

# Accounts and Regulatory Committee

Grand Jury Room, Town Hall  
29 June 2010 at 6.00pm

This committee deals with

items such as the approval of the Council's Statement of Accounts, hearing and determining all appeals by employees relating to dismissal, and makes recommendations to the Council on functions such as Health and Safety and Elections.

# 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](http://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](http://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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Please ensure that all mobile phones and pagers are turned off before the meeting begins and note that photography or audio recording is not permitted.

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**COLCHESTER BOROUGH COUNCIL**  
**ACCOUNTS AND REGULATORY COMMITTEE**  
**29 June 2010 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.

**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 - 2**

To confirm as a correct record the minutes of the meetings held on 20 October 2009 and 19 May 2010.

## **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. Audit Opinion Plan 2009-10 and Annual Audit and Inspection Fee Letter**

**3 - 39**

See report from the Head of Resource Management.

**8. Review of the Governance Framework and Draft Annual Governance Statement 40 - 56**

See report from the Head of Resource Management.

**9. Draft Annual Statement of Accounts 57 - 74**

See report from the Head of Resource Management.

**10. 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).



# ACCOUNTS AND REGULATORY COMMITTEE

## 20 OCTOBER 2009

*Present:-* Councillors Goss, Harris, T Higgins, Taylor and Willetts

*Substitutions:-* Councillor P Oxford for Councillor G Oxford  
Councillor Barlow for Councillor Manning  
Councillor Chapman for Councillor Arnold  
Councillor Davies for Councillor Foster  
Councillor Kimberley for Councillor Maclean

*Apologies:-* Councillor Scott-Boutell

### **13. Minute**

The minute of the meeting held on 22 September 2009 was confirmed as a correct record.

### **14. The Audited Annual Statement of Accounts**

Mr. Steve Heath, Finance Manager attended the meeting for this item and presented the report requesting the Committee to note the publication of the audited Statement of Accounts for 2008-09.

In response to Councillor Goss, Mr. Heath confirmed that although economies have been made relating to binding and paper quality, the overall printing cost had increased. Further economies will be made next year by reducing the number of paper copies that are produced.

Councillor Higgins suggested only one copy of the published accounts should be sent to a household with two or more members.

*RESOLVED* that the Committee noted the publication of the audited Statement of Accounts 2008-09.

# **ACCOUNTS AND REGULATORY COMMITTEE**

## **19 MAY 2010**

*Present:-* Councillors Arnold, Cope, Greenhill, Lissimore, Manning, Mudie, Naish, G.Oxford, C.Sykes and Willetts

### **1. Chairman**

*RESOLVED* that Councillor Willetts be appointed Chairman for the ensuing Municipal Year.

### **2. Deputy Chairman**

*RESOLVED* that Councillor Arnold be appointed Deputy Chairman for the ensuing Municipal Year.





## Accounts & Regulatory Committee

Item  
**7**

29 June 2010

<b>Report of</b>	<b>Scrutiny Officer</b>	<b>Author</b>	<b>Robert Judd 282274</b>
<b>Title</b>	<b>Audit Opinion Plan – Audit 2009-10 and Annual Audit and Inspection Fee Letter</b>		
<b>Wards affected</b>	Not applicable		

**This report asks the Committee to note the contents of the Audit Opinion Plan – Audit 2009-10 and Annual Audit and Inspection Fee Letter 2010-11**

### 1. Decision Required

- 1.1 To consider and note the contents of the Audit Opinion Plan – Audit 2009-10 and Annual Audit and Inspection Fee Letter for 2010-11.

### 2. Reasons for Decision

- 2.1. The Accounts and Audit Regulations require the Council to consider and note the Annual Audit and Inspection Fee Letter and the Annual Audit Opinion Plan.

### 3. Supporting Information

- 3.1 Officers from the Audit Commission will make a brief presentation at the meeting, relating to the Audit Opinion Plan and Annual Audit and Inspection Fee.
- 3.3 The Audit Commission's Code of Audit Practice and Statement of responsibilities of auditors and of audited bodies are available for inspection as background documents in the Town Hall Members Room.

### 4. Standard References

- 4.1 There are no policy plan references or financial implications in this matter. There are no equality, diversity or human rights issues in this matter and therefore no Equality Impact Assessment has been completed. There is no health and safety, community safety or risk management implications in this matter.

