APPENDIX 1

REVIEW OF FINANCIAL STATEMENTS 2009/10 (subject to audit)

Meetings on 16th June 2010, 17th June 2010 and email questions

Membership
Councillor John Donaldson (Chairman)
Councillor Trevor Stevens (Vice-Chairman)
Councillor Tim Emptage
Councillor Nicholas Mawer
Councillor Lawrie Stratford
Councillor Rose Stratford
Councillor Barry Wood (apologies given – email correspondence)
Councillor Ken Atack (apologies given – attended meeting on 17th June 2010)

Officers:
Mary Harpley – Chief Executive
Martin Henry – Chief Financial Offer (S151)
Karen Curtin – Head of Finance
Jessica Lacey – Technical Accountant
Karen Muir – Corporate System Accountant
Natasha Clarke – Democratic and Scrutiny Officer

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 and set the objectives for the meeting.

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. The Accounts and Audit Committee is responsible for approving the annual statement of accounts.

3) Accounts Review Meetings

The objectives of the meeting will be to:

- Review Financial Statements 2009/10 (subject to audit) in detail
- Challenge the detail and understand movements from prior year
- Recommend additional disclosures of format improvements
- Recommend that subject to audit Financial Statements be approved and signed by the Chairman

4) The Annual Statement of Accounts

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 2009: A Statement of Recommended Practice' (SORP). The SORP 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 financial statements are included within the Accounts: -

Chief Financial Officer's 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.

Statement of Accounting Policies
This 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.

Annual Governance Statement
The Annual Governance Statement sets out the Council's responsibility for Internal Control and describes both the purpose of internal control and the internal control environment. The statement also summarises the Council's review of the effectiveness of internal control and highlights significant internal control issues and actions to be taken in order to address these.

This statement has been subject to member and office scrutiny during its preparation. Councillors Atack, Stratford, Milne Hume and Wood together with various officers of the Council have been involved in preparing this statement.

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.

Statement of Movement on the General Fund Balance
A reconciliation showing how the balances and resources generated / consumed in the year links in with the statutory requirements for raising Council Tax.

Statement of Total Recognised Gains and Losses
A demonstration of how the movement in net worth in the Balance Sheet is accounted for either through the Income & Expenditure Account surplus / deficit or through other realised gains and losses in the Balance Sheet.

Balance Sheet
The Balance Sheet sets out the overall financial position of the Council at the 31 March 2010 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 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.

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 Councils position on assets and liabilities within the pension fund which is administered by Oxford County Council and the assumptions used to formulate valuations for FRS17 purposes.

5) Commentary on Financial Statement 2009/2010

A vital part of the scrutiny of the Financial Statement is an analytical review of the key variances on actual spending or income from one year to the next. The revenue outturn report was reviewed by the Executive on June 7th and key variances were noted within this report.

6) Report of meetings:

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

- Page by Page review of the Financial Statements
- Summary of key messages and how they have been treated in the financial statements
- Review of the Annual Governance Statement process
- An analytical review of the I & E supporting notes and statements
- An analytical review of the balance sheet supporting notes and statements
- Review of cashflow and supporting notes
- Explanation of the remaining issues to be resolved ahead of a final version : Glitnir Impairment, Reconciliation of the STRGL and review of the collection fund entries.
- A number of minor amendments to the statements were also proposed by the Committee and these have been updated in the final draft to be presented to the committee on 23rd June 2010.

