

Finance and Audit Scrutiny Panel

Grand Jury Room, Town Hall
29 March 2011 at 6.00pm

The Finance and Audit Scrutiny Panel deals with the review of service areas and associated budgets, and monitors the financial performance of the Council. The panel scrutinises the Council's audit arrangements and risk management arrangements, including the annual audit letter and audit plans, and Portfolio Holder 'Service' decisions reviewed under the Call in procedure.

Information for Members of the Public

Access to information and meetings

You have the right to attend all meetings of the Council, its Committees and Cabinet. You also have the right to see the agenda, which is usually published 5 working days before the meeting, and minutes once they are published. Dates of the meetings are available at www.colchester.gov.uk or from Democratic Services.

Have Your Say!

The Council values contributions from members of the public. Under the Council's Have Your Say! policy you can ask questions or express a view to meetings, with the exception of Standards Committee meetings. If you wish to speak at a meeting or wish to find out more, please pick up the leaflet called "Have Your Say" at Council offices and at www.colchester.gov.uk

Private Sessions

Occasionally meetings will need to discuss issues in private. This can only happen on a limited range of issues, which are set by law. When a committee does so, you will be asked to leave the meeting.

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Terms of Reference

Finance and Audit Scrutiny Panel

- To review all existing service plans and associated budget provisions against options for alternative levels of service provision and the corporate policies of the Council, and make recommendations to the Cabinet
- To have an overview of the Council's internal and external audit arrangements and risk management arrangements, in particular with regard to the annual audit plan, the audit work programme and progress reports, and to make recommendations to the Cabinet
- To monitor the financial performance of the Council, and to make recommendations to the Cabinet in relation to financial outturns, revenue and capital expenditure monitors
- To scrutinise the Audit Commission's annual audit letter
- To scrutinise executive 'service' decisions made by Portfolio Holders and officers taking key decisions which have been made but not implemented referred to the Panel through the call-in procedure

The panel may a) confirm the decision, which may then be implemented immediately, b) refer the decision back to the decision taker for further consideration setting out in writing the nature of its concerns, or c) refer the matter to full Council in the event that the Panel considers the decision to be contrary to the Policy Framework of the Council or contrary to, or not wholly in accordance with the Budget.

**COLCHESTER BOROUGH COUNCIL
FINANCE AND AUDIT SCRUTINY PANEL
29 March 2011 at 6:00pm**

Members

Chairman : Councillor Dennis Willetts.
Deputy Chairman : Councillor Christopher Arnold.
Councillors Jon Manning, Kim Naish, Gerard Oxford,
Nick Cope, Scott Greenhill, Sue Lissimore, Colin Mudie and
Colin Sykes.

Substitute Members : All members of the Council who are not Cabinet members or members of this Panel.

Agenda - Part A

(open to the public including the media)

Members of the public may wish to note that Agenda items 1 to 5 are normally brief and items 6 to 9 are standard items for which there may be no business to consider.

Pages

1. Welcome and Announcements

(a) The Chairman to welcome members of the public and Councillors and to remind all speakers of the requirement for microphones to be used at all times.

(b) At the Chairman's discretion, to announce information on:

- action in the event of an emergency;
- mobile phones switched off or to silent;
- location of toilets;
- introduction of members of the meeting.

2. Substitutions

Members may arrange for a substitute councillor to attend a meeting on their behalf, subject to prior notice being given. The attendance of substitute councillors must be recorded.

3. Urgent Items

To announce any items not on the agenda which the Chairman has agreed to consider because they are urgent and to give reasons for the urgency.

4. Declarations of Interest

The Chairman to invite Councillors to declare individually any personal interests they may have in the items on the agenda.

If the personal interest arises because of a Councillor's membership of or position of control or management on:

- any body to which the Councillor has been appointed or nominated by the Council; or
- another public body

then the interest need only be declared if the Councillor intends to speak on that item.

If a Councillor declares a personal interest they must also consider whether they have a prejudicial interest. If they have a prejudicial interest they must leave the room for that item.

If a Councillor wishes to make representations on an item on which they have a prejudicial interest they may do so if members of the public are allowed to make representations. In such circumstances a Councillor must leave the room immediately once they have finished speaking.

An interest is considered to be prejudicial if a member of the public with knowledge of the relevant facts would reasonably regard it as so significant that it is likely to prejudice the Councillor's judgement of the public interest.

Councillors should consult paragraph 7 of the Meetings General Procedure Rules for further guidance.

5. Minutes

1 - 6

To confirm as a correct record the minutes of the meeting held on 22 February 2011.

6. Have Your Say!

(a) The Chairman to invite members of the public to indicate if they wish to speak or present a petition at this meeting – either on an item on the agenda or on a general matter not on this agenda. You should indicate your wish to speak at this point if your name has not been noted by Council staff.

(b) The Chairman to invite contributions from members of the public who wish to Have Your Say! on a general matter not on this agenda.

7. Items requested by members of the Panel and other Members

(a) To evaluate requests by members of the Panel for an item relevant to the Panel's functions to be considered.

To consider a request from Councillor Gerard Oxford for the Panel to consider a review of Cash Handling by Animal and Pest Control Operatives.

(b) To evaluate requests by other members of the Council for an item relevant to the Panel's functions to be considered.

Members of the panel may use agenda item 'a' (all other members will use agenda item 'b') as the appropriate route for referring a 'local government matter' in the context of the Councillor Call for Action to the panel. Please refer to the panel's terms of reference for further procedural arrangements.

8. Referred items under the Call in Procedure

To consider any Portfolio Holder decisions, taken under the Call in Procedure.

The panel may a) confirm the decision, which may then be implemented immediately, b) confirm the decision back to the decision taker for further consideration setting out in writing the nature of its concerns, or c) refer the matter to full Council in the event that the panel considers the decision to be contrary to the Policy Framework of the Council or contrary to, or not wholly in accordance with the Budget.

9. Decisions taken under special urgency provisions

To consider any Portfolio Holder decisions taken under the special urgency provisions.

10. Audit Opinion Plan 2010-11

7 - 30

See report from the Audit Commission.

Ms. Christine Connelly, Senior Audit Manager and Appointed Auditor will attend the meeting and present the report.

The Panel is asked to comment on, and note the Audit Opinion Plan.

11. 2009-10 Certification of Claims and Returns Annual Report

31 - 41

See report from the Audit Commission.

Ms. Christine Connolly, Senior Audit Manager and Appointed Auditor

will attend the meeting and present the report.

The Panel is asked to comment on, and note the report.

12. Annual Governance Statement briefing paper 42 - 45

See report from the Head of Resource Management.

The Risk and Resilience Manager will also provide an update on the draft report on 'Appointments to Outside Bodies'.

13. 2010-11 Internal Audit Monitor, period April to December. 46 - 63

See report from the Head of Resource Management.

14. International Financial Reporting Standards 64 - 67

See report from the Head of Resource Management.

15. Exclusion of the public

In accordance with Section 100A(4) of the Local Government Act 1972 and in accordance with The Local Authorities (Executive Arrangements) (Access to Information) (England) Regulations 2000 (as amended) to exclude the public, including the press, from the meeting so that any items containing exempt information (for example confidential personal, financial or legal advice), in Part B of this agenda (printed on yellow paper) can be decided. (Exempt information is defined in Section 100I and Schedule 12A of the Local Government Act 1972).

FINANCE AND AUDIT SCRUTINY PANEL 22 FEBRUARY 2011

Present :- Councillor Dennis Willetts (Chairman)
Councillors Nick Cope, Scott Greenhill, Sue Lissimore,
Jon Manning, Colin Mudie, Kim Naish, Gerard Oxford
and Colin Sykes

Substitute Member :- Councillor Jackie Maclean
for Councillor Christopher Arnold

Also in Attendance :- Councillor Paul Smith
Councillor Tim Young
Councillor Beverley Oxford
Councillor Anne Turrell

54. Minutes

The minutes of the meeting held on 25 January 2011 were confirmed as a correct record, subject to the following amendment;

Under the Budget Strategy item, the paragraph in which Councillor Dopson responds to Councillor Lissimore on the charging policy for Kings Meadow to read;

"In response to Councillor Lissimore concerning the introduction of a consistent charging policy for use of Kings Meadow for parking during events, Councillor Dopson said this is work in progress, there currently is no consistent charging policy for use of Kings Meadow for the variety of events held in or outside the Castle Park. Events that are run by charities utilising the facilities of Castle Park for free, will be able to continue using Kings Meadow parking facilities for free. Councillor Dopson said she was currently reviewing all other uses of Kings Meadow".

Councillor Colin Mudie and Councillor Kim Naish (in respect of being a member of the Board of Colchester Borough Homes) declared a personal interest in the following item pursuant to the provisions of Meetings General Procedure Rule 7(3)

Councillor Colin Sykes (in respect of his spouse being a member of the Board of Colchester Borough Homes) declared a personal interest in the following item pursuant to the provisions of Meetings General Procedure Rule 7(3)

55. Capital Improvement Programme (Decent Homes) progress report

Capital Improvement Programme (Decent Homes) progress

Councillor Tim Young, Portfolio Holder for Housing and Community Safety, Ms. Lindsay Barker, Head of Strategic Policy and Regeneration, Mr. Mark Wright, Director of Property Services, Colchester Borough Homes and Mr. Matthew Armstrong, Asset Manager, Colchester Borough Homes all attended the meeting for this item.

Ms. Lindsay Barker presented the progress report on the Capital Improvement Programme (Decent Homes), that provided a position statement as at the end of December 2010, and that compares the opening plan for 2010/11 against the six months of delivery between July and December 2010.

Ms Barker said the purpose of the project was to achieve a decency standard for all the Council's housing stock and to date progress remained on-track and within the defined existing budget and with the customer satisfaction performance targets achieved.

The chart within the report illustrated that to date the number of non-decency properties stood at 777, well below the predicted forecast of 1070, showing the project to be performing well. At the current rate of progress it was anticipated that the project would be completed within the timeframe.

Councillor G. Oxford said the progress was good news, moving forward with speed. Councillor Oxford enquired about how many Council owned properties still had single glazed windows and how much would it cost to have double or triple glazed units installed. This was discussed later in the debate.

Councillor Manning said it would be helpful in determining progress to know what percentage of the total capital programme budget had been spent, and for the same period what percentage of the housing stock had been completed. Councillor Sykes concurred with Councillor Manning, saying the report did not provide any feeling as to whether the programme is on-track in terms of completed numbers and finances. Councillor Sykes also commented that there were large unexplained differences in the number of components estimated to be delivered against the actual number of components delivered by the end of quarter 2.