# Audit Opinion Plan

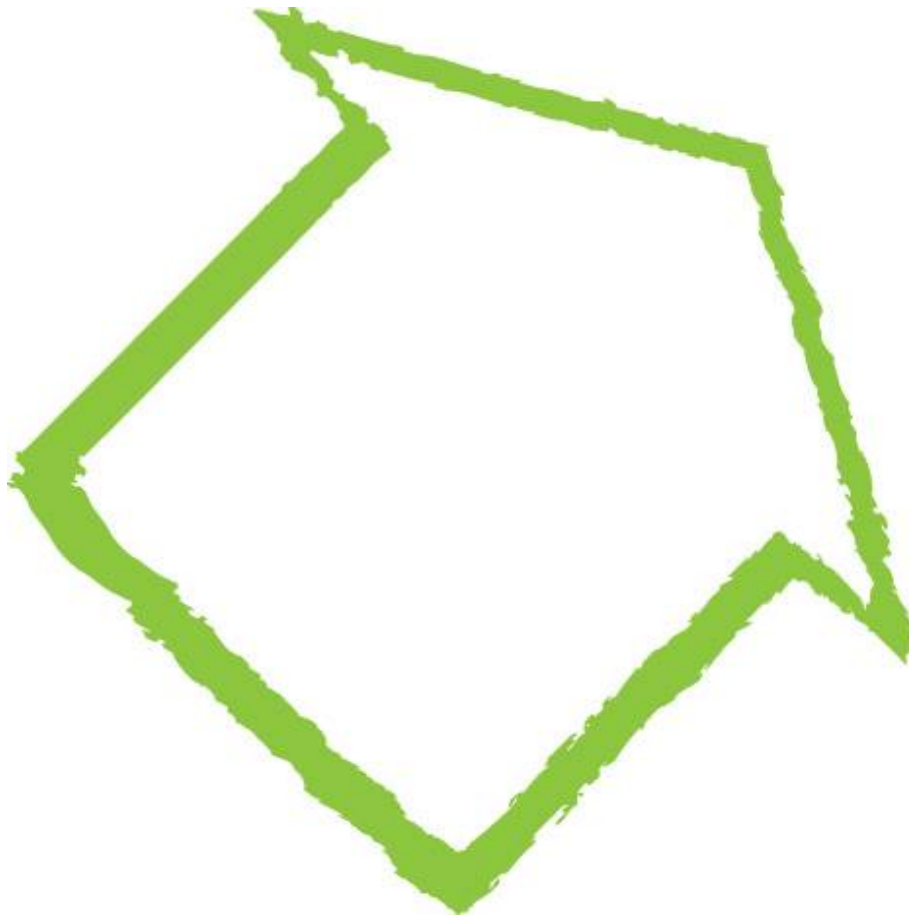
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Colchester Borough Council

Audit 2009/10

March 2010



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## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

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- 1 This plan sets out the audit work that we propose to undertake for the audit of the 2009/10 financial statements. 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 2009/10;
  - current national risks relevant to your local circumstances; and
  - your local risks.

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# Responsibilities

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- 2 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.
- 3 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our audit work is undertaken in the context of these responsibilities.
- 4 We 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 of financial statements

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- 5 The fee for the audit is £129,870, which is £4,000 more than indicated in Paul King's letter of 20 April 2009. This is because Internal Audit have identified weaknesses in the system of controls for payroll data and as a result have given the system limited assurance. Therefore, we will need to undertake substantive testing of payroll data to obtain sufficient assurance over the expenditure in the accounts. The details of the structure of scale fees are set out in the Audit Commission's work programme and scale fees for 2009/10. Scale fees are based on several variables, including the type, size and location of the audited body.
- 6 The Audit Commission scale fee for the Council is £144,407. The fee proposed for 2009/10 is 8 per cent below scale fee and is within the normal level of variation as specified by the Commission.
- 7 In setting the fee, we have assumed that:
  - the level of risk in relation to the audit of accounts is consistent with that for 2008/09;
  - the Council will supply good quality working papers to support the 2009/10 financial statements; and
  - Internal Audit undertakes appropriate work on all material systems and this is available for our review by 30 April 2010.
- 8 Where these assumptions are not met, we will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, we will discuss this in the first instance with the Head of Resource Management and will issue supplements to the plan to record any revisions to the risk and the impact on the fee.
- 9 Further information on the basis for the fee is set out in Appendix 1.

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

- 10 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, we will work with staff to identify any specific actions that the Council could take and to provide ongoing audit support.

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# Auditors report on the financial statements

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- 11 We 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).
- 12 We are required to issue an audit report giving an opinion on whether the accounts give a true and fair view of the financial position of the Council as at 31 March 2010.

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## Identifying opinion audit risks

- 13 As part of our audit risk identification process, we need to fully understand the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. We 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

14 We 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>As the economic downturn continues, local authorities anticipate a reduction in overall income received, including grant support from central government. The Council has included this assumption within its financial planning, however a risk still exists in terms of the impact the recession will continue to have on the financial position of the Council which may increase the risk of misreporting.</p>	<p>We will continue to monitor the Council's financial health and our audit testing will be focussed on ensuring income and cost recognition remains complete and accurate and is included in the correct period. In addition we will continue to monitor the level of provisions and accruals to ensure they are complete and are in line with Financial Reporting Standard (FRS) 12.</p>
<p>Current fluctuations in financial markets may impact on the value of the Council's land and buildings, investments, cash balances and the pension liability.</p> <p>In 2008/09, we raised concerns about the methodology used for calculating impairments on investment properties. In addition, the Council did not undertake a full impairment review of all its land and buildings.</p>	<p>We will consider the valuation of the Council's land and buildings, investments, cash balances and the pension liability as part of our final accounts audit to ensure that any impairments are fully recognised and correctly accounted for.</p>
<p>With adoption of IFRS in 2010/11, the transition date for local government is 1 April 2009. Local government bodies will therefore need to restate the closing balance sheet for 2008/09 using IFRS as the starting point for their restatement.</p> <p>As noted in Appendix 4, the provisions for accounting for PFI and similar schemes come into effect for 2009/10 and therefore we will undertake specific review to ensure any such arrangements have been identified and appropriately accounted for.</p>	<p>The Council has taken a proactive approach to preparing for the introduction of IFRS. We will continue to work closely with finance staff on the methodology employed to obtain the necessary information.</p> <p>We will review the position in respect of PFI and similar schemes in 2009/10.</p>
<p>There have been a number of changes made to the CIPFA's Code of Practice on Local Authority Accounting for the United Kingdom 2009, the Statement of Recommended Practice (SORP), which have been summarised at Appendix 4. It is unlikely that any of these changes will impact significantly on our audit work as long as adequate working papers are provided.</p>	<p>We will review our testing approach once the impact of the SORP changes on the Council's financial statements becomes clear.</p>
<p>We identified several minor issues as part of our 2008/09 audit which we raised in our Annual Governance Report and/or Accounts memo.</p>	<p>We will follow up the Council's response to the recommendations made.</p>