7) Questions raised at the Review Meetings and by Email

1.	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 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. *Since the major change to capital accounting in 2007/08, we are now able to reverse the impact of previous year's impairments if the asset value has subsequently gone up due to a linked event. This is significant for the Council as it means the services do not take such a large hit for impairment as we refurbish properties, and also as properties go back up in value following the downturn in the market in recent years.*
2	Are we investing our money any differently in light of the Icelandic bank situation and the general decline in the economic climate?
	We are investing more money on a short-term basis while we see what happens to the money market and interest rates. We are currently operating in accordance with the Investment Strategy. We will bring a year end report of investments to the committee on 23rd June 2010..
3	Are we investing in Spain?
	As a result of warnings received about Spain and country risk we have removed all overnight deposits in Spanish banks and have 1 remaining deposit for £4.5m which is due to mature in 2nd Sept 2010.
4	What is the current situation with Glitnir bank?
	The latest situation is outlined in section 2.10 of the financial statements.
5	Can we put some comments relating to the impairment impact to Cultural and related Services in the I & E Account.?
	We will review this in the final draft
6	Can you explain the FRS17 movements?
	Prior to FRS17, the accounts only include the employer's contributions to the Pension Fund. Employers were, however, responsible for any possible deficit building up against a defined benefit scheme and could be asked to make additional payments over future years. The FRS 17 movements seek to establish the current liability for pensions earned to date and set these against the estimated value of assets held by the fund. A full actuarial valuation is carried out every 3 years, but a reassessment of fund asset and liabilities is made based on a series of actuarial and valuation assumptions in the intervening years. *The change in liability includes the extra year of benefit earned for current service employees and any increase in costs for past employees falling on the employer. To this is added contributions by employees, any actuarial reassessment (e.g. average life expectancy), and an interest cost to cover future increase in liability. Finally any benefits paid out are deducted, as these are no longer a liability. (see Pension Fund Notes)* *Changes to the asset value of the fund include all contributions received plus an estimate of the expected return on the assets already built up. From this is deducted any payment of benefits out of the fund. Finally an actuarial adjustment is made to reflect the current value of assets held.*
7	Why has the bad debt provision gone down when the level of debtors has risen?
	The increase in debtors is current debt and therefore is not provided for. The bad debt provision is calculated using an increasing % based on the age of the debt. As we have now

	written-off the majority of the older debts, the % we need to provide for is a lot lower.
8	Can you explain the big movement in the receipts in advance?
	This is mainly due to the Ministry of Defence paying us their NNDR for 2009/10 in advance.
9	Is the pension liability calculated annually? If not, how often and would there be a need to have the figures reported on a more regular basis in the times of economic crisis?
	FRS 17 Pensions, is reviewed annually by our actuaries Hewitt Associates Ltd. They provide all of the cost information and notes needed for inclusion in the year-end accounts. The Pension Fund is revalued every 3 years and this is next due based on March 2010 – we hope to have the results in Sept 2010. The MTFS has been prepared on 3 scenarios assuming an increase of 3%, 3.3% and 5% which will be staggered over 3 years..
10	Does this mean the pensions/economic impact and impairment and depreciation been allocated across all services?
	The charges for deprecation and impairment get allocated to whichever service area the assets belong. We have a reconciliation of each area that has suffered impairment.
11	*What is the Annual Governance Statement?*
	The Annual Governance Statement sets out the Council's responsibility for Internal Control and describes both the purpose of internal control and the internal control environment. The statement also summarises the Council's review of the effectiveness of internal control and highlights significant internal control issues and actions to be taken in order to address these. *The 2009/10 Annual Governance Statement has been formally reviewed by 3 members of the Accounts, Audit & Risk Committee with the Chief Financial Officer (S151), Monitoring Officer, the Head of Finance and Internal Audit.*
12	*Why have the long term loans reduced to zero?*
	Banbury Town Council repaid their two loans to the council during the financial year.
13	*Why is the employee emolument schedule different this year?*
	The SORP has provided additional guidelines regarding the disclosures required for chief officers, and we have therefore applied this. The format and the details included are prescribed by the accounting regulations. A full working paper is available to support all transactions.
14	*What were the terms of the car cash buy-out?*
	The council took a decision in 09/10 to withdraw the car cash allowance. A compensatory payment equivalent to 2.5 years allowance was therefore paid to all staff receiving this allowance. This will save the council approximately £340K per year.
15	*What is the reason behind the decrease in investments in the balance sheet?*
	The council has delivered a £17.7m capital programme this year, which has been financed partly through internal capital receipts therefore reducing the amount available to invest.
16	*Can you explain where the assets under construction have gone in the balance sheet?*
	In the last financial year, work had commenced but not completed on the new Spiceball sports centre. This has now opened and is reclassified as an operational asset.
17	*Can you please explain the prior period adjustment?*
	Note 10.1 lays out the entries required in relation to the collection fund in order to meet the