Mr. Mark Wright confirmed that this information could be provided, although the total funded programme was £7.5 million, as noted in the Capital Monitor report, and to date the total spend on the project was £3.5 million. Mr. Wright agreed that more detail on costs would be helpful. Mr. Wright said the differential in the number of components delivered against target was largely explained by grouping together the Boiler/Heating component parts

Given the apparently large number of refusals for the heating and kitchen components, Councillor Sykes asked how much pressure was used, or how persuasive was the Council in getting the tenant to accept the need for the upgrade. Mr. Wright said firstly it has to be understood that some refusals are due to the tenant having already carried out their own works. Other tenants are consulted on an individual basis. Housing Officers actively encourage tenants to speak to those neighbours who have had an upgrade and Ward Councillors are notified of tenant refusals, so they can speak to the tenant about the tenant's concerns about the work. Councillor T. Young said the Ward Councillors being notified of refusals, a recommendation of the Finance and Audit Scrutiny Panel at a previous review, was a very positive step made, and enabled the Councillors, who are often better placed to understand the needs or health condition of their ward residents, e.g. he was aware in his own ward of residents who had refused, often confused old people, some of a nervous disposition or dementia sufferers, and this enabled a more sympathetic approach to be taken.

Councillor Manning and Naish asked whether refusals were in some way linked to the time of year the upgrade is offered, e.g. it was more likely that during the cold winter months a tenant, especially an elderly person, would not want the discomfort of having new windows and doors or a new heating system installed. Mr. Wright said tenants are offered a respite in the works though the turnaround time is relatively quick, with replacement windows usually taking one day to complete. Replacement windows and heating systems are usually completed in the summer months and the month of December is usually avoided for new kitchen installations. This type of installation is not completed during periods of heavy snowfall. Mr. Wright confirmed to Councillor Manning that an analysis of refusals could be provided, giving a breakdown by type and when they were refused. Mr. Wright said gas boilers and heating systems are serviced annually, and if considered defunct they have no option but to immediately replace. It was also confirmed that tenants do not refuse the replacement of windows and doors.

Mr. Wright said if the tenant still refuses to have the necessary work done, this is not the end, and officers will go back to these tenants during the lifetime of the project, or as part of a follow-up review at the commencement of the new financial year. In response to Councillor Oxford, Mr. Wright said whilst he understood the memories of tenants are very long, and their hesitancy could be due to the knock-on effect from previous failings, the programme of work is now published in local newsletters and open evenings are organised in local areas, an opportunity for tenants to meet contractors and have any questions or concerns answered. It was now felt that tenants do look at this project in a different light to previous contracts and any feeling of apprehension has now gone. Councillor Young said there are no greater advocates of the project than those tenants who have had the work done. Mr. Wright said that in other local authorities, broadly speaking, refusals are between 12% – 25% and Colchester falls in the middle of this range.

In response to Councillor Lissimore who asked what would happen to those tenants who through 'refusal' do not have their property upgraded by the time the project concludes at the end of 2012, Mr. Wright said from 2012 the present HRA subsidy system will be replaced by the self-financing housing revenue account. Under this financing system resources will be provided for either improvements in services, additional stock investment or capital investment to the housing stock. Therefore, those properties not upgraded at the conclusion of the Decent Homes Project will be listed, not lost, but picked up a later date under the new scheme.

Ms. Barker confirmed that she would arrange for a briefing note update to Members of the Panel on the new self-financing housing revenue account.

Councillor Willetts said given progress remained on-track and within the defined existing budget and with the customer satisfaction performance targets achieved, asked the Panel whether the need to remain reporting progress on a quarterly basis was still needed, or whether the frequency of reporting could be reduced.

Councillor Manning said he believed progress on this project could now be reported 6-monthly, a year end report presented at the commencement of the new financial year, probably at the June/July meeting, and a 6-monthly update, probably in December.

Whilst it was understood that because having double glazed windows in a property was not a requirement to achieve decency there remained some housing stock properties whose windows remained single glazed. Earlier in the discussions, Councillor Oxford had requested a report setting out details of the number of housing stock properties whose windows remained single glazed, how much would it cost to have these properties double glazed and what would the effect be on thermal comfort levels. Ms. Barker said whilst this work could be looked at in isolation, outside the current Capital Improvement Programme, this exercise would be better served if it was dealt with as part of the overall Asset Management Strategy (AMS) where choices on investment across the total housing stock will be considered in-line with the new self-financing housing revenue account to be introduced from 2012. A review of the AMS would be undertaken in 2011 to form part of the Budget process for 2012/13. Councillor Young agreed that stock investment options needed to be considered as a 'whole', and in time for commencement in-line with the new self-financing system. An Asset Management Group has been set-up to consider the options and come forward with a revised strategy for 2013. Ms. Barker said a review of the revised AMS could be undertaken by the Panel in 2012.

RESOLVED that the Panel:-

- i) Commented on and noted the progress on the Capital Improvement Programme (Decent Homes).
- ii) Agreed that future progress reporting would be on a twice per year basis, a year end progress report in June / July and a 6-monthly update in December.
- iii) Requested that future reports would provide what percentage of the total capital programme budget had been spent, and for comparison purposes, what percentage of the housing stock had been completed.
- iv) Requested that an analysis of refusals is provided to Members, giving a breakdown of refusals by type (the reason for refusal), and the date on when they were refused.
- v) Requested that a briefing note update on the self-financing housing revenue account is circulated to Members of the Panel.
- vi) Agreed to review the revised draft Asset Management Strategy, at a date to be agreed between the Head of Strategic Policy and Regeneration and the Scrutiny Officer.

56. Risk Management, period October to December 2010

Ms. Hayley McGrath, Risk and Resilience Manager, presented the Risk Management report for period October to December 2010, an interim review.

The key risk for quarter 3 continued to be the potential impact of future central government decisions to reduce public funding, including that of partners.

Ms. McGrath drew Members attention to the Risk Matrix illustrated in appendix 2 of the report that identified the three high risk areas, those of the decline of staff motivation with the impact of fundamental service reviews, the potential impact of future central government decisions to reduce public funding and the inability to deliver the budget strategy in the current economic climate.

Ms. McGrath said Colchester had been recommended to Brentwood Borough Council by the Audit Commission to provide advice on how to manage risk. In the opinion of the Audit Commission, Colchester demonstrate a good example of best practice in providing an effective risk management process. Ms. McGrath also confirmed that work had commenced by the internal auditor to align the internal audit plan with the risk register(s) to ensure a comprehensive audit of key issues within each service area.

Ms. McGrath confirmed to Councillor Willetts that local authorities would see new risks emerging, such as those arising out of the new Bill on Localism.

In response to Councillor Lissimore who asked about the specific risk of declining staff motivation due to the impact of Fundamental Service Reviews and the implementation of budget efficiencies, given that Members have previously being told how staff had embraced the potential changes and were pleased these reviews were being undertaken, Ms. Ann Wain, Executive Director said the risk score for this specific risk remained the same as has previously been reported, as had the mitigating action taken by management and the recent 'Best Council' staff survey had produced a marginal improvement in results. Ms. Wain said the management are comfortable with the present risk score while work continues on the uncertainties.

Councillor Manning said staff are the lifeblood of the organisation, making it work, and given all the uncertainties around budget pressures and the current economic climate should be commended for their continual hard work and dedication.

RESOLVED that the Panel noted the progress on Risk Management during the period October to December 2010 and the updated Strategic Risk Register.

57. Capital Expenditure Monitoring report

Me. Steve Heath, Finance Manager, presented the Capital Expenditure Monitoring report for April to December 2010.

Mr. Heath gave an overview of the first 9 months of this year capital spending totalling £9.4 million, and representing 29.5% of the total programme, and 43.9% of the projected spend for 2010/11. New funding has been added to the capital programme including £342k released by Cabinet for phase 2 of the Carbon Management Programme and £272.5k Section 106 funding towards the construction of the new community centre at Tiptree, together with some smaller contributions from other external parties and Section 106 monies. It should be noted that the programme includes a number of major schemes where spending is planned across more than one year.

In regards to the projected variances on major schemes, the scheme for Colchester Leisure World Fitness Pool LACM and Modernisation is currently forecast to be overspent by a maximum of £125.5k, together with an overspend of £31k on the Site Disposal Costs that will require further funding in order to complete the planned sales. The contract retention payments on the St Anne's Community Centre were less than expected, resulting in an underspend, as was the programme of DDA works, giving an overall net overspend of £71.7k.

Mr. Heath confirmed to Councillor Willetts that the results on the Capital Improvement Programme (Decent Homes) showed the work and finances to be on-course.

Mr. Heath confirmed to Councillor Oxford that the £190.3k funding for 2011/12 under the Disability Discrimination Act (DDA) Measures was for the DDA Sensory Access project.

RESOLVED that the Panel noted the level of Capital Spending during 2010/11 and forecasts for future years.

58. Revenue Expenditure Monitoring report - April to December 2010

Mr. Plummer, Finance Manager, presented the Revenue Expenditure Monitoring report for April to December 2010, giving the Council's spend up to the end of December with a year-end forecast.

Mr. Plummer said the projected outturn for the General Fund is currently a net overspend of £251k, and the Housing Revenue Account forecast outturn position, an underspend of £176k. The position at the second quarter indicated a potential net overspend of £1.035m, so the current forecast outturn represents a considerable improvement on the position reported in November 2010.

Mr. Plummer commented that in the 2011/12 report agreed at the recent Council meeting, it was stated that the anticipated year-end net overspend would be between £150k - £200k. Officers anticipate that we will finish at this level representing a slight improvement on the current estimate of £250k.

Councillor Manning enquired about the recent news concerning a 48% cut by Essex County Council on the Supporting People's Grant, and the impact on the Financial Monitoring report. Mr. Plummer said this would be picked up as part of the 2011/12 Budget process and the consequences of this would be reported to the Panel in-year.

RESOLVED that the Panel noted the financial performance of the General Fund Services and the Housing Revenue Account in the first nine months of 2010-11.

59. Work Programme

RESOLVED that the Panel confirmed the current work programme.

Audit plan

Colchester Borough Council

Audit 2010/11

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Introduction

This plan sets out the audit work that I propose to undertake for the audit of financial statements and the value for money conclusion 2010/11.

1 The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:

- audit work specified by the Audit Commission for 2010/11;
- current national risks relevant to your local circumstances; and
- your local risks.

Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.

2 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

3 I comply with the statutory requirements governing our audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

Fee for the audit

The fee for the audit is £139,550, as indicated in my letter of 26/04/10.

4 The Audit Commission scale fee for Colchester Borough Council is £146,878. The fee proposed for 2010/11 is 5 per cent below the scale fee and is within the normal level of variation specified by the Commission.

5 The Commission wrote to all audited bodies, on 9 August 2010, about its proposed new arrangements for local value for money audit work. This indicated the impact on audit fees for 2010/11 would be considered as part of the Commission's consultation on its work programme and scales of fees for 2011/12, planned for September 2010. In light of the Secretary of State's announcement on the government's intention to abolish the Commission, this consultation was delayed.

6 The consultation document was issued on 10 December 2010 and proposes a rebate of 1.5 per cent of the 2010/11 scale fee for District Councils. For Colchester Borough Council this equates to £2,203. This is in addition to the earlier rebate of £9,046 for the additional audit costs from the transition to International Financial Reporting Standards (IFRS).

7 The Commission is also proposing to not charge inspection fees (£9,152) for work already carried out in this financial year on the managing performance part of the organisational effectiveness assessment. The local government consultation documents are available from the [Commission's website](#).