## Identification of specific risks

Risk area	Audit response
We identified several grants in 2008/09 that were being amortised at a different rate to the asset. Where a grant has been used to purchase an asset the grant should be amortised at the same rate as the asset is being depreciated.	We will test the Council's treatment of deferred capital grants.
There is the potential for disputes with the main contractor over the final sums payable under contracts for construction works in 2008/2009. A formal legal claim has been received. Although current legal advice suggests this will not be a material issue, the situation needs to be monitored to ensure the correct entries and disclosures are included in the accounts.	We will review the Council's provisions and contingent liabilities disclosures under against the requirements of Financial Reporting Standard (FRS) 12 and the local authority Statement of Recommended Practice (SoRP) to ensure satisfactory disclosure. If required, we will seek assurances from the Council's legal advisors as to the basis of any figures disclosed.
Internal Audit have identified weaknesses in the system of controls for payroll data and as a result have given the system limited assurance.	We will undertake substantive testing of payroll data to obtain sufficient assurance over the expenditure in the accounts.

# Testing strategy

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- 15 On the basis of risks identified above we 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.
- 16 Our testing can be carried out both before and after the draft financial statements have been produced (pre- and post-statement testing).
- 17 Wherever possible, we will complete some substantive testing earlier in the year before the financial statements are available for audit. We have identified the following areas where substantive testing could be carried out early.
  - review of accounting policies;
  - bank reconciliation;
  - investments – ownership;
  - year-end feeder system reconciliations; and
  - undertaking predictive analytical review, for example on payroll, business rates and council tax rates.
- 18 Where other early testing is identified as being possible, this will be discussed with officers.
- 19 Wherever possible, we seek to rely on the work of Internal Audit to help meet our responsibilities. For 2009/10, we expect to be able to use the results of the following pieces of work:
  - housing benefits;
  - council tax; and
  - annual governance statement.

# Key milestones and deadlines

- 20** The Council is required to prepare the financial statements by 30 June 2010. We are required to complete our audit and issue our opinion by 30 September 2010. The key stages in the process of producing and auditing the financial statements are shown in Table 2.
- 21** We will agree with you a schedule of working papers required to support the entries in the financial statements.
- 22** Every week, we will meet with the key contact and review the status of all queries. If appropriate, we will meet at a different frequency depending upon the need and the number of issues arising.

**Table 2 Proposed timetable**

<b>Task</b>	<b>Deadline</b>
Control and early substantive testing	April 2010
Receipt of accounts	28 June 2010
Forwarding audit working papers to the auditor	5 July 2010
Start of detailed testing	5 July 2010
Progress meetings	Weekly
Present report to those charged with governance at the Audit committee	28 September 2010
Issue opinion	By 30 September 2010

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# The audit team

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23 The key members of the audit team for the 2009/10 audit are shown in the table below.

**Table 3**      **Audit team**

<b>Name</b>	<b>Contact details</b>	<b>Responsibilities</b>
Debbie Hanson District Auditor	<a href="mailto:d-hanson@audit-commission.gov.uk">d-hanson@audit-commission.gov.uk</a> 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 Audit Manager	<a href="mailto:c-connolly@audit-commission.gov.uk">c-connolly@audit-commission.gov.uk</a> 0844 798 5781	Manages and coordinates the different elements of the audit work. Key point of contact for the Head of Resource Management.
Emma Pearce Team Leader	<a href="mailto:e-pearce@audit-commission.gov.uk">e-pearce@audit-commission.gov.uk</a> 0844 798 3065	Responsible for day to day supervision of the audit team. Key point of contact for the Finance Manager.

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## Independence and objectivity

- 24 We are not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you.
- 25 We comply with the ethical standards issued by the Auditing Practices Board and with the Commission's requirements in respect of independence and objectivity as summarised in Appendix 2.

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## Meetings

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

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### Quality of service

- 27** We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively, you may wish to contact the Eastern Head of Operations, Andy Perrin.
- 28** If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet 'Something to Complain About' which is available from the Commission's website or on request.