	new requirements of the SORP.
18	*Why has the balance in the trading undertaking note increased by almost £6m?*
	This note details the income the council received from commercial rents and car parks. In 08/09 the Castle Quay property suffered a large impairment which reduced income. In 09/10 this property has had the benefit of a revaluation which has meant the previous year's impairment accounting entries could be reversed.
19	*The pension notes detailed in note 14 – was that prepared by Oxfordshire County Council?*
	This note was prepared on behalf of OCC by Barnett Waddingham who is the Actuary.
20	*Has there been any expenditure in relation to the eco town?*
	There has been some minor preparatory work but the funds will be spent during the forthcoming years and in line with project plans.
21	*Related parties notes - have we received all the replies back in relation to this request?*
	Yes, we have received responses from all the members and chief officers who were requested to complete the declaration.
22	*We invested £1.1m in housing schemes – what is that?*
	It relates to the capital programme, and is made up of disabled facilities grants and other housing acquisition schemes.
23	*Annual Governance Statement – what is the complaints comparison with last year?*
	In 09/10 we received 241 complaints and 230 were given a full response in 10 days. *In 08/09 we received 221 complaints and 120 were given a full response in 10 days.*
24	*When would members receive information on partnership working undertaken by the authority?*
	Internal audit have undertaken a review of partnerships and will bring their findings to the next Accounts, Audit and Risk committee as part of the internal audit review.
25	*Why is there such a significant move in the debtor relating to NNDR? Is it due to the current economic climate and businesses not being able to pay?*
	This is in relation to the accounting changes for collection fund mainly. Our collection levels are on a par with 08/09 although we have made arrangements for debts to be paid over longer periods, eg. 10 month to 12 month instalments.
26	*Will the money we have received in respect of the eco town be clawed back?*
	Not as far as we believe. The Chief Executive has received confirmation that the money we currently hold will not be clawed back.
27	*What is LLAP Bulletin 82?*
	CIPFA guidance on how to treat investments in Iceland within our financial statements.
28	*What is REFCUS?*
	Revenue Expenditure Funded from Capital under Statute (REFCUS) is capital expenditure which does not result in, or remain matched with, tangible assets. Examples of this include expenditure on items such as private sector housing grants or expenses included in the promotion of a Private Act of Parliament.
29	*Where do he legal costs we have incurred for our Icelandic claim sit?*
	They are within Corporate & Democratic Core – we incurred costs of £25K within 09/10.
30	*Have impairments been updated in the table?*

	There is no need, as they have not now changed.
31	*Why is there an overspend on Cultural & Recreation?*
	This is in relation to the Spiceball impairment.
32	*What is CAA?*
	Capital Adjustment Account reflects the timing difference between the cost of fixed assets consumed and the capital financing set aside to pay for them.
33	*What does the £15,076 net additional amount required by statute and non-statutory proper practices relate to?*
	These are amounts that do not impact the council tax raised. A breakdown can be seen in note 10.9.
34	*What are sundry debtors?*
	This relates to commercial rents, fees and charges.
35	*Discussion about note 10.41 Grant Cuts*
	The Chief Executive explained no more housing and planning delivery grants, LAGBI money this year, and cuts on community cohesion funding.
36	*Why has the new Spiceball gone down in value already?*
	The opening value was the spend to build, and this is not the same as the fair value.
37	*Annual Governance Statement review – members were happy with the content, however, the Chief Executive mentioned that the Executive summary should now be updated to reflect the end of CAA and UOR.*
	To be updated.