8 Therefore the total fee payable for the 2010/11 audit, after all rebates, will be £119,149. The reductions represent 14.6 per cent of the original fee proposed.

9 In setting the fee, I have assumed that:

- the level of risk in relation to the audit of accounts is consistent with that for 2009/10;
- good quality, accurate working papers are available at the start of the financial statements audit;
- the Council will supply good quality working papers to support the restatement of 2009/10 balances to comply with International Financial Reporting Standards (IFRS); and
- Internal Audit undertakes appropriate work on all material systems and this is available for our review by 30 April 2011.

10 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, I will discuss this first with the Head of Resource Management and I will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

11 Further information on the basis for the fee is set out in Appendix 1.

Specific actions Colchester Borough Council could take to reduce its audit fees

12 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. As in previous years, I will work with staff to identify any specific actions that the Council could take and to provide ongoing audit support.

Auditors report on the financial statements

I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).

13 I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Council as at 31 March 2011.

Materiality

14 I will apply the concept of materiality in both planning and performing the audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

Identifying opinion audit risks

15 I need to understand fully the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. I do this by:

- identifying the business risks facing the Council, including assessing your own risk management arrangements;
- considering the financial performance of the Council;
- assessing internal control – including reviewing the control environment, the IT control environment and Internal Audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Council information systems.

Identification of specific risks

I have considered the additional risks that are appropriate to the current opinion audit and have set these out below.

Table 1: **Specific risks**

Specific opinion risks identified

Risk area	Audit response
<p>The Council is well progressed when it comes to IFRS restatement and their implementation plans are sound. Nevertheless, given the fact that IFRS is a new requirement for 2010/11 this is seen to be a significant risk, particular in relation to the accounting treatment for Fixed Asset component valuations and leases.</p>	<p>We will review the IFRS restatement workings in January/February 2011 and discuss early findings with officers.</p>
<p>Given the financial pressures the Council will be exposed to in 2010/11 and the need to deliver against a balanced budget, there is an increased risk of financial misreporting.</p>	<p>Additional testing to be undertaken in those areas of risk, such as year-end cut-off of debtors and creditors, provisions and accruals.</p>
<p>There are two new systems coming into effect in 2010/11, which once embedded should improve processes.</p> <ul style="list-style-type: none"> ■ The Fixed Assets system, which will make the asset register IFRS compliant. This has now been set up and 2008/09 assets have been imported in to the system and reconciled to the accounts. The Council aims to bring the system up to date with the IFRS restated 2009/10 fixed asset figures by January 2011. ■ The new e-procurement module which will integrate with the ledger and purchase ledger modules. This is coming online in late 2010/11 in a phased way. 	<ul style="list-style-type: none"> ■ When undertaking the IFRS restatement work we will review the work done on the implementation of the new Fixed Asset system. This will ensure that for 2009/10 comparatives (after restatement for IFRS) the system is generating the correct figures as included in the 2009/10 audited accounts and therefore the Fixed Asset Register is complete and the entries within it are valued correctly (ie have the correct valuation amounts from 2009/10 applied against them and are being depreciated appropriately). ■ We will assess whether the impact on the 2010/11 accounts will be material before documenting the changes and testing the system. It is unlikely to constitute a material flow given the timing of implementation and the phased way in which the Council is bringing it online.

Value for money risks

16 I will undertake my risk assessment for the value for money (VFM) conclusion later in the year and communicate with you further then.

Testing strategy

On the basis of risks identified above I will produce a testing strategy which will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year-end.

17 I can carry out the testing both before and after the draft financial statements have been produced (pre- and post-statement testing).

18 Wherever possible, I will complete some substantive testing earlier in the year before the financial statements are available for audit. I have identified the following areas where substantive testing could be carried out early.

- Predictive analytical review on:
 - payroll;
 - housing rents;
 - national non domestic rates (NNDR);
 - housing benefits; and
 - council tax.
- Testing of fixed asset revaluations, additions and disposals.
- Early review of accounting policies.
- Review of key year-end feeder reconciliations, including the bank and cash reconciliation.
- Early review of IFRS restatement work.

19 Where I identify other possible early testing, I will discuss it with officers.

20 Wherever possible, I will seek to rely on the work of Internal Audit to help meet my responsibilities. For 2010/11, I expect to be able to use the results of the following pieces of work.

- General ledger.
- Debtors.
- Creditors.

21 I will also review the results of Internal Audit's work on the following to identify if they impact on my overall audit.

- Payroll.
- Cash collection.
- Council tax.
- Housing and council tax benefits.
- NNDR.
- Management of expenditure of Colchester Borough Homes (CBH).

22 As part of my overall review of the Council's Annual Governance Statement and VFM arrangements, I will also consider Internal Audit's work on:

- governance statement action plan review;
- corporate governance and scrutiny;
- risk management;
- treasury management; and
- CBH governance arrangements.

23 I will also seek to rely on the work of other auditors and experts, as appropriate, to meet my responsibilities. For 2010/11, I plan to rely on the work of other auditors in the following areas.

- Entries in the accounts provided by Colchester Borough Homes.
- Pension fund liabilities.
- If material, entries in the accounts provided by:
 - Colchester Community Stadium Limited;
 - Braintree and Uttlesford Joint Parking Service; and
 - Colchester and Ipswich Joint Museum Committee.

24 I also plan to rely on the work of experts in the following areas.

- The Council's valuers for fixed asset valuations and impairment review.
- The Audit Commission's expert to compare valuation trends against valuation movements in the Council's accounts.
- If material, the Council's legal advisors for values for provisions and contingent liabilities.

Value for money conclusion

I am required to give a statutory VFM conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

25 This is based on two criteria, specified by the Commission, related to your arrangements for:

- securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

26 I will plan a programme of VFM audit work based on my risk assessment.

Key milestones and deadlines

The Council is required to prepare the financial statements by 30 June 2011. I am required to complete the audit and issue the opinion and value for money conclusion by 30 September 2011.

27 The key stages in producing and auditing the financial statements are in Table 2.

28 I will agree with you a schedule of working papers required to support the entries in the financial statements. The agreed fee is dependent on the timely receipt of accurate working papers.

29 Every week, during the audit, the audit team will meet with the key contact and review the status of all queries. I can arrange meetings at a different frequency depending on the need and the number of issues arising.

Table 2: **Proposed timetable**

Activity	Date
Control and early substantive testing	April 2011
Receipt of accounts	28 June 2011
Sending audit working papers to the auditor	4 July 2011
Start of detailed testing	4 July 2011
Progress meetings	Weekly
Present report to those charged with governance at the Accounts and Regulatory Committee	27 September 2011
Issue opinion and value for money conclusion	By 30 September 2011

The audit team

Table 3 shows the key members of the audit team for the 2010/11 audit.

Table 3: **Audit team**

Name	Contact details	Responsibilities
Debbie Hanson District Auditor	d-hanson@audit-commission.gov.uk 0844 798 5816	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Christine Connolly Senior Audit Manager	c-connolly@audit-commission.gov.uk 0844 798 5781	Manages and coordinates the different elements of the audit work. Key point of contact for the Head of Resource Management.
Gary Belcher Principal Auditor	g-belcher@audit-commission.gov.uk 0844 798 2606	Responsible for day to day supervision of the audit team. Key point of contact for the Finance Manager.

Independence and objectivity

30 I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which I am required by auditing and ethical standards to communicate to you.

31 I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in Appendix 2.

Meetings

32 The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in Appendix 3.

Quality of service

33 I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

34 If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Planned outputs

35 My team will discuss and agree reports with the right officers before issuing them to the Accounts and Regulatory Committee or Finance and Audit Scrutiny Panel.

Table 4: **Planned outputs**

Planned output	Indicative date
Audit Plan	31 March 2011
Annual governance report	30 September 2011
Auditor's report giving an opinion on the financial statements and Value for Money conclusion	30 September 2011
Annual audit letter	30 November 2011

Appendix 1 Basis for fee

The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.

The risk assessment process starts with the identification of the significant financial and operational risks applying to the Council with reference to:

- my cumulative knowledge of the Council;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
- interviews with Council officers; and
- liaison with Internal Audit.

Assumptions

In setting the fee, I have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2009/10;
- the level of risk in relation to the value for money conclusion is not significantly different from 2009/10;
- you will inform me of significant developments impacting on the audit;
- Internal Audit meets the appropriate professional standards;
- Internal Audit undertakes appropriate work on relevant systems that provide material figures in the financial statements sufficient that I can place reliance for the purposes of our audit;
- you provide:
 - good quality working papers and records to support the financial statements by July 2011;
 - information asked for within agreed timescales;
 - prompt responses to draft reports; and
- there is no allowance for extra work needed to address questions or objections raised by local government electors.

Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee.

Appendix 2 Independence and objectivity

Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Finance and Scrutiny Panel. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.

The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

The Standing Guidance for Auditors includes a number of specific rules.

The key rules relevant to this audit appointment are as follows.

- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit Plan as being 'additional work' and charged for separately from the normal audit fee.
- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional safeguards in the last two years.
- The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.

The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

Appendix 3 Working together

Meetings

The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers.

My proposal for the meetings is as follows.

Table 5: **Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Chief Executive and Head of Resource Management	District Auditor (DA) and Senior Audit Manager (SAM)	Quarterly	General update. Discussion of key Council issues.
Finance Manager	SAM and Team Leader (TL)	Quarterly	General update plus: <ul style="list-style-type: none">■ March – audit plan;■ July – accounts progress; and■ September – annual governance report.
Chief Accountant	TL	Weekly throughout accounts visit	Update on audit issues
Audit Committee	DA and SAM, with TL as appropriate	As determined by the Committee	Formal reporting of: <ul style="list-style-type: none">■ Audit Plan;■ Annual governance report; and■ Other issues as appropriate.

Sustainability

The Audit Commission is committed to promoting sustainability in our working practices and I will actively consider opportunities to reduce our impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate; and
- reducing travel.

Appendix 4 Glossary

Annual audit letter

Report issued by the auditor to an audited body that summarises the audit work carried out in the period, auditors' opinions or conclusions (where appropriate) and significant issues arising from auditors' work.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by auditors in accordance with the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'Members' and 'Those charged with governance'.)

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and other guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB, which contain basic principles and essential procedures with which auditors are required to comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts or accounting statements that audited bodies are required to prepare, which summarise the accounts of the audited body, in accordance with regulations and proper practices in relation to accounts.

Internal control

The whole system of controls, financial and otherwise, that is established in order to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality (and significance)

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only in relation to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, in addition to their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements.

Significance has both qualitative and quantitative aspects.

Members

The elected, or appointed, members of local government bodies who are responsible for the overall direction and control of the audited body. (See also ‘Those charged with governance’ and ‘Audited body’.)

Regularity (of expenditure and income)

Whether, subject to the concept of materiality, the expenditure and income of the audited body have been applied for the purposes intended by parliament, and whether they conform with the authorities that govern them.

Remuneration report

Audited bodies are required to produce, and publish with the financial statements, a remuneration report that discloses the salary and pension entitlements of senior managers.