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### Planned outputs

- 29** Reports will be discussed and agreed with the appropriate officers before being issued to the Finance and Scrutiny Panel.

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**Table 4**      **Planned outputs**

<b>Planned output</b>	<b>Indicative date</b>
Opinion audit plan	30 March 2010
Annual governance report	30 September 2010
Auditor's report giving an opinion on the financial statements and value for money conclusion	30 September 2010
Final accounts memorandum	November 2010
Annual Audit Letter	December 2010

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# Appendix 1 – Basis for fee

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- 1 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.
- 2 The risk assessment process starts with the identification of the significant financial and operational risks applying to the Council with reference to:
  - our 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.

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## Assumptions

- 3 In setting the fee, we have assumed that:
  - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2008/09;
  - you will inform us of significant developments impacting on the audit;
  - Internal Audit meets the appropriate professional standards;
  - Internal Audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
  - good quality working papers and records will be provided to support the financial statements by July 2010;
  - requested information will be provided within agreed timescales;
  - prompt responses will be provided to draft reports; and
  - additional work will not be required to address questions or objections raised by local government electors.
- 4 Where these assumptions are not met, we will be required to undertake additional work which is likely to result in an increased audit fee.

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# Appendix 2 – Independence and objectivity

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- 1 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).
- 2 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 3 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
- 4 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.
- 5 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.

## Appendix 2 – Independence and objectivity

- 6 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 and Inspection 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 five 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.
- 7 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

- 1 The audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers.
- 2 Our proposal for the meetings is as follows.

**Table 5 Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Head of Resource Management	AM and TL	March, July, September	General update plus: March - audit plan July - accounts progress September - annual governance report
Finance Manager	AM and Team Leader (TL)	Quarterly	Update on audit issues
Audit Committee	DA and AM, with TL as appropriate	As determined by the Committee	Formal reporting of: Audit Plan Annual governance report Annual Audit Letter Other issues as appropriate

## Sustainability

- 3 The Audit Commission is committed to promoting sustainability in our working practices and we 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 – 2009 SORP and other financial reporting changes

1 Table 6 below sets out the key changes to financial reporting arising from the 2009 SORP and other legislative changes.

**Table 6 Financial reporting changes**

The table only sets out the changes that could impact on the Council

Change	2009/10 impact
1. The accounting requirements for PFI and similar contracts are no longer based on the UK accounting standard FRS 5 but on IFRIC 12.	We understand that the Council does not have any such contracts in place, and therefore we expect no impact.
2. Previously, the accounting requirements for local taxes (ie National Non-domestic Rates and Council Tax) impacted almost entirely on the billing authority. The SORP now recognises that the billing authority acts as the major preceptors' agent and that both billing authority and preceptor should include their appropriate share of income and the respective debtors, creditors and impairment allowance.	<p>The Council will have to include:</p> <ul style="list-style-type: none"> <li>• their accrued share of council tax income in the I&amp;E;</li> <li>• their share of the council tax debtors and creditors in the balance sheet; and</li> <li>• a creditor/debtor in respect of the cash due to/from the precepting authorities in the balance sheet.</li> </ul> <p>In addition, appropriate entries will need to be included within the Statement of Movement in General Fund Balance and Cashflow Statement.</p>
3. Amendment has been made to paragraph 4.105 that requires the portion of long term financial liabilities due to be settled within 12 months after the Balance Sheet date to be presented in current liabilities.	Disclosure item with balance sheet and notes to the financial statements required.
4. The SORP no longer requires disclosure notes in three areas, set out below, that were included in the Authority's 2008/09 Statement of Accounts: <ul style="list-style-type: none"> <li>• Publicity expenditure;</li> <li>• Expenditure under the Local Authorities Goods and Services Act 1970; and</li> <li>• Building control account.</li> </ul>	The Council may wish to continue to include such notes, although they are no longer required and we have assumed they will not be included.

## Appendix 4 – 2009 SORP and other financial reporting changes

Change	2009/10 impact
<p>5. Note 10, paragraph 5.35 of the SORP, which concerns disclosing officer's remuneration above a minimum level in bands, has been re-phrased as the department for Communities and Local Government (CLG) has laid Statutory Instrument 3322 before Parliament. The regulations come into force on 31 March 2010 and apply to 2009/10 financial statements but are deferred for one year where an individual has a confidentiality agreement in respect of their remuneration. The regulations apply to all local authorities in England, and to other public bodies whose accounts are required to be audited under the Audit Commission Act 1998. Authorities must disclose individual remuneration details for senior local government employees earning over £150,000 by name, and for all other 'senior' employees for each financial year by post title, within the annual statement of accounts. Senior officers are defined as individuals earning over £150,000 per year, or individuals whose remuneration is more than £50,000 per year (pro-rata) and holding defined 'senior' positions. They also extend the disclosure requirement to cover chief officers; and narrow the remuneration reporting count for the whole organisation from £10,000 bandings to £5,000 bandings for all employees earning over £50,000 pro-rata.</p>	<p>Increased disclosure that applies to 2009/10.</p>
<p>7. The responsible financial officer now certifies that the accounts give a 'true and fair view' rather than 'presents fairly'.</p>	<p>Disclosure requirement changes.</p>

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# The Audit Commission

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

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**Our reference** Central/CO001/2010-11 plan

Date 26 April 2010

Mr Adrian Pritchard  
 Chief Executive  
 Colchester Borough Council  
 Town Hall  
 Colchester  
 Essex  
 CO1 1FR  
 Dear Adrian

### **Annual audit and inspection fee 2010/11**

I am writing to confirm the audit and inspection work that we propose to undertake for the 2010/11 financial year at Colchester Borough Council. The fee is based on:

- for audit, the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission for 2009/10; and
- for inspection, the Comprehensive Area Assessment (CAA) framework and associated guidance.

