

REVIEW OF DRAFT FINANCIAL STATEMENTS 2010/11 (subject to audit)

Review of Meeting on 15 June 2011

Attendees

Councillor Tony Ilott (Chairman)
Councillor Trevor Stevens (Vice-Chairman)
Councillor Andrew Beere
Councillor Colin Clarke
Councillor Mike Kerford-Byrnes
Councillor Lawrie Stratford
Councillor Rose Stratford

Officers:

Karen Curtin – Chief Financial Officer (S151)
Jessica Lacey – Technical Accountant
Karen Muir – Corporate System Accountant
Katherine Bennett - PWC
Natasha Clark – Senior Democratic and Scrutiny Officer

Apologies

Councillor Barry Wood

1) Introduction

The purpose of this document is to provide a guide to the role that the Accounts, Audit & Risk Committee will have in ensuring the robust scrutiny of the financial statements.

The draft accounts for 2010/11 have changed significantly since 2009/10 with the introduction of International Financial Reporting Statements (IFRS) from UK Generally Accepted Accounting Practices (UK GAAP). This has presented a challenge for all local authorities with changes to apply retrospectively in areas such as fixed assets, grants, annual leave accruals, as well as the format and presentation of some financial statements.

2) The role of the Accounts, Audit & Risk Committee

The Accounts, Audit & Risk Committee reports to the full Council. It has right of access to all the information it considers necessary and may consult directly with internal and external auditors. The Committee is responsible for fulfilling responsibilities in relation to the production of the annual accounts and financial statement, for reviewing the external auditor's reports, the Annual Audit and Inspection Letter and internal audit's annual report, and monitoring any associated action plans. It may also review and make recommendations on systems of internal control, including financial, operational, compliance and risk management.

Council Members have an important role when they approve the local authority's accounts. Effective review and questioning by this committee is an essential part of good governance. However, this can be a challenging and daunting task for Members and you may feel that you need support to ensure that your members and audit committee, understand the key areas of the first ever IFRS local authority accounts closedown for 2010/11.

The 2010/11 financial statements present local authorities with a new challenge. These will be the first accounts presented in accordance with new international

financial reporting standards and there will be changes to the presentation of the accounts and new information for members and officers to get to grips with.

3) Changes to Regulations

The regulations state that whilst the statement of accounts must be approved no later than 30 June immediately following the end of a year, the draft statement of accounts can now be approved by the responsible financial officer rather than AARC. The responsible financial officer for the council is the section 151 officer (Head of Finance) Karen Curtin.

The responsible financial officer will need to certify for audit that the draft statement of accounts present a true and fair view of the financial position of the council.

Regulation 8 does retain the requirement for a committee to consider and ultimately approve the statement of accounts post audit by 30 September in the year immediately following the end of the year which the statement of accounts relates.

Whilst there is no statutory requirement for AARC to approve the draft statement of accounts by 30 June the Head of Finance recognises that it would be good practice to provide AARC with the opportunity to scrutinise the statements in June ahead of audit.

The transition to International Financial Reporting Standards (IFRS) has made the accounts more detailed and this has been recognised. This change will allow audit committee to fully understand the financial position of the council during June and approve the final audited statement of accounts in September.

4) Accounts Review Meetings

The objectives of the Accounts Review meeting were:

- Review Financial Statements 2010/10 (subject to audit) in detail
- Challenge the detail and understand movements from prior year including the transition from UK GAAP to IFRS
- Recommend additional disclosures or format improvements
- Recommend that the 'subject to audit' Statement of Accounts approval and sign-off be delegated to the Chief Financial Officer for signing on or before the statutory deadline of 30th June 2011.

5) The Annual Statement of Accounts – what's included?

The Chief Financial Officer is responsible for ensuring that the annual Statement of Accounts is prepared in accordance with 'The Code of Practice on Local Authority Accounting in the United Kingdom 2010/11: A Code of Practice (The Code)'. The Code specifies the minimum standards and information that must be included in the statement. The purpose of the published statement of accounts is to give electors, local taxpayers, members of the authority and other interested parties clear information about the Council's finances.

The following statements are included within the Accounts: -

Chief Financial Officer's Explanatory Foreword

Provides a brief outline of the purpose and structure of the Financial Statements and the Council's financial position compared with its budget for the year.

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'useable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable reserves'.

Comprehensive Income and Expenditure Account

Outlines the expenditure, income and net cost for the year of all the Council's revenue services and functions, and shows how this has been financed from general Government grants and income from local taxpayers. This takes into account all money owed to or by the Council and ensures the true cost of services is shown. This statement is prepared on an accruals basis.

Balance Sheet

The Balance Sheet sets out the overall financial position of the Council at the 31 March 2011 showing its assets, liabilities and reserves.

Cash Flow Statement

Records the movements of cash into and out of the Council arising from transactions with third parties. This is different from the Comprehensive Income and Expenditure Account which includes monies due to the Council or monies owed by the Council in the year, irrespective of whether these monies have been received or paid.

Notes to the Core Financial Statements

There are a number of notes to assist the reader or provide more detail of various items within the statement. Within these now sits the Statement of Accounting Policies which explains the basis on which the figures in the accounts have been prepared. These were approved in draft form at the March meeting of the Accounts, Audit and Risk Committee

Collection Fund and Notes

The Council has a legal duty to keep a separate account for council tax and business rates (NNDR), together with any transactions on residual community charges. The account shows the income collected on behalf of Oxfordshire County Council and Thames Valley Police Authority and the subsequent payment of that money (by precept) to those authorities. The council tax collected for Cherwell District Council, as well as the amounts for parishes, is shown in both the Collection Fund and the Income & Expenditure Account. Balances within the Collection Fund at the end of the year are also included within the Consolidated Balance Sheet.