Statement on internal control/Annual Governance Statement

Local government bodies are required to publish a statement on internal control (SIC) with their financial statements (or with their accounting statements in the case of small bodies). The disclosures in the SIC are supported and evidenced by the body's assurance framework. At local authorities the SIC is known as the Annual Governance Statement and is prepared in accordance with guidance issued by CIPFA.

Those charged with governance

Those charged with governance are defined in auditing standards as 'those persons entrusted with the supervision, control and direction of an entity'.

In local government bodies, those charged with governance, for the purpose of complying with auditing standards, are:

- for local authorities – the full council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements.

Audit committees are not mandatory for local government bodies, other than police authorities and local probation trusts. Other bodies are expected to put in place proper arrangements to allow those charged with governance to discuss audit matters with both internal and external auditors. Auditors should satisfy themselves that these matters, and auditors' reports, are considered at the level within the audited body that they consider to be most appropriate.

Whole of Government Accounts

The Whole of Government Accounts initiative is to produce a set of consolidated financial accounts for the entire UK public sector on commercial accounting principles. Local government bodies, other than probation boards and trusts, are required to submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, their statutory accounts.

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- any director/member or officer in their individual capacity; or
- any third party.



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February 2011

Certification of claims and returns - annual report

Colchester Borough Council

Audit 2009/10

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Summary

Funding from government grant-paying departments is an important income stream for the Council. The Council needs to manage claiming this income carefully. It needs to demonstrate to the auditors that it has met the conditions which attach to these grants. This report summarises the findings from the certification of 2009/10 claims. It includes the messages arising from my assessment of your arrangements for preparing claims and returns and information on claims that we amended or qualified.

Certification of claims

1 Colchester Borough Council receives more than £63.3 million funding from various grant paying departments. The grant paying departments attach conditions to these grants. The Council must show that it has met these conditions. If the Council cannot evidence this, the funding can be at risk. It is therefore important that the Council manages certification work properly and can demonstrate to us, as auditors, that the relevant conditions have been met.

2 In 2009/10, my audit team certified six claims and returns with a total value of £112.8 million. This figure includes the National Non Domestic Rate (NNDR) return, with a value of £56.5 million (the amount the Council pays over to the relevant government department). Of these claims, we carried out a limited review of four and a full review of two (paragraph 10 explains the difference between limited and full review). We amended one claim for a minor error and for one claim we were unable to fully certify the claim and issued a qualification letter to the grant-paying body. Appendix 1 sets out a full summary of our findings on individual claims.

Significant findings

3 The Council's performance in relation to grant claims has improved compared to prior years and overall is good. This has been reflected by the reduction in fees charged. However, one claim (the Housing Revenue Account subsidy base data return) continues to be qualified and further improvements are needed.

Certification fees

4 The Commission is required to recover the full cost of certification of each claim or return. Fee rates charged reflect the size, complexity or any particular difficulties in respect of the claim or return. Claims time is not billed until work is undertaken and you are only billed for the time taken.

5 The fees I charged for grant certification work in 2009/10 were £51,013.50. This was less than my planned fee of £55,258 and the fee I charged in 2008/09 of £61,358.

Actions

6 Appendix 2 summarises my recommendations. Council officers have already agreed these recommendations.

Background

7 The Council claims £63.3 million for specific activities from grant paying departments. As this is significant to the Council's income it is important that this process is properly managed. In particular this means:

- an adequate control environment over each claim and return; and
- ensuring that the Council can evidence that it has met the conditions attached to each claim.

8 I am required by section 28 of the Audit Commission Act 1998 to certify some claims and returns for grants or subsidies paid by the government departments and public bodies to Colchester Borough Council. I charge a fee to cover the full cost of certifying claims. The fee depends on the amount of work required to certify each claim or return.

9 The Council is responsible for compiling grant claims and returns in accordance with the requirements and timescale set by the grant paying departments.

10 The key features of the current arrangements are as follows.

- For claims and returns below £100,000 the Commission does not make certification arrangements.
- For claims and returns between £100,000 and £500,000, auditors undertake limited tests to agree form entries to underlying records, but do not undertake any testing of eligibility of expenditure.
- For claims and returns over £500,000 auditors assess the control environment for the preparation of the claim or return to decide whether or not they can place reliance on it. Where reliance is placed on the control environment, auditors undertake limited tests to agree from entries to underlying records but do not undertake any testing of the eligibility of expenditure or data. Where reliance cannot be placed on the control environment, auditors undertake all of the tests in the certification instruction and use their assessment of the control environment to inform decisions on the level of testing required. This means that the audit fees for certification work are reduced if the control environment is strong.
- For claims spanning over more than one year, the financial limits above relate to the amount claimed over the entire life of the claim and testing is applied accordingly. The approach impacts on the amount of grants work we carry out, placing more emphasis on the high value claims.

Findings

Control environment

11 I assess the control environment for claims and returns over £500,000. Where I am able to place reliance on the control environment, I will undertake only limited testing (part A testing).

12 Overall the control environment for claims requiring certification at the Council is good, which has resulted in reduced testing. Officers are experienced in compiling the relevant claims and have the necessary capacity to answer audit queries.

Specific claims

13 Outlined below are details of those claims where amendments were required or where issues were raised during the audit or reported to the department in a qualification letter.

HRA subsidy base data return

14 Our testing of properties to verify whether they have been included in the correct age band identified one property where insufficient evidence had been retained to verify its age. Photographic evidence was subsequently obtained which indicated that the property is very old and therefore inclusion in the Pre-1945 banding was considered appropriate. However, sufficient prime documentation should be retained to confirm property ages.

15 There is no full audit trail to support the analysis of usable floor areas for pre-1945 and 1945-1964 large and small terraced housesⁱ, as required by the Certification Instruction (CI) produced by the Audit Commission. We recognise that procedures are in place to develop this audit trail although sufficient evidence has not yet been collected. This issue was also raised in our qualification letters to the department in previous years.

16 In addition, we tested a sample of ten terraced properties to confirm they had been correctly classified as large or small in accordance with the Commission for Local Government (CLG) guidance. Of the ten tested, five were incorrectly classified. This was also raised in our qualification letter to the department. Officers are currently investigating these errors.

ⁱ Without adequate documentation to support floor area, no assurance can be obtained over the number of large and small terraced houses. The CLG have made this a requirement and non compliance may impact on the level of subsidy received.

Recommendations

- R1** Ensure adequate evidence is retained to confirm property ages.
 - R2** Provide a full audit trail to support useable floor areas of properties as required by the Department.
 - R3** Ensure all terraced properties are correctly classified and put arrangements in place to ensure current errors are corrected.
-

Housing and council tax benefits

- 17** Despite the large value and number of transactions and the complex nature of this claim, we found no errors and no adjustments were required.

Appendix 1 Summary of 2008/09 certified claims

Claims and returns above £500,000

Claim	Value £	Adequate control environment	Amended	Qualification letter
Housing and council tax benefit	56,986,396	Yes	No	No
Pooling of housing capital receipts	1,187,420	Yes	No	No
Housing revenue account subsidy	-2,364,331	Yes	Yes	No
Housing revenue account subsidy base data return	-	No	No	Yes
National non domestic rates return`	56,530,184	Yes	No	No

Claims between £100,000 and £500,000

Claim	Value £	Amended
Disabled facilities	429,000	No

Appendix 2 Action Plan

Recommendations

Recommendation 1

Ensure adequate evidence is retained to confirm property ages.

Responsibility

Priority

Date

Comments

Recommendation 2

Provide a full audit trail to support useable floor areas of properties as required by the Department.

Responsibility

Priority

Date

Comments

Recommendation 3

Ensure all terraced properties are correctly classified and put arrangements in place to ensure current errors are corrected.

Responsibility

Priority

Date

Comments

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January 2011



Finance & Audit Scrutiny Panel

Item
12

29 March 2011

Report of

Head of Resource Management

Author

Hayley McGrath
508902

Title

The Annual Governance Statement Briefing Paper

Wards
affected

Not applicable

This report provides an explanation of the Annual Governance Statement, which will be reported to the Accounts & Regulatory Committee later in the year.

1. Actions Required

- 1.1 To note the requirement to produce an Annual Governance Statement and the role of the Accounts and Regulatory Committee in the process.
- 1.2 It is also an opportunity for the committee to highlight any governance issues that they feel should be considered as part of the review.

2. Reason for Scrutiny

- 2.1 The Annual Governance Statement is a statutory requirement as set out in Regulation 4(2) of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) (England) Regulations 2006.
- 2.2 The Council has to report an Annual Governance Statement (A.G.S.) as part of its Annual Statement of Accounts. The A.G.S. encompasses a comprehensive review of the Councils governance arrangements including compliance with the Code of Corporate Governance. The regulations state that the A.G.S. should be reviewed by the Accounts and Regulatory Committee which should then recommend that it is signed off by the Leader of the Council and the Chief Executive
- 2.3 Although the Accounts and Regulatory Committee has scrutinised previous statements it is an essential part of the process that this briefing report is presented to the panel to ensure that all members are fully aware of their responsibilities.

3. Background

- 3.1 In 2007 CIPFA / SOLACE issued revised guidance regarding how Corporate Governance should be managed and reviewed .The Good Governance Framework sets out six fundamental principles of corporate governance (as shown below), which are underpinned by supporting principles and requirements:
 - **Focusing on the purpose** of the authority and on outcomes for the community and creating and implementing a vision for the local area
 - **Members and officers working together** to achieve a common purpose with clearly defined functions and roles.

- **Promoting values** for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
- **Taking informed and transparent decisions** which are subject to effective scrutiny and managing risk.
- **Developing the capacity** and capability of members and officers to be effective.
- **Engaging with local people** and other stakeholders to ensure robust accountability.

3.2 Councils are expected to comply with the requirements of the Framework and thus meet the principles of good corporate governance. The purpose of the A.G.S. is to critically review the Council's success in complying with the framework.

4.0 What is an Annual Governance Statement?

4.1 The A.G.S. should be an open and honest self-assessment of a Council's governance arrangements and compliance with the Good Governance Framework across all of its activities, with a clear statement of the actions being taken or required to address areas of concern.

4.2 It should include the following:

- An acknowledgement of responsibility for ensuring there is a sound system of governance (incorporating the system of internal control).
- A description of the key elements of the systems and processes that comprise the governance arrangements.
- Identification of the key risks and gaps in control and assurance.
- A brief description of the process that has been applied in maintaining and reviewing the effectiveness of the governance arrangements.
- An outline of the actions taken, or proposed, to deal with significant governance issues, including an agreed action plan.

4.3 The Audit Commission has commented that:

"Authorities need to recognise that this is a corporate issue, affecting everyone in the organisation. It is also important to recognise that the purpose of the annual governance statement is not just to be 'compliant', but also to provide an accurate representation of the arrangements in place during the year and to highlight those areas where improvement is required. This will also demonstrate to stakeholders what those arrangements are."

5.0 Other Reviews that Influence the Annual Governance Statement

5.1 Not only will the A.G.S. require the provision of evidence from many sources ranging from the Constitution through to individual procedure notes, it will also need to show that some specific areas of review have been carried out including:

- A Corporate Governance Health Check
- An assessment of the effectiveness of Internal Audit
- Partnership arrangements
- Risk Management Framework

5.2 These areas are central to the overall control framework of the authority and are therefore critical in being able to complete the A.G.S.