As I have not yet completed my audit for 2009/10, the audit planning process for 2010/11, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary. The inspection plan will also be reviewed and updated as necessary by the Audit Commission CAA Lead, Ian Davidson, in discussion with you.

The total indicative fee for the audit for 2010/11 is for £139,550 which compares to the planned fee of £129,870 for 2009/10. A summary of this is shown in the table below.

<b>Work</b>	<b>Planned fee 2010/11</b>	<b>Planned fee 2009/10</b>
Financial statements	£92,575	£84,250
Use of Resources/VFM Conclusion	£44,605	£43,090
WGA	£2,370	£2,530
<b>Total audit fee</b>	<b>£139,550</b>	<b>£129,870</b>
<b>Certification of claims and returns</b>	<b>£55,258</b>	<b>£55,258</b>

<b>Work</b>	<b>Planned fee 2010/11</b>	<b>Planned fee 2009/10</b>
<b>Inspection work (provided by CAAL)</b>		
Area assessment of local partnership	funded by CLG	funded by CLG
Managing Performance assessment	£9,152	£9,152
Housing Benefit Inspection	Not applicable	funded by DWP
<b>Total inspection fee</b>	<b>£9,152</b>	<b>£9,152</b>

The Audit Commission has published its work programme and scales of fees 2010/11. The scale fee for Colchester Borough Council is £146,878. The fee proposed for 2010/11 is five per cent below the scale fee and is within the normal level of variation specified by the Commission.

The published fee scale for 2010/11 included a 6% increase to cover the costs of additional audit work arising from the introduction of International Reporting Standards. In July 2009, in recognition of the financial pressures that public bodies are facing in the current economic climate, the Commission confirmed that it would subsidise the 'one-off' element of the cost of transition to International Financial Reporting Standards (IFRS) for local authorities for 2010/11. You will therefore receive a refund from the Audit Commission of £9,046 in April 2010. Changes in international auditing standards will also increase the audit procedures I need to carry out, however the Audit Commission will absorb the cost of these additional requirements.

In setting the fee at this level, I have assumed that the general level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2009/10. A separate plan for the audit of the financial statements will be issued in December 2010. This will detail the risks identified, planned audit procedures and any changes in fee.

The quoted fee for grant certification work is an estimate only and will be charged at published daily rates. If I need to make any significant amendments to the audit fee during the course of this plan, I will first discuss this with the Head of Resource Management and then prepare a report outlining the reasons why the fee needs to change for discussion with the Finance and Audit Scrutiny Panel.

My use of resources assessments will be based upon the evidence from three themes:

- Managing finances;
- Governing the business; and
- Managing resources.

I am currently undertaking a review of the Council's use of resources for 2009/10 which, in line with established charging arrangements, will be funded from the 2010/11 fee. The results of the audit will inform my planning for 2010/11. At this stage, I have not identified any significant risks in relation to the value for money conclusion.

I will issue a number of reports relating to my work over the course of the audit. These are listed at Appendix 1.

The above fee excludes work the Commission may agree to undertake using its advice and assistance powers. Each piece of work will be separately negotiated and a detailed project specification agreed with you.

The key members of the audit team for the 2010/11 audit are:

Senior Audit Manager – Christine Connolly      0844 798 5781

Team Leader – Emma Pearce                              0844 798 3065

I am committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact the Head of Operations, Eastern sub-region, Andy Perrin ([a-perrin@audit-commission.gov.uk](mailto:a-perrin@audit-commission.gov.uk)).

Yours sincerely

Debbie Hanson  
*District Auditor*

**cc** Charles Warboys, Head of Financial Services – Colchester Borough Council  
Ian Davidson, CAA Lead – Audit Commission  
Christine Connolly, Senior Audit Manager – Audit Commission

## Appendix 1: Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Finance and Audit Scrutiny Panel.

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**Table 1**

<b>Planned output</b>	<b>Indicative date</b>
Audit opinion plan	December 2010
2009/10 use of resources report	November 2010
Annual governance report	September 2011
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2011
Final accounts memorandum (to the Assistant Director, Governance)	October 2011
Annual audit letter	November 2011
Organisational assessment (incorporating the managing performance assessment and the use of resources assessment)	TBC

