

Approval of Audited Statement of Accounts 2018/19

Report to:	National Park Authority Date of meeting: 30 July 2019
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Purpose of Report:	To Submit the Audited Statement of Accounts for 2018/19 to the Authority for Approval, together with the report of the Auditor General for Wales which will be presented by a representative of Wales Audit.
Enclosures	Enclosures (a) Statement of Accounts 2018/19 (b) Report of Auditor General for Wales (ISA260) (c) Guidance note from Wales Audit for information (d) Annual 'Audit enquiries to those charged with governance' letter from Wales Audit Engagement Lead (e) Reply from CEO and Chair of Audit and Scrutiny to Wales Audit Engagement Lead in response to the annual 'Audit enquiries to those charged with governance' letter. (f) Appendix to reply from CEO and Chair of Audit and Scrutiny to Wales Audit Engagement Lead
Single Integrated Assessment	The production and audit of the Statement of Accounts is a statutory process and an essential element of governance.
Recommendations	a) That Members approve the Statement of Accounts for 2018/19, note the contents and recommendations of the Auditor General for Wales' Report and letter and note the contents of the audit enquiries response letter. b) That the Chairman signs the Statement.

1.0 Introduction

The 2018/19 Statement of Accounts has been produced in accordance with International Financial Reporting Standards and the Accounts and Audit (Wales) Regulations. The standards are applied across all private and public sector bodies with the aim of increasing

the comparability and consistency of accounts internationally and between sectors. The body which sets the standards for local authority accounting in the UK (The Chartered Institute of Public Finance and Accountancy, CIPFA) effectively prescribes the format in which authorities must produce the accounts and, although national park authorities are much smaller bodies, they are required to follow the same format and timetable for production and audit. In some instances the Regulations require a different accounting treatment from that specified in the Standards and, where this is the case, adjustments have been made and explained in the Statement as required by CIPFA.

Representatives of Wales Audit will be in attendance to present and discuss the content of the ISA 260 report which documents the financial audit of the statement of accounts and summarises the findings and recommendations of the audit. An element of the audit is the annual 'letter to those charged with governance' issued on behalf of the Auditor General and seeking comment and assurances on specific key elements of corporate governance. Copies of the ISA260 Report and the Chief Executive's and Chairman of Audit and Scrutiny's joint response to the annual letter are reproduced in the enclosures.

1.1 Statement of Accounts Approval Timetable

The timeline for the production, audit, public inspection and approval by Members of the Accounting Statement is below. This is intended to comply with the expected deadline for accounts approval to be set by WG from 2018/19 onwards.

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| 31 May 2019: | The draft Statement of Accounts was signed off by the Chief Financial Officer (Section 151 Officer). A copy was submitted to Wales Audit (WA). Draft Statement sent for translation before a copy can be placed on the Authority's website. Draft Statement circulated to the Chief Executive and Delivery Director. |
| 13 May 2019: | Deadline for notice of availability of accounts for public inspection to be advertised on the Authority's website. |
| 3 June 2019: | Members of the public are entitled to examine the accounts and supporting information on request. They can make an appointment to discuss any aspect of the Statement with the Auditor. |
| 2 June – 3 July 2019: | WA review content and presentation of the Accounts and identify any material changes which need to be made to the draft statement. Audit takes 2 weeks. |
| 1 July 2019: | Date on which WA will meet members of the public, if required, to discuss any aspect of the Statement of Accounts (no requests received) |
| 4 July 2019 | WA advise the Finance Manager on the outcome of the audit and any accounting adjustments required. The Finance Manager/S151 Officer then amends the Statement. |

- 26 July 2019 The draft Statement is reviewed by the Audit and Scrutiny Committee, together with the financial outturn reports on the 2018/19 financial year.
- 30 July 2019: NPA receives and approves the final Statement, which has been re-signed by the Chief Financial Officer (Section 151 Officer). The approved Statement is then signed by the Chairman and published, with the Audit Opinion and Annual Governance Statement, via the Authority's website.

1.2 Main Features of the Statement

The Statement of Accounts comprises:

- **The Narrative Report** – an introduction to the Statement and comparison of actual and budgeted performance during the year. The Report is not audited but must be included to provide the reader with some background information and analysis of financial performance in the year.
- **The Statement of Responsibilities for the Statement of Accounts** – which sets out the role of Management and Members in the production of the Statement.
- **The Comprehensive income and Expenditure Statement** - the income and expenditure during the financial year, accompanied by notes which explain the figures in greater detail as required by the CIPFA code of practice. This is supplemented by the **Expenditure and Funding Analysis** which explains the adjustments between the management and financial accounts on a departmental basis.
- **The Balance Sheet** - the assets and liabilities, cash held and amounts set aside in reserves at the financial year-end. Notes are provided to give further details of specific balances where required by the CIPFA code of practice.
- **The Statement of Movements in Reserves** – shows the total gains and losses to the Authority during the year, including the effect of actuarial gains and losses on the pension fund and valuation gains and losses on fixed assets. It distinguishes between usable reserves which represent cash funds held by the Authority and unusable reserves, which are created for accounting purposes only (an example being the negative Pensions Reserve, which balances to the Pensions Liability)
- **The Cash Flow Statement** - expenditure and income for the financial year, excluding all amounts owed or receivable. Further explanation is provided in the notes to the statement.