6.0 Suggested Process

6.1 The guidance for the A.G.S. proposes the following process:

CIPFA Guidance (steps)	Suggested Sources of Assurance
Establish the principal statutory obligations and organisational objectives.	<ul style="list-style-type: none"> • Constitution • Corporate / Strategic plans • Service plans • Performance reporting
Identify the principal risks to achievement of the objectives	<ul style="list-style-type: none"> • Corporate Risk profile • Risk management processes • Internal Audit – risk based planning
Identify and evaluate the key controls to manage the principal risks.	<ul style="list-style-type: none"> • Internal Audit – risk based planning (includes reviews of Corporate Risk process) • All key financial and non financial systems audited regularly • Annual review of Corporate Governance • Annual Risk Management report
Obtain assurances of the effectiveness of key controls	<ul style="list-style-type: none"> • Work of the Internal Audit Service • Annual Internal Audit report • Annual External Audit letter • Work of Risk Management • Annual Risk Management report • External accreditations • Assurance Statement from managers
Evaluate assurances and identify gaps in control / assurance	<ul style="list-style-type: none"> • Work of the Internal Audit Service • Annual Internal Audit report • Annual External Audit letter • Work of Risk Management • Annual Risk Management report • Work of information security officer
Action plan to address weaknesses and ensure continuous improvement of the system of internal control.	<ul style="list-style-type: none"> • Action plans arising from the work of the Internal Audit Service, Audit Commission and other inspection agencies • CPA Action Plans • Best Value action plans • Group/ Strategic risk management action plans

7. Proposals

- 7.1 To note the requirement of the Council to produce an Annual Governance Statement and the responsibility of the Accounts and Regulatory Committee to consider and approve the completed statement.

8. Strategic Plan Implications

- 8.1 The Annual Governance Statement is a fundamental review of the Council's governance arrangements which influences the effectiveness of the processes required to achieve the strategic objectives.

9. Risk Management Implications

- 9.1 The risk management framework is an integral part of the Council's governance arrangements and the Annual Governance Statement includes a review of the effectiveness of the risk management process.

10. Other Standard References

- 10.1 There are no direct Publicity, Financial, Consultation, Human Rights, Community Safety or Health and Safety implications as a result of this report.



Finance & Audit Scrutiny Panel

Item
13

29 March 2011

Report of

Head of Resource Management

Author

Elfreda Walker
282461

Title

3rd Quarter Internal Audit Assurance Report 2010/11

Wards
affected

Not applicable

**This report concerns Internal Audit Activity in Quarter 3 –
October to December 2010**

1. Actions Required

1.1 To note and comment on:

- The 2011/12 Internal Audit Work Programme
- 3rd quarter 2010/11 internal audit activity
- Performance of internal audit by reference to national best practice benchmarks;
- Status of outstanding recommendations.

2. Reason for Scrutiny

- 2.1 The Accounts and Audit Regulations 2003 require local authorities to maintain an adequate and effective system of internal audit.
- 2.2 Internal audit is a key element of the Council's corporate governance framework. Robust implementation of audit recommendations gives assurance to members and management that services are operating effectively, efficiently and economically and in accordance with legislative requirements and professional standards.

3. Key Messages

- The Council has continued to provide an effective internal audit service during the 3rd quarter of 2010/11 financial year.
- The assurance rating for the Payroll audit has increased from "Limited" to "Substantial".
- The assurance rating for the Debtors audit has increased from "Substantial" to "Full".
- The assurance rating for the Housing / Council Tax Benefits audit has increased from "Substantial" to "Full".
- 35 priority 2 and three priority 3 recommendations have been made.
- One recommendation relating to Performance Management has only been partly accepted by management.
- There continues to be excellent progress made in implementing and verifying outstanding recommendations.

4. Internal Audit Work Programme

- 4.1 Internal audit is a major source of assurance that the Council is effectively managing the principal risks to the achievement of its corporate objectives. A key rationale for the development of the work programme are the Council's Corporate and Service Risk Registers and discussions with Heads of Service to determine their key risks/challenges

and the assurances that they require from internal audit that the controls required to manage these risks are in place and are being applied consistently.

- 4.2 In addition, Deloitte in conjunction with Heads of Service have identified sources of assurance provided by review and inspection bodies across the various activities of the Council. The information has been collated and analysed to provide a better understanding of the Council's assurance framework and as a result, audit resources can now be targeted at the highest risk areas, duplication will be avoided and audits have been planned to cover identified assurance gaps.
- 4.3 External audit review the work of internal audit and place reliance on it, providing that the quality and reliability of the work is in line with professional auditing standards. Previously, internal audit has carried out full annual audits of each of the key financial systems. The majority of these systems are very well controlled and several have been awarded a Full Assurance rating.
- 4.4 It is proposed that from 2011/12 the audit approach for the key financial systems will be changed as follows:
- A full audit will only be carried out once every three years. There will be a rolling programme of reviews so that a third of the key systems are audited each year.
 - A review of key controls will be performed during the other two other years.
- 4.5 The proposed approach has been agreed with the external auditors, who have provided details of the key controls and the sample sizes required. The assurance mapping and new approach to key financial audits has enabled the number of audit days to be reduced to 360, which will be a saving of £20k during 2011/12.
- 4.6 Appendix 1 provides an outline work programme for the 2011/12 financial year. The timing, scope and objectives of each audit will be agreed with management prior to commencement.

5. Summary of the 3rd Quarter of 2010/11

- 5.1 There continues to be a very positive relationship between officers of the Audit and Governance Team and the Internal Audit provider and regular meetings take place to discuss various issues, including internal audit briefs, recommendations and audit planning.
- 5.2 There are also regular meetings with the external audit provider. This helps to ensure that the work of the internal and external auditors is complementary.

6. Supporting Information

- 6.1 This report has been designed to show:
- Detailed information concerning audits finalised in the quarter
 - Details of the effectiveness of the Internal Audit provider in delivering the service
- 6.2 Using a risk-based approach, Internal Audit generates reports for all audits, with recommendations to improve the effectiveness of the internal control framework and maximise potential for service improvement across the Council. The audit plan consists of a mix of regularity, systems and probity audits. Only systems audits generate an assurance level and these are categorised as follows:
- Full Assurance – a sound system of control
 - Substantial Assurance – basically a sound system with some weaknesses
 - Limited Assurance – weaknesses that may put the system objectives at risk

- No Assurance – control is generally weak leaving the system open to error or abuse

6.3 Internal Audit categorises recommendations according to their level of priority as follows:

- Priority 1 – Major issues for the attention of senior management
- Priority 2 – Other recommendations for local management action
- Priority 3 – Minor matters

7. Internal Audit Performance 2010/11

7.1 Use of Audit Resources:

	Days	%
Audit days delivered – Q1	126	27
Audit days delivered – Q2	103	22
Audit days delivered – Q3	115	25
Remaining Days – per agreed Audit Plan	124	26
	468	100

- It should be noted that two of the IT audits have been delayed at the request of the Client, and are expected to be undertaken early 2011/12.

7.2 Summary of Audits finalised during the quarter:

	Total No. of Reports		Level of Assurance – Systems Audits*				Change in Assurance Level – compared to last audit		
	Other	Systems	Full	Substantial	Limited	No	▲	▶ (or 1 st Audit)	▼
Audits finalised – Q3 b/f from 2009/10	3	13	2	10	1	-	3	10	-
	-	-	-	-	-	-	-	-	-
Work in progress Q3 b/f from 2009/10	-	9							
	-	3**							

*Only systems audits are given an assurance level. Where a regularity audit has been completed this time, the change in the assurance level is compared to the previous systems audit undertaken.

**These reports are under discussion, to enable the issues raised to be resolved and the reports finalised.

Please see Appendix 2 for a summary of results and outcomes of the 16 audits finalised in quarter 3.

8. Status of all recommendations as at 31st December 2010:

- 8.1 Following the completion of each audit, a report is issued to management, incorporating recommendations for improvement in controls and management's response to those recommendations.
- 8.2 The table below provides a breakdown of the outstanding recommendations as at the end of Q3 – 31st December 2010.

	Outstanding Recommendations That Are:			
Date	Not Due	Overdue	Awaiting Verification	Implemented & Verified
Q3	67	7	25	68

8.3 During the quarter, 68 recommendations were verified as being implemented. At the end of Q3, there were a total of 99 recommendations outstanding of which 7 (7%) were overdue, 67 (68%) were not due and 25 (25%) had been implemented and were awaiting verification from internal audit. As part of our ongoing following up work, we have verified a number of the IT recommendations. The remaining overdue recommendations relate to IT and are due to be followed up by our IT auditors. Arrangements are being made for this work to be completed.

8.4 Please see Appendix 3 for a summary of outstanding recommendations. Progress in implementing these recommendations will continue to be closely monitored with priority being given to the recommendations awarded a higher priority rating and / or those that have been outstanding the longest. Progress will continue to be reported to the panel each quarter.

9. Performance of Internal Audit 2010/11 to date – Key Performance Indicators (KPIs):

KPI	Target	Actual
Efficiency:		
Percentage of annual plan completed (to at least draft report stage)	75%	74%
Average days between exit meeting and issue of draft report	10 max	6
Average days between receipt of management response and issue final report	10 max	1
Quality:		
Meets CIPFA Code of Practice – per Audit Commission	Positive	Positive
Results of Client Satisfaction Questionnaires (Score out of 10)	7.8	9.0
Percentage of all recommendations agreed	96%	98%
Improved assurance for 2 nd & subsequent audit reviews – as a percentage of all recurring reviews	25%	25%

9.1 The key performance indicators show that the internal audit provider is successfully meeting or exceeding the standards set.

10. Colchester Borough Homes Limited

10.1 Colchester Borough Homes Limited has its own agreed audit plan which is administered by Deloitte and Touche Public Sector Internal Audit Limited, who are also the Council's auditors. The coverage of the plan, and the scope of the audits, is decided by Colchester Borough Homes Limited and in general the audits do not affect the systems operated by the Council.

10.2 However, there are a few audits that, whilst they are carried out for either Colchester Borough Homes Limited or the Council, have a direct relevance and impact on the other organisation and in these circumstances it is appropriate that the results of the audit are reported to both organisations. These are known as joint audits.

10.3 There have been no joint audits finalised in the third quarter.

11. External Audit

Appendix 4 details the progress made in implementing the external audit recommendation made in the Visual Arts Facility – Follow up report, which was issued in June 2010 and the Benefits Service Inspection Report, which was issued in October 2010.

12. Proposals

To note and comment upon the Council's progress and performance in implementing quarter 3 of the Internal Audit programme for 2010/11.

13. Strategic Plan Implications

The audit plan has been set with due regard to the identified key strategic risks to the Council. The strategic risk register reflects the objectives of the strategic plan. Therefore, the audit work confirms the effectiveness of the processes required to achieve the strategic objectives.