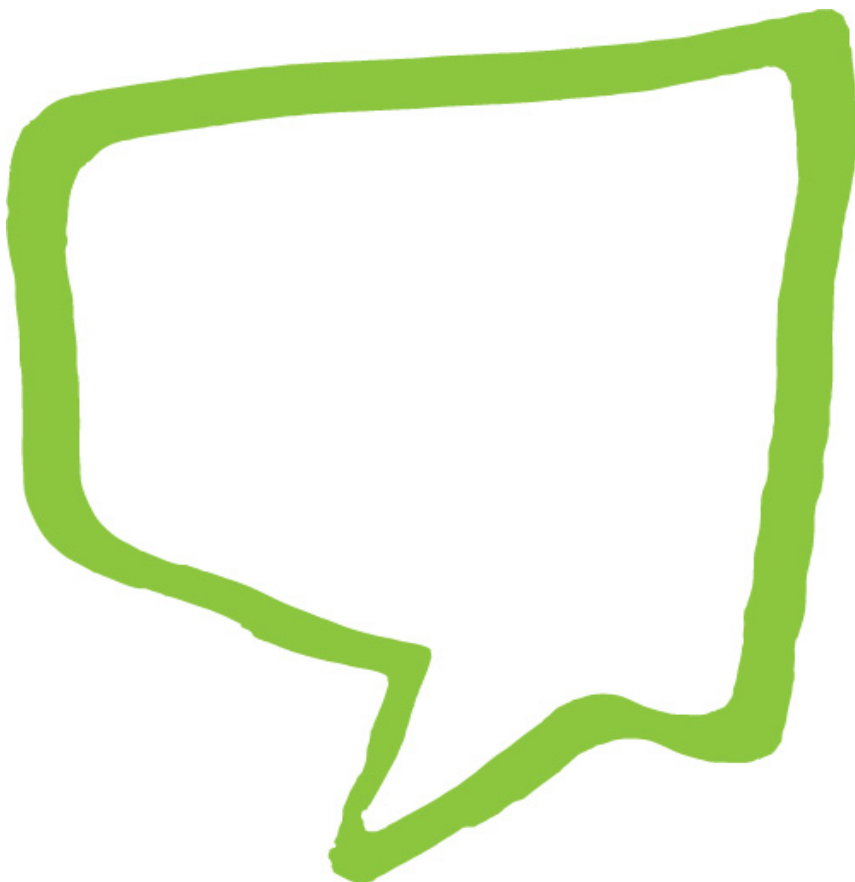


# Certification of claims and returns - annual report

Colchester Borough Council

Audit 2008/09

February 2010



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# Contents

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<b>Appendix 3 – Control environment</b>	<b>11</b>

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## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

# Key messages

**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 2008/09 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 £53.5 million in 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 the Council manages certification work properly and can demonstrate to us, as auditors, that the relevant conditions have been met.
- 2 In 2008/09, my audit team certified seven claims and returns with a total value of £101.2 million. This figure includes the NNDR return, at a value of £52.7million, which is the amount that the Council pays over to the relevant department. Of these, we carried out a limited review of three claims and a full review of four claims. (Paragraph 10 explains the difference). We amended two claims requiring full certification for errors. 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.
- 3 The fees I charged for grant certification work in 2008/09 were £60,916. This was less than the £62,875 I charged in 2007/08.

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## Significant findings

- 4 The Council's performance in relation to grant claims has improved compared to prior years and this has been reflected by the reduction in fees charged. The one claim that was qualified was a result of change in the certification requirements in 2007/08 and the Council has a programme of work in place to address this issue.

---

## Certification fees

- 5 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 it takes.

- 6 Opportunities to reduce the audit fee do exist including:
- more robust checks on the quality of the working papers provided for audit to ensure that they agree to the claim before submission for audit; and
  - ensuring compliance with scheme's terms and conditions.

---

### Actions

- 7 Appendix 2 summarises my recommendations. These recommendations have already been reported to the relevant officers of the Council.

# Background

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- 8 The Council claims £53.5 million in funding 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.
- 9 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 the 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.
- 10 The Council is responsible for compiling grant claims and returns in accordance with the requirements and timescale set by the grant paying departments.
- 11 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

- 12** We assess the control environment for claims and returns over £500,000. Where we are able to place reliance on the control environment, we will undertake only limited testing (Part A testing). This can reduce the amount of time we spend auditing a claim and can reduce the audit fees to the Council for certification work
- 13** Overall the control environment for the 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. However, processes could be further improved to reflect good practice. Appendix 3 sets out the arrangements expected in an ideal control environment.

### Recommendation

**R1** Further improve processes to comply with good practice, as outlined in Appendix 3.

## Specific claims

- 14** Outlined below are details of those claims where amendments occurred or where issues were raised during the audit, including the actions necessary to improve future performance.

### HRA Subsidy Base Data Return

- 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 houses<sup>1</sup>, as required by the Certification Instruction (CI) produced by the Audit Commission. We recognise that procedures are in place to develop this audit trail however sufficient evidence has not yet been collected. This issue was also raised in our qualification letter to the department.
- 16** We were unable to agree all of our testing samples back to original documentation. The reason for this appears to be poor record keeping facilities at Colchester Borough Homes.

### Recommendations

**R2** Provide a full audit trail to support the useable floor areas as required by the CI.

**R3** Establish an adequate filing system at Colchester Borough Homes to ensure ease of access to source documentation.

<sup>1</sup> 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.

