opinion (ISA260).
- (b) The ERW Statement of Accounts for 2016-17 be approved and signed.