14. Risk Management Implications

The failure to implement recommendations may have an effect on the ability of the Council to control its risks and therefore the recommendations that are still outstanding should be incorporated into the risk management process.

15. Other Standard References

Having considered consultation, equality, diversity and human rights, health and safety and community safety and risk management implications, there are none that are significant to the matters in this report.

Internal Audit Work Programme 2011/12

Audit Area	No. Days	Comments
Annual Governance Statement Action Plan Review	5	Key Governance requirement
Corporate Governance & Scrutiny	10	Key Governance requirement
Single Data Set	10	Performance monitoring
General IT - (to be allocated)	25	
Contract Management Audits - various	20	Key risk identified from registers
Freedom of Information	7	
Health and Safety	5	Key risk identified from registers
Payroll	10	Managed Audit
Performance Management of Staff	7	Key risk identified from registers
Sickness Absence	7	Key risk identified from registers
Asset Register	7	Managed Audit
Budgetary Control	7	Key risk identified from registers
Cash Collection Procedures	7	Managed Audit
Commercial and Investment Property	7	
Council Tax	5	Managed Audit
Creditors including cheque control	10	Managed Audit
Decriminalised Parking	5	Managed Audit
Debtors	5	Managed Audit
General Ledger	5	Managed Audit
Housing/Council Tax Benefits inc. Overpayments / Fraud	20	Managed Audit
NNDR	5	Managed Audit
Procurement - Market Place including Purchasing Cards	12	New systems in place
Risk Management	5	Key Governance requirement
Site Cash Ups	3	Risk of cash loss
Treasury Management	5	Managed Audit
CBH Governance Arrangements	10	Key Governance requirement
Management of Expenditure CBH	8	External audit requirement
Building Control Fees	8	
Museums - Merged Services inc. Admissions, Shops and Inventories	10	Partnership Arrangements
Parking Services Income	10	Key income source
Parking Services Partnership	8	Partnership Arrangements
Waste Management	10	Limited assurance rating last review
Housing Rents (shared audit with CBH)	5	Managed Audit
Leaseholder Licences	7	Issue raised by HoS
Leisure World - includes joint use centres	10	Key income source
Follow Up of Recommendations	25	
Management of Contract	35	
Total No. of Days	360	

Summary of Audits Finalised in Quarter 3:

510 – Retention of Crucial Records	Days	Assurance Limited (First Audit)	Priority of Recommendations			Agreed
			1	2	3	
	7		-	5	-	5

Scope of Audit: This review examined the following areas:

- Policies and Procedures;
- Identification of Responsible Officer;
- Register of Crucial Records;
- Classification of Records; and
- Secure Storage.

Key Outcomes: The recommendations resulting from this review are summarised as follows:

- Nominated officers should be assigned within each area responsible for the retention of crucial records. The officer should be made aware of their role and the escalation process in the event of queries. (2)
- Departments should develop and maintain a comprehensive register / record of crucial documentation. The register should include: - service line / area; - responsible officer; - name of document(s); - location; - retention period; - destruction date; and - sign in / out box when items are added or removed. (2)
- A review should be undertaken of the Record Retention and Disposal Schedule to ensure that all proposed retention periods are recorded and in line with operational needs and/or legal guidance. Once updated, the Schedule should be circulated to relevant officers to check that it encompasses all types of documents and meets business needs. (2)
- A review of the documentation that is currently archived should be undertaken to ensure that only relevant records are retained and they are held in accordance with the Document and Record Retention Policy, that requires the following dataset to be recorded: - service; - name of responsible officer; - name of documents archived; - date to which the documents archived relate; - retention period (in accordance with the Schedule); and - destruction date (in accordance with the Schedule). (2)
- The Council should implement the IDOX document retention module. (2)

515 – Asset Register	Days	Assurance Substantial	Priority of Recommendations			Agreed
			1	2	3	
	7		-	2	-	2

Scope of Audit: This review examined the following areas:

- Policies and Procedures;
- Recording of Assets;
- Capital Charges;
- Reconciliations;
- Revaluations; and
- Recording of Maintenance and Enhancement Expenditure.

Key Outcomes: The recommendations resulting from this review are summarised as follows:

- It is recommended that the Council develop its own set of procedures on the operation of the asset register. (2)
- It is recommended that guidance be developed for the physical verification of all assets throughout the Council. Once in place, all physical assets should be verified on a periodic basis, dependant on their type and against the guidance. (2)

517 – Financial Assistance Policy	Days	Assurance Substantial	Priority of Recommendations			Agreed
			1	2	3	
	7	▶	-	1	-	1

Scope of Audit: This review examined the following areas:

- Documented Procedures;
- Eligibility Assessment and the Applicant’s Contribution;
- Assessment of Contractors;
- Work in Progress Monitoring and Control;
- Payment Approval Process;
- Charges Placed on Properties;
- File Maintenance; and
- Management Information.

Key Outcomes: The recommendations resulting from this review are summarised as follows:

- The Financial Assistance Policy should be updated, formally approved and made available to relevant members of staff. The Policy should then be subject to regular review to help ensure that it continues to reflect current working practices. (2)

519 – National Indicators	Days	Assurance Regularity	Priority of Recommendations			Agreed
			1	2	3	
	15		-	2	-	2

Scope of Audit: This audit was designed to ensure that:

- Efficient and effective controls exist over the collection and calculation of performance indicators;
- Appropriate source data is collected and the integrity is maintained;
- Audit trails are appropriate and complete; and
- Performance indicators are reported as required in a timely and accurate manner and in accordance with Audit Commission requirements.

Key Outcomes: The recommendations resulting from this review are summarised as follows:

- NI157 - The Council needs to ensure that systems for receipt and recording of online applications are robust so as to ensure the data reported on is accurate and in line with government requirements. We have been advised that the Council is in the final stages of testing an automated system to allow online applications from the Planning Portal to be transferred automatically to Civica, thus removing uncertainty around receipt dates. The Council should monitor the implementation of this process closely to ensure a smooth transition to the new way of operating. In the meantime, it should be communicated to staff that the data of receipt of an application is the date an email is received from the portal (or next working day if after working hours) regardless of receipt of payment as this should only affect the application valid date. (2)
- NI184 - It is recommended that the backlog of manual forms is scanned on the I-DOX system. This would enable the Authority to evidence scoring information used for the calculation of the NI. We recommend that two sets of erroneous data entered on the system should be corrected. In addition, the Authority should consider the possibility of carrying out spot checks on a sample of entries to ensure that the correct scoring information is used for the calculation of the NI. Given that Civica is a live system and extracting retrospective information from it is not possible, the Authority should ensure that information used for the calculation of the NI is derived from the xml file as at 31 March 2010. (2)

530 – Council Tax	Days	Assurance Substantial (Regularity)	Priority of Recommendations			Agreed
			1	2	3	
	7		-	3	-	3

Scope of Audit: This review examined the following areas:

- Policies and procedures;
- Reconciliation to the valuation list;
- Debits to individual council tax accounts;
- Receipting of income received;
- Amendments to the council tax accounts;
- Procedures for dealing with suspense items;
- Processing council tax refunds;
- Reductions and exemptions;
- Access privileges to the system;
- Monitoring and follow up of council tax arrears; and
- Authorisation of write offs.

Key Outcomes: The recommendations resulting from this review are summarised as follows:

- The procedures in place should be updated as required and be subject to a formal review by management on an annual basis. (2)
- Procedures should be dated and assigned a version number and review date. (2)
- Management should obtain and review a regular report of exempt/empty properties to verify that inspections have been completed as required. (2)

531 – NNDR	Days	Assurance Substantial (Regularity)	Priority of Recommendations			Agreed
			1	2	3	
	8		-	4	-	4

Scope of Audit: This review examined the following areas:

- Policies and procedures;
- Debits to individual NNDR accounts;
- Receipting of income received;
- Amendments to the NNDR accounts;
- Procedures for dealing with suspense items;
- Processing NNDR refunds;
- Reductions and exemptions;
- Access privileges to the system;
- Monitoring and follow up of NNDR Arrears; and
- Authorisation of write offs.

Key Outcomes: The recommendations resulting from this review are summarised as follows:

- The procedures in place should be updated as required and be subject to a formal review by management on an annual basis. (2)
- Procedures should be dated and assigned a version number and review date. (2)
- Parameters must be formally verified by management prior to the production of annual bills. Evidence of these management checks should be retained on file to confirm the checks completed. (2)
- Management should obtain and review a regular report of exempt/empty properties to verify that inspections have been completed as required. (2)

533 – Payroll	Days	Assurance Substantial	Priority of Recommendations			Agreed
			1	2	3	
	7	▲	-	3	-	3

Scope of Audit: This review examined the following areas:

- Compliance with policy, procedures and legislation, including submission of HMRC returns;
- Starters and leavers;
- Deductions from pay;
- Variations and adjustments to pay;
- Changes of circumstance; and
- Systems security.

Key Outcomes: The recommendations resulting from this review are summarised as follows:

- It is recommended that a monitoring process should be introduced to check whether managers are reviewing their online establishment information in line with agreed timescales. It is noted that this recommendation was raised at the previous audit. (2)
- Payroll staff should ensure that payment documentation received for starters, changes and leavers, etc. is only processed if it has been correctly authorised. It is noted that this recommendation was raised at the previous audit. (2)
- Evidence should be retained on file that changes to data, as part of the annual pay review, have been independently checked. It is noted that this recommendation was raised at the previous audit. (2)

534 – Officers Expenses	Days	Assurance Substantial	Priority of Recommendations			Agreed
			1	2	3	
	7	▶	-	2	-	2

Scope of Audit: This review examined the following areas:

- Policies and Procedures;
- Completion and Verification of Claim Forms;
- Authorisation of Claims;
- Supporting Documentation; and
- Payment of Officers Expenses.

Key Outcomes: The recommendations resulting from this review are summarised as follows:

- Expense forms should be numerically filed by staff number. In addition, receipts supporting the claim should be securely attached to the form. (2)
- Reminders should be sent to Heads of Service / Departmental Managers that when new managers are appointed the delegated signature lists should be updated to include, where appropriate, the authorisation of expenses, etc. (2)

535 – Performance Management	Days	Assurance Substantial (First Audit)	Priority of Recommendations			Agreed
			1	2	3	
	7		-	6	-	6 (one partly)

Scope of Audit: This review examined the following areas:

- Policies and Procedures;
- SMART Objectives;
- Personal Development Plans;
- Mid-Year Reviews;

- Year-End Appraisals; and
- Payroll Updates.