## Findings

### Single Programme East of England Development Grant

- 17 This grant related to 2007/08 and was received a year late for audit and initial testing identified that there has been inadequate record-keeping to comply with the Certificate Instructions (CI).
- 18 The Council has since been able to obtain the relevant evidence for this grant to be completed and the grant has now been certified. Amendments were required however this was due to the late receipt of information from the partner bodies.

Recommendations
R4 Ensure all grants are received for audit by the deadline.
R5 Ensure adequate evidence is retained.

### Disabled Facilities Grant

- 19 A difference of £956 between the grant return and the working papers continues to be brought forward from 2006/07. This relates to "forfeited grant to be refunded" and is an amount due to Communities and Local Government relating to Houses in Multiple Occupation (HMO) claim - it is not related to the Disabled Facilities Grant (DFG) and therefore should not be shown on the working papers.

Recommendation
R6 A new code should be set up in the General Ledger to distinguish between amounts relating to the DFG grant and amounts relating to HMO grants.

### Housing and Council Tax Benefits

- 20 Despite the large value and number of transactions and the complex nature of this claim only minor adjustments were made.

# Appendix 1 – Summary of 2008/09 certified claims

## Claims and returns above £500,000

Claim	Value £'000	Adequate control environment	Amended	Qualification letter
Housing and council tax benefit	49,066	Yes	Yes	No
National Non Domestic Rates return	52,746	Yes	No	No
Housing Revenue Account subsidy	-2,303	Yes	No	No
Single Programme East of England Development Grant (Colchester Stadium) This is a 2007/08 grant.	1,000	n/a	Yes	No
Housing Revenue Account subsidy base data return	-	No	No	Yes

## Claims between £100,000 and £500,000

Claim	Value £k	Amended
Pooling of housing capital receipts	304	No
Disabled facilities	445	Yes



## Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	<b>Annual Claims and Returns Report 2008/09 - Recommendations</b>					
6	R1 Further improve processes to comply with good practice, as outlined in Appendix 2.	2				
6	R2 Provide a full audit trail to support the useable floor areas as required by the CI.	3				
6	R3 Establish an adequate filing system at Colchester Borough Homes to ensure ease of access to source documentation.	2				
7	R4 Ensure all grants are received for audit by the deadline.	3				
7	R5 Ensure adequate evidence is retained.	3				

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	R6 A new code should be set up in the General Ledger to distinguish between amounts relating to the DFG grant and amounts relating to HMO grants.	1				

# Appendix 3 – Control environment

The following controls represent an ideal environment which auditors would be able to rely on. This situation would reduce audit certification costs significantly.

## **Arrangements to ensure claims and returns are completed accurately and in accordance with the scheme terms and conditions**

A control environment upon which reliance can be placed is likely to include:

- evidence of grant terms and conditions being identified and reviewed and action taken at an early stage to collect the information that will be required to demonstrate entitlement to grant;
- comprehensive documentation; and
- ongoing monitoring of compliance with terms and conditions and deadlines.

## **Control arrangements, including internal financial control and internal audit**

A control environment upon which reliance can be placed is likely to have:

- cost codes for each claim/return;
- controls over data posted from other systems/journals and reconciliation that ensure transactions are properly authorised and coded;
- a coding structure tailored to the claim/return requirements;
- procedures to demonstrate funding passed to third parties has been used for the intended purpose;
- effective budgetary control and cash flow monitoring; and
- for claims/returns based on complex (financial) systems, internal audit assurance that systems have operated satisfactorily over the period covered by the claim.

## **Quality of the Council's supporting working papers**

A control environment upon which reliance can be placed is likely to have working papers that include:

- the date they were prepared and who prepared them;
- the claim/return entries to which they relate including cross-references to or copies of source documents;
- copies of original approvals, variations and correspondence with the grant paying body;
- a reconciliation of the claim/return to the accounts including payments on account;
- analytical review with explanations of significant variances;

- notes on the basis of any apportionments included;
- a description of relevant internal controls;
- a note of any relevant internal audit work; and
- evidence to support expenditure included in the claim/return but incurred by another body.

### Expertise and relevant knowledge of preparers, including the adequacy of supervision and review

A control environment upon which reliance can be placed is likely to have:

- claims/returns prepared by officers with appropriate expertise and knowledge of the scheme;
- pre-certification checks for arithmetic accuracy, completeness and reasonableness, including test checks to supporting records and review, by an officer not involved directly in the compilation process; and
- evidence of the review process and the steps the council has taken to satisfy itself that the assurance provided by its certificate is well founded.

### Other indicators

Cumulative knowledge of the problems associated with compilation of the claim/return including previous points arising, any known concerns expressed by the grant-paying body, or any actions/decisions by the grant-paying body on previous qualification letters.

In a control environment upon which reliance can be placed, there will be no significant issues which are ongoing or recurrent. Effective action will have been taken to address previous points arising including concerns expressed by the grant-paying body and grant-paying body's actions/decisions following previous qualification letters.