- **Notes to the Statements** – further details explaining, for example the purposes of reserves, changes in asset values and the basis used to calculate the Authority's pension fund liability as well as providing further information on other material elements of the Statement. The principles behind the methodologies used to produce the Statements are described in the **Accounting Policies** which constitute Note I.

The format of the Statement of Accounts is as laid down by the CIPFA Code of Practice and there is very limited scope for simplification. There has been a joint drive to reduce the cost of audit both in terms of Authority staff time required to support the process and the financial cost of auditor time borne by the Authority. This has led to a simplified audit process and a more focused audit visit, as well as an increased materiality threshold (now set at 2% of gross expenditure), or approximately £120,000 below which individual errors or omissions are not reported to the Authority.

The Statements are produced in round £000's. This leads to some rounding differences in casting across the statements arising from the complexity of the presentation required and the interrelationships between the various statements and notes.

1.3 Accounting differences between the Statement of Accounts and Management Reports

A report on the 2018/19 financial outturn for management purposes was provided to the 26th July meeting of the Audit and Scrutiny Committee. The actual cost of running the Authority as represented in the management accounts is prepared on a different basis to that of the Comprehensive Income and Expenditure Statement as included in the Statement of Accounts. The most significant differences between management reports prepared for Members and the Comprehensive Income and Expenditure Statement are:

- **The treatment of the year's pension costs;** actual pension costs paid in the year are replaced by accounting entries based on an actuarial review of the Authority's share of future earnings and liabilities of the Powys Pension Fund. The pension cost figures for accounting purposes are also subject to very large fluctuations between years. In 2017/18 there was an actuarial loss on the fund of £750,000, whereas in 2018/19 there was an actuarial gain of £620,000 – impacting both the Authority's accounting surplus and net assets/(liabilities).

The actuary's calculation of the pension costs properly attributable to the financial year also added £604,000 to the Net cost of services and £220,000 to other income and expenditure. These are not chargeable to the taxpayer and are accounting adjustments only.

- **The treatment of the Authority's net share of Powys Pension Fund assets and future obligations;** on the Balance Sheet, the largest single item is the net liability relating to the Pension Fund – this is a recurring item which is calculated by the funds actuary and balanced in the accounts by a notional negative reserve of the

same amount. A year-on-year increase in the liability (the net difference between the long term asset values and long term liabilities of the pension fund is due to an increase in the present value of the Authority's obligations under the Pension Scheme.

- **Capital charges associated with the Authority's Property, Plant and Equipment** of some £165,000 appear in the Statement but not in management accounts, as they are not chargeable to the taxpayer.
- **Expenditure and income.** Internal recharges from one department to another, eg for room hire or stock supplied are excluded from total income figures and instead reduce the expenditure of the department providing the service.
- **Unusable Reserves** are notional amounts built up on the Balance Sheet to balance revaluations of property plant and equipment, pension fund liabilities, etc.

1.5 Significant items arising during the Audit

Further details on the detailed audit findings and the ISA260 enclosure will be presented at the meeting by Wales Audit staff; the principal items which are likely to have an impact on the Authority's accounts and finances in the future are noted below:-

A court case, "the McCloud judgement", was heard during the audit process in relation to the impact on pension changes implemented in 2014. The judgement confirmed an entitlement of some existing pension fund members (current staff) to compensation for the impact of changes then made to the pension scheme. This has had a material impact on pension liabilities in the Balance Sheet and Past Service Cost in the Income and Expenditure Account (increasing the Net Cost of Services by £385,000. This is included in the figure quoted in 1.4 above. The pension fund is due to be revalued in 2019/20 and the impact of the court case is likely to be felt by the Authority, along with other factors, in the form of increased pension fund contributions over the coming three financial years..

Advice from Wales Audit on the reclassification of a S106 receipt required revision of the Statement for the current year and creation of an additional debtor in the balance sheet. The accounting treatment of each S106 agreement will need to be considered carefully at the point at which the payment is made. The wording of the individual agreements have a bearing on how and when the income appears in the accounts.

1.6 Conclusion

The Statement of Accounts is one of the ways in which the Authority demonstrates good financial management and provides accountability for the way in which it has used the public funds entrusted to it. The audit process is designed to ensure that the public can have confidence in the quality of the Statement of Accounts and to minimize the risk that the financial position of the Authority has been materially miss-stated.

RECOMMENDATIONS:

- a) **That Members approve the Statement of Accounts for 2018/19, note the contents and recommendations of the Auditor General for Wales' Report and note the contents of the audit enquiries response letter**
- b) **That the Chairman signs the Statement.**