Key Outcomes: The recommendations resulting from this review are summarised as follows:

- Arrangements should be made to complete a review of the Performance Management System documented procedures. Appropriate approval should be obtained before the procedures are made available to staff. (2)
- Managers should be reminded to formalise the Council's performance management system with the members of staff under their supervision by both completing and retaining the required:- Record of Personal Performance Objectives; - Personal Development form; - Mid-Year Review; and - Year-End Appraisal form. (2)
- Managers and staff should be reminded to sign all of the standard performance management forms on completion to demonstrate that the contents have been formally agreed by both parties. (2)
- Managers should be reminded to set personal objectives, agree a Personal Development Plan and undertake a Mid-Year Review for staff members under their supervision in accordance with the documented timetable. (2)
- Managers should be reminded to undertake regular one-to-one meetings with the members of staff under their supervision and retain appropriate evidence. (2) Partly Agreed. One to ones are actively encouraged where practical recognising that this is not the case for large scale operations e.g. Leisure World and Waste Services. This can be reconsidered as part of an overall review.
- Each service should ensure that the year-end ratings information is checked off against each individual year-end appraisal form before the details are submitted to HR. (2)

536 - Creditors	Days	Assurance	Priority of Recommendations			Agreed
			1	2	3	
	7	Substantial	-	-	-	-

Scope of Audit: This review examined the following areas:

- Policies and Procedures;
- Validity, Documentation and Approval of Transactions;
- Processing of Invoices;
- Safeguarding of Documentation;
- Supplier Details;
- Credit Notes;
- Cheque Requisition System; and
- Authorisation Levels.

Key Outcomes: Although no recommendations were raised, a number of weaknesses were identified as a result of our testing. These related to the ordering and authorisation of invoices which will be addressed by the new e-Proc system and the “no limit” delegated authorisation amounts that has been raised in previous reports and the risk has been accepted by management. These findings have been taken into account when considering our audit opinion.

537 – Debtors	Days	Assurance	Priority of Recommendations			Agreed
			1	2	3	
	8	Full	-	-	1	1

Scope of Audit: This review examined the following areas:

- Policies and Procedures;
- Raising of Sundry Debtors, including those raised in Departments;
- Posting of Receipts to Appropriate Accounts;
- Suspense Items;
- Processing of Outstanding Debts;

- Recovery of Outstanding Debts; and
- Write Off of Bad Debts.

Key Outcomes: The recommendations resulting from this review are summarised as follows:

- It is recommended that a systematic process of review for policy and procedures be implemented, including procedures for version control. (3)

538 – Housing / Council Tax Benefit	Days	Assurance Full ▲	Priority of Recommendations			Agreed
			1	2	3	
	13		-	-	-	-

Scope of Audit: This review examined the following areas:

- Policy, Procedures and Legislation;
- Benefit Claims;
- Backdated Claims;
- Payments;
- System Reconciliation;
- IT, Systems and Security; and
- Management Information / Monitoring.

Key Outcomes: No recommendations were raised.

539 – Benefit Fraud	Days	Assurance Substantial ▶	Priority of Recommendations			Agreed
			1	2	3	
	7		-	1	1	2

Scope of Audit: This review examined the following areas:

- Policy and Procedures;
- Referrals;
- Investigations;
- Information and Data Security;
- Partnership Arrangements; and
- Performance Monitoring and Management Information.

Key Outcomes: The recommendations resulting from this review are summarised as follows:

- It is recommended that a version control reference is developed for all the procedures included in the Fraud Investigator's Manual. The version control can be presented in a spreadsheet, which details: the procedure name; date of last review; next review date; and the officer that conducted the review. (3)
- It is recommended that performance monitoring checks are conducted throughout the financial year. Both the eight week file and QB50 checks are to be conducted on a monthly basis and file closure checks are to be conducted after every investigation closure. In the absence of the Team Leader these checks should be delegated to another appropriate member of staff. (2)

543 – Leisure World Cash Up	Days	Assurance Regularity	Priority of Recommendations			Agreed
			1	2	3	
	1.5		-	4	-	4

Scope of Audit: This review examined the following areas:

- Cash Security; and
- Till Refunds.

Key Outcomes: The recommendations resulting from this review are summarised as follows:

- All staff should be reminded to ensure that all visitors to Leisure World requiring access to the tills and/or secure areas are requested to produce appropriate identification and sign the visitors' book. (2)
- Staff should receive ongoing training in the areas of voucher processing, transaction reversals and general cash management functions. (2)
- The reason for the refund, including vending machine dispensing problems, refunds made by the Duty Manager, etc. should be documented on the Torex system, together with the reference of the original transaction / receipt number as appropriate. (2)
- Staff should be reminded that the loan of coins to a customer for the use of a locker should not be made. (2)

545 – Risk Management	Days	Assurance	Priority of Recommendations			Agreed
			1	2	3	
	10	Substantial	-	2	1	3

Scope of Audit: This review examined the following areas:

- Policies and Procedures;
- Identification, Recording, Evaluation and Assessment of Risks;
- Elimination of Potential Risks;
- Informing Senior Management within the Council; and
- Management Information and Reporting.

Key Outcomes: The recommendations resulting from this review are summarised as follows:

- Documented procedures should be made available to staff on the Hub for reference purposes. (2)
- Managers should be reminded that the risk registers should be fully completed to include risk score rationale, ratings and risk owner. (2)
- Risks featured in Operational Risk Registers should be reviewed in line with agreed timescales. (3)

551 – Annual Governance Statement	Days	Assurance	Priority of Recommendations			Agreed
			1	2	3	
	5	Regularity	-	-	-	-

Scope of Audit: This audit focussed on the actions required and verified if these had been completed.

Key Outcomes: There were no key issues outstanding. However, there were a number of areas where the actions are still in the process of being completed:

- Governance Awareness – governance training is to be provided at group management team level;
- Organisational Learning - a complete review of the complaints system is due for proposal to the March 2011 Customer Excellence meeting; and
- Members on Outside Bodies - the format is currently being developed by the Monitoring Officer.

Audit Area	Responsibility										
	Internal Audit			Council							
	Verified	Implemented to be verified	Due date not reached	Priority			Outstanding past due date				
			1	2	3	1	2	3	1	2	3
2010/11											
501 - Emergency Planning	2	0	0	0	0	0	0	0	0	0	0
502 - Insurance	0	2	0	1	0	0	0	0	0	0	0
506 - Homelessness	1	0	1	5	0	0	0	0	0	0	0
509 - Planning Fees including S106	0	1	0	4	0	0	0	0	0	0	0
511 - Right to Buy	4	1	0	0	0	0	0	0	0	0	0
512 - Security of Premises	0	0	0	3	0	0	0	0	0	0	0
514 - Abbots Activity Centre	3	0	0	0	0	0	0	0	0	0	0
516 - Business Continuity	0	4	0	1	0	0	0	0	0	0	0
518 - Stray Dogs	4	0	0	0	0	0	0	0	0	0	0
521 - Safes	0	0	0	3	0	0	0	0	0	0	0
522 - Diversity	0	1	0	0	0	0	0	0	0	0	0
525 - Visitor Information Centre Cash Up	1	1	0	0	0	0	0	0	0	0	0
526 - Cash Control	0	1	0	0	0	0	0	0	0	0	0
528 - Electoral Registration	2	0	0	0	0	0	0	0	0	0	0
529 - Treasury Management	0	1	0	0	0	0	0	0	0	0	0
2009/10											
402 - Pest Control	3	0	2	0	0	0	0	0	0	0	0
403 - Museums	9	0	0	0	0	0	0	0	0	0	0
404 - Corporate Debt	4	0	0	2	0	0	0	0	0	0	0
409 - Council Property Exchange	0	2	0	1	0	0	0	0	0	0	0
410 - Temporary Accommodation	3	1	0	0	0	0	0	0	0	0	0
413 - CCTV	6	0	0	1	0	0	0	0	0	0	0
416 - NNDR	3	0	0	0	0	0	0	0	0	0	0
417 - Council Tax	2	0	0	0	0	0	0	0	0	0	0
418 - Payroll	7	0	0	0	0	0	0	0	0	0	0
421 - IT Security	4	1	0	5	0	0	0	0	0	1	1
424 - Renaissance Project Management	2	1	0	0	0	0	0	0	0	0	0
426 - Life Opportunities – Management Arrangements	6	2	0	0	0	0	0	0	0	0	0

Audit Area	Responsibility						
	Internal Audit			Council			
	Verified	Implemented to be verified	Due date not reached	Outstanding past due date	Priority	Priority	
		1	2	3	1	2	3
428 - Fleet Management	2	0	0	2	0	0	0
429 - Tiptree Sports Centre	5	0	0	1	0	0	0
430 - Resource Management – Management Arrangements	4	0	0	0	0	0	0
431 - IT Project Management	1	0	0	12	0	0	0
434 - Leisure World	11	0	0	1	0	0	0
436 - Appointment of Contractors CBH	0	0	0	1	0	0	0
438 - Benefits	3	0	0	0	0	0	0
439 - Benefits Overpayments	0	1	0	1	0	0	0
442 - Windows Operating System	0	2	0	3	4	0	2
443 - Cash Office Procedures	1	1	0	0	0	0	0
444 - Creditors	2	0	0	0	0	0	0
445 - Debtors	4	0	0	0	0	0	0
446 - General Ledger	4	0	0	0	0	0	0
447 - Risk Management	4	0	0	0	0	0	0
449 - Security of Assets and Records	0	0	0	4	0	0	0
450 - Management of Expenditure CBH	1	1	0	1	0	0	0
2008/09							
303 - Commercial & Investment Property	2	0	0	0	0	0	0
304 - Helpline	2	0	0	1	0	0	0
305 - Local Land Charges	3	0	0	1	0	0	0
318 - Corporate Management - Management Arrangements	3	1	0	0	0	0	0
350 - Back Up Procedures	4	0	1	0	0	0	0
352 - IDOX Document Imaging	11	0	0	3	0	0	1
2007/08							
201 - Inventories	2	0	0	2	0	0	0
205 - Financial Assistance Policy	5	0	0	0	0	0	0
218 - Car Parking Income	8	0	0	0	0	0	0
Total	148	25	4	59	4	0	3

Visual Arts Facility Follow Up Report

Audit Commission Findings and Recommendation	Agreed	Current Position
<p>The Council should ensure that:</p> <ul style="list-style-type: none"> • It has sufficient capacity to challenge all aspects of the delivery of phase 2 of the project; • external communications and marketing relating to the VAF, and in particular its future use, are robust and inform the general public of the use and potential of the building; and • it scrutinises the final stages of the project to ensure that it delivers value for money. 	<p>Yes</p>	<ul style="list-style-type: none"> • Capacity for the Council as client is achieved through the direct employment of the Construction Management Team, including Project Management and Cost Management. The Council also has an internal team headed by an Executive Director and including Finance, Legal, Public Relations, Clerk of Works and an independent Project Director. • A Communication Strategy has been developed by all Partners and Firstsite is taking the lead on marketing the facility. Recent events include 'Sneaky Peeks' and 'Open for Business' linked to the announcement of the opening date in September. • A value engineering process has been carried out for both the fit-out and landscaping stages and the Council continues to closely manage the budgets and contracts of these final stages.