Pension Fund Accounts

This details the Council's position on assets and liabilities within the pension fund which is administered by Oxford County Council and the assumptions used to formulate valuations for IAS19 purposes.

Annual Governance Statement

The Annual Governance Statement previously formed part of the Statement of Accounts, but under new regulations is now a separate document and will be taken to this Committee on Wednesday 22 June 2011.

6) Meeting Outcomes

As well as providing responses to the specific questions in section 7 the following was also reviewed:

- Summary of key messages and how they have been treated in the financial statements – particular focus on Icelandic investments and agreement to use capitalisation and not follow LAAP Bulletin
- An analytical review of the I & E supporting notes and statements
- An analytical review of the balance sheet supporting notes and statements
- Explanation of the remaining issues to be resolved ahead of a final version by 30 June 2011: Glitnir Impairment and Capitalisation, Reconciliation of the Movement in Reserves Statement, cross casting and formatting review and an updated Glossary.
- A number of minor presentational amendments to the statements /glossary were also proposed by the Committee and these will be considered in the final draft.

7) Questions raised

1.	Explanatory Foreword – how has the pay bill reduced?
	The impact of pay freeze, reduction of PRP and value for money reviews which has seen staff numbers reduce. All vacancies have been held where possible and this has contributed to reduction.
2.	Explanatory Foreword – what is the capital scheme – ECO Town Travel Behaviour for?
	Travel Survey held in conjunction with County Council to inform the infrastructure requirements of the ECO Town development.
3.	What is a revaluation?
	A revaluation occurs when a qualified valuer determines the fair value of an asset. Several factors are taken in to consideration when determining the fair value, and the balance sheet is then increased or decreased accordingly to reflect the new carrying value. Revaluations of all land and building fixed assets are carried out on a five year rolling programme.
4.	What is the impact of impairment?
	Where the assets of the Council are reduced in value, an adjustment must be made in the accounts. This is termed impairment and can take two forms, either a general reduction in prices or a loss of economic value (e.g. obsolescence or a lower commercial return on investment property). In the first case, if the asset has previously been revalued due to an increase in prices, the impairment can be charged against the individual asset balance on the revaluation reserve. Any balance of the loss must be charged to the Comprehensive Income & Expenditure Account, but this does not affect council tax, as it has already been financed as capital expenditure. The charge to I&E is therefore reversed out in the statement of movement on general fund (below the line) to the Capital Adjustment Account (where the financing is credited on acquisition). If a loss of economic value is incurred, the Revaluation Reserve can only stand this loss, if any previous, upward revaluation was connected to the current loss, for instance, an increase in commercial value of rented property.
5.	What is the current situation with Glitnir bank?
	The latest situation is outlined in explanatory foreword – Committee agreed with prudent approach to use capitalisation direction and not follow LAAP advice. Approach to be discussed with Audit Commission.

6.	What is LLAP Bulletin 82?
	CIPFA guidance on how to treat investments in Iceland within our financial statements.
7.	What is the Collection Fund?
	The Council has a legal duty to keep a separate account for council tax and business rates (NNDR), together with any transactions on residual community charges. The account shows the income collected on behalf of Oxfordshire County Council and Thames Valley Police Authority and the subsequent payment of that money (by precept) to those authorities. The council tax collected for Cherwell District Council, as well as the amounts for parishes, is shown in both the Collection Fund and the Income & Expenditure Account. Balances within the Collection Fund at the end of the year are also included within the Consolidated Balance Sheet. A review of the Collection Fund note and key figures was discussed.
8.	What is the difference between useable and non-useable reserves?
	Useable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable reserves – specific purposes. A review of note 7.8.
9.	Has Central Government helped with legal fees to recover Icelandic investments?
	No, the LGA has co-ordinated a joint campaign with all LA's affected – this Council has made a reserve of 1% of the investment (£65k) to fund these costs.
10.	What is de-recognition of assets?
	De-recognition is the new IFRS word for disposals. It simply translates as removing a value from your balance sheet after the sale or scrapping of an asset.
11.	Cashflow – can you explain how the key figures feed from balance sheet and supporting statements?
	Technical Accountant gave an overview of how the cashflow statement ties into the other statements by referring to the statements and supporting notes
12.	Are there other Oxfordshire authorities with investments in Iceland?
	Yes – Oxford City, Oxford County and West Oxon
13.	Of the £63.8m collected in NNDR – how much do we keep?
	In 2010/11 we received £9.5m from the NNDR pool – the distribution is based on a fixed formula based on population and other statistics. The localisation of business rates is the subject of the Local Government Resource Review.
14.	How does Cherwell's Council Tax bandings spread compare to other LA in County?
	<p>A spreadsheet will be circulated to members separately but the key comparisons are:</p> <ul style="list-style-type: none"> • Cherwell has the highest percentage of Band a and B property • Band C is roughly in line with rest of Oxon • Band D is the lowest percentage in County by almost 5%

	<ul style="list-style-type: none"> • Cherwell is at lower end of Band E and F along with Oxford City • Cherwell has the lowest percentage of Band G and H property
15.	Are the brackets correct or the figures wrong as they are a different way round on different statements?
	Technical Accountant explained the differences and the impact on the various statements – will consider using text in the tables to make it clear whether the number is positive, negative, surplus or deficit
16.	Could the glossary be at the front – as it is a really useful tool for readers of the accounts?
	Discussion that glossary would remain at the back but a reference in the explanatory foreword as per last year will be included.