Benefit Services Report

Audit Commission Findings and Recommendations	Agreed	Current Position
<p>R1 Improve the accessibility of the service for those who are, or may be entitled to benefits. It can do this by:</p> <ul style="list-style-type: none"> • Processing claims more quickly. • Respond to telephone calls at peak times more quickly and developing an improved understanding of the reasons for abandoned calls. • Improve the clarity of letters so customers can understand them. • Reduce the time taken to deal with appeals. 	<p>Yes</p>	<ul style="list-style-type: none"> • A range of new practices have been implemented, including the interactive online e-claim and risk based verification. Indications are that processing and response times have reduced considerably, which is being evaluated. • Specialist staff now work alongside Customer Service Centre colleagues, improving first hand advice and responses to callers, dealing with benefit claims straight away (whenever possible). Impact of the ongoing changes on response times will form part of the evaluation. • Many main letters and leaflets now have plain language accreditation, for example notes on benefit letters. The next stage of our action plan starts in April, to consult and survey users about their perception of our standard letters, as a platform for redesign and changes, working with other council's and software providers. • Appeals are now dealt with by specialist team leaders, instead of one officer previously, by which we've simplified process, amending decisions quickly when appropriate, and submitting to the tribunal within the 4 week target.
<p>R2 Design the service to better meet the needs of all customers by:</p> <ul style="list-style-type: none"> • Continuing to develop more comprehensive approach to consulting with service users to find out their needs. • Develop and raise awareness of service standards for customers which are relevant to their needs by: <ul style="list-style-type: none"> - Developing measurable service standards through consultation with customers; 	<p>Yes</p>	<ul style="list-style-type: none"> • The fundamental service review includes user's views using Mosaic data and Touchstone surveys. Planning and implementation is involving a range of stake holders and our Customer Focus Group, helping to test and develop new methods and products. Further surveys will be carried out post implementation, to check user experience and satisfaction. • The service publishes service targets and results, for example on the website, as well as sending regular reports or newsletters to stakeholders. Targets are presently adapted or a hybrid from historic corporate standards, which we've updated to be relevant and current. Senior Management Team is due to consider and approve up to date

Audit Commission Findings and Recommendations	Agreed	Current Position
<ul style="list-style-type: none"> - Promoting them to customers. • Monitor performance against the standards and report results to customers, senior managers and councillors. • Continue to use satisfaction surveys and mystery shopping to improve understanding of customer perceptions of the whole service and to tailor services appropriately. 		<p>standards on 21 March. This should enable a consistent method for reporting customer service across the council. Our own methodology was checked and agreed as part of the assessment for the award of Customer Service Excellence (formerly Charter Mark) in December 2010.</p> <ul style="list-style-type: none"> • Mystery shopping is carried out as part of a range of quality checks, including direct monitoring of phone calls and recordings, used for training purposes and observation. In addition to surveys and stakeholder involvement, Govmetric is available on web pages as an 'easy to use feedback system', for customers to feedback their perception and understanding of information, for us to amend and improve content.
<p>R3 Reduce benefit fraud by:</p> <ul style="list-style-type: none"> • Ensuring that resources are focused to detect and investigate any fraud. • Develop local measures of effectiveness of the Council's counter-fraud activity to include measures to prevent, detect and deter fraud. • Further develop its approach to identifying and undertaking appropriate pro-active counter fraud activity identified following analysis of caseload and local-risk. 	Yes	<ul style="list-style-type: none"> • The Audit Commission were concerned at the time that we had insufficient staff, albeit we highlighted long term sickness and maternity leave, which is now no longer the case. • Performance is frequently reported to the general management team and portfolio holder, showing the number of investigations and sanctions, including administrative penalties and prosecutions; set against increased targets this year. Outcomes are on target. • We work alongside or coordinate with other agencies, sharing data and intelligence, and actively pursue opportunities for joint investigations and actions.
<p>R4 The service should improve value for money by:</p> <ul style="list-style-type: none"> • Ensuring that the fundamental service review delivers the intended efficiencies. • Improve the consistency of quality and reduce the cost of the services for which it pays other parts of the council. 	Yes	<ul style="list-style-type: none"> • Progress of the fundamental review, including efficiencies and savings, was reported to the Strategic Overview and Scrutiny Panel on 8 February 2011; showing better than planned. • Consistency and quality is a key objective of the review. Costs paid to other services is a reference to recharges to the Customer Service Centre, which reduce considerably in future years.



Finance and Audit Scrutiny Panel

Item
14

29 March 2011

Report of	Head of Resource Management	Author	Steve Heath ☎ 282389
Title	Implementation of International Financial Reporting Standards		
Wards affected	Not applicable		

The Panel is invited to review the impact of and progress with the implementation of International Financial Reporting Standards on the Council.

1. Action required

- 1.1 The panel is asked to note the progress made with the implementation of International Financial Reporting Standards (IFRS), and the resulting changes to the accounts.
- 1.2 The panel is also asked to note potential changes to processes resulting from proposed changes to the Accounts and Audit Regulations.

2. Reason for scrutiny

- 2.1 Members of the Accounts and Regulatory Committee will be required to review and approve the first set of IFRS compliant accounts for the year ended 31 March 2011. The purpose of this report is to brief the Panel on the changes resulting from the statutory requirement for the implementation of IFRS within the Council.

3. Background information

- 3.1 The panel were informed of the requirement to move towards the adoption of IFRS on 24 March 2009. 2010/11 is first year of IFRS compliant accounts, however retrospective changes have been required for 2008/09 and 2009/10 to enable comparatives to be made. The amended accounts for these years are currently being reviewed by external audit.
- 3.2 The Audit Commission has acknowledged the proactive approach that has been adopted with the IFRS implementation, which, in addition to the restatement of prior years' statements, has included the introduction of a new fixed assets system, consultancy relating to leases and contracts, staff training and a review of accounting policies.

4. Key changes

- 4.1 There are a number of new and amended notes and disclosures required as a result of the transition to IFRS, which are likely to result in a significant increase in the size of the Statement of Accounts document. All of the changes need to be applied retrospectively as though the Council had always accounted using IFRS.
- 4.2 All grants and contributions need to be assessed to determine whether they contain any conditions that may make them repayable if a specified future event does or does not occur. Any unspent amounts at year end should continue to be shown as Receipts in

Advance where conditions apply, or alternatively moved to new earmarked reserves if there are no conditions. Restrictions on the use of the grant will not affect its treatment.

- 4.3 The Council is now required to accrue for the cost of accumulating short term employee benefits that can be carried forward and used in future periods such as outstanding annual leave, flexi time or time off in lieu. This information will be obtained by taking a representative sample to estimate the accrual values.
- 4.4 Additional information is required regarding the Council's inventories (stocks), which has now been included on the returns sent to Services. The notes to the accounts also require the movements during the year to be broken down between purchases, sales and write offs if the inventories are material to the accounts.
- 4.5 The classification criteria for operating and finance leases have been changed to become less prescriptive, which could lead to more leases being classed as finance leases, requiring them to be brought onto the Balance Sheet and considered as assets. The change applies to leases in and out for land, buildings, plant, vehicles and equipment. It also necessitates the regular review of the Council's contracts register to determine whether there are any embedded lease arrangements in contracts that should be classed as finance leases.
- 4.6 The most significant changes are those relating to fixed assets, which are now termed as 'Non Current Assets'. The significant components of property, plant and equipment assets that have different useful economic lives for depreciation purposes are now required to be recorded valued and depreciated separately within the accounts. The Council's componentisation policy states that this will be required for all additions, revaluations, enhancements and disposals for buildings with a cost greater than £300k, where the significant components represent 10% of total asset cost. All assets should be revalued on a component basis if they meet the componentisation policy thresholds.
- 4.7 Under stricter criteria, assets held for sale are expected to be sold within 12 months and so are included within current assets and not depreciated. Before assets are transferred into this category they are required to be revalued to the current market value so that any gains/losses are recognised on reclassification and not on disposal.
- 4.8 Further changes include a distinction between revaluation and impairment losses, revaluation gains being able to reverse previous revaluation losses, and the reclassification of certain types of asset.
- 4.9 New terminology resulting from the changes relating to the key statements is summarised in the following table.

UK GAAP	IFRS
Income & Expenditure Account	Comprehensive Income and Expenditure Statement
Statement of Total Recognised Gains and Losses	
Statement of Movement in General Fund Balances	Movement in Reserves Statement
Balance Sheet: <ul style="list-style-type: none"> • Fixed Assets • Stock • Cash • Reserves 	<ul style="list-style-type: none"> • Non Current Assets • Inventories • Cash & Cash Equivalents • Useable / Unusable Reserves • Capital Grants Unapplied Reserve • Accumulated Absences Account • Assets Held for Sale

5. Accounts & Audit Regulations

- 5.1 In January 2011 the DCLG published a consultation paper on the revision and consolidation of the Accounts and Audit Regulations. Responses to the consultation were required by 4 March 2011. We will provide an update once the outcome of the consultation is known.
- 5.2 The proposed changes include an increase in the threshold below which a body is classed as a smaller body, and revised procedures for the approval and publication of statements of accounts and other accounting statements. The potential implications for the Council, which appear to be effective from the closure of the 2010/11 accounts are as follows:
- Increasing the threshold for smaller bodies to £6.5m would mean that we would no longer have to produce a full set of accounts for our Joint Committees and have them subject to a full audit. However, annual returns would still need to be produced that would need to be reviewed by Audit.
 - The draft Statement of Accounts would need to be certified by the responsible financial officer by 30 June, but there would be no need for members to approve the accounts until the audit findings are known. However the annual returns for smaller bodies would still require approval by 30 June.
 - The removal of inconsistencies between the disclosures showing remuneration bands and the remuneration of senior employees
 - The Annual Governance Statement would no longer be included within the accounts.

6. Strategic Plan references

- 6.1 The Statement of Accounts provides information on the Council's financial activities. These activities are determined by the Strategic Plan priorities as part of the budget setting process.

7. Financial implications

- 7.1 The impact of the introduction of accruals for employee benefits is mitigated within the CIPFA code for the 10/11 accounts. There may be a financial impact for revenue and capital budgets if any leases need to be re-classified under IFRS.
- 7.2 The Council has received a rebate for the additional external audit costs arising from the transition to IFRS. Property valuation fees will see a small increase as a result of the additional work required in relation to the componentisation of assets.
- 7.3 A one-off amount of £20k was built into the 2010/11 budget. This funded consultancy support from Grant Thornton in connection with the treatment of leases, as well as the introduction of an IFRS compliant fixed assets system. The consultancy provided expertise that was not available in-house and made a significant contribution towards the progress that has been made. The fixed assets system has led to the removal of duplicate property records being held in Accountancy and Estates Management, and will reduce the level of manual processing previously required with this area of the accounts.

8. Risk Management implications

- 8.1 The Strategic risk register identifies that statutory requirements change and that may lead to changes in policies and procedures.
- 8.2 The Resource Management Operational Risk Register identifies that the requirements of IFRS increase the workload for the closure process and require training for budget managers across the authority. The consequences of not doing so being that the

accounts are not closed on time, errors in the closure process, and increased resources required to close the accounts. The actions identified were:

- Monitor the requirements of the IFRS and 'translate' into actions relevant to accounts process.
- Incorporate any recommendations from the Audit Commission in relation to IFRS work carried out on previous years' accounts.
- Ensure that all appropriate staff are briefed on changes.

9. Other Standard References

- 9.1 Having considered consultation, publicity, equality, diversity and human rights, health and safety and community safety implications, there are none which are significant to the matters in this report.

Background Papers

None