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## Accounts & Regulatory Committee

Item

**8**

29 June 2010

<b>Report of</b>	<b>Head of Resource Management</b>	<b>Author</b>	<b>Hayley McGrath 508902</b>
<b>Title</b>	<b>Review of the Governance Framework and Draft Annual Governance Statement</b>		
<b>Wards affected</b>	Not applicable		

**This report concerns the Annual Governance Statement for  
2009/10**

### 1. Decisions Required

- 1.1 To consider and note the review of the Council's compliance with the six principles of good governance including the review of effectiveness of the internal control arrangements.
- 1.2 To approve the Annual Governance Statement for 2009/10

### 2. Reasons for Decision(s)

- 2.1 Regulation 4(2) of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) (England) Regulations 2006, requires the council to conduct an annual review of the effectiveness of its governance and internal control arrangements, and publish an Annual Governance Statement (AGS) each year with its financial statements. These regulations now include the specific requirement for this Committee to:-
  - consider the governance and internal control arrangements in place during the year and
  - approve the AGS
- 2.2 The purpose of the AGS process is to provide a continuous review of the effectiveness of the Council's compliance with the six principals of good corporate governance (CIPFA / SOLACE guidance – Delivering Good Governance in Local Government) and its internal control systems, so as to give assurance that the authority is effectively delivering services. The process also produces a management action plan to address any identified weaknesses in either area.
- 2.3 CIPFA's proper practice requires the Chief Executive and the Leader of the Council to sign the AGS. They must be satisfied that the document is supported by reliable evidence and accurately reflects the authority's governance and control arrangements.

### 3. Alternative Options

- 3.1 None.

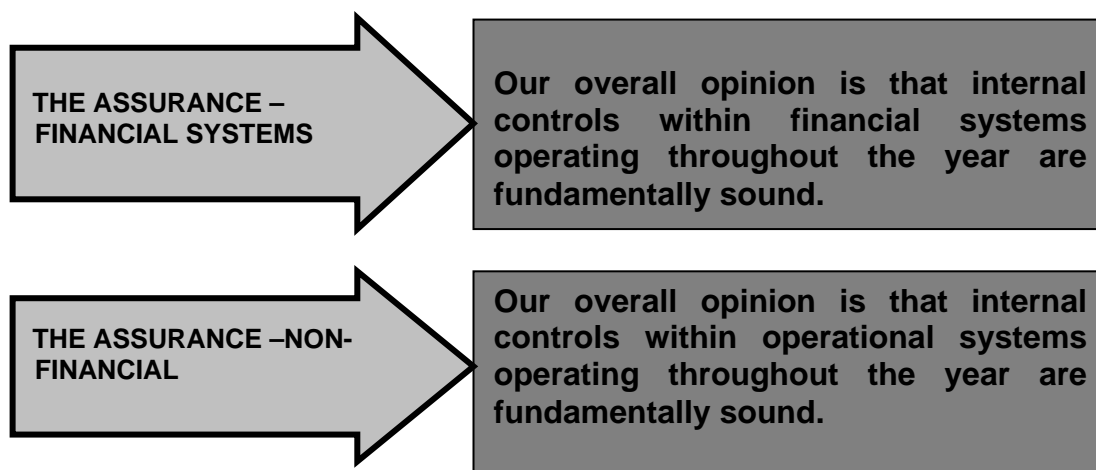
#### 4. Supporting Information

- 4.1 A report was made to the Finance and Audit Scrutiny panel in March 2010 outlining in more detail the requirements and process for the AGS. A copy of this report is attached at appendix 1.
- 4.2 In 2001 CIPFA and SOLACE issued guidance regarding best practice with regard to corporate governance. This was adopted by Colchester and a local code of corporate governance was introduced based on this guidance. In May 2007 CIPFA and SOLACE produced revised guidance – Delivering Good Governance in Local Government – to take into account current issues in local authorities such as Local Area Agreements and partnership arrangements. The AGS is designed to review compliance with the six principles of good governance outlined in the revised guidance.
- 4.3 The six principles of Corporate Governance are:
- **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.
- 4.4 As part of the governance review it is a requirement that the Council reviews the effectiveness of internal control and this is primarily evidenced by the Head of Internal Audit Report produced by the Council's Internal Audit provider, Deloitte. A copy of the report is provided as a background paper. The key statement from this report is detailed below:-

#### 2009/10 Year Opinion

##### Internal Control

From the Internal Audit work undertaken in 2009/10, it is my opinion that I can provide satisfactory assurance that the system of internal control that has been in place at the Council for the year ended 31<sup>st</sup> March 2010 accords with proper practice, except for any details of significant internal control issues as documented in the detailed report. The assurance can be further broken down between financial and non-financial systems, as follows:



- 4.5 The Head of Internal Audit opinion above is the same as the opinion given for the 2008/09 financial year which demonstrates that the Council has continued to provide a sound system of internal control.
- 4.6 In addition, the further steps taken in producing the AGS have been as follows:-
- The creation of a working group consisting of the Monitoring Officer, the Policy and Projects Officer and the Risk and Resilience Manager. This group was responsible for gathering and reviewing evidence in support of the AGS and reporting to the Executive Director.
  - A full review of the Council's code of corporate governance including detailed assessment of evidence supporting each principle.
  - Assurance assessments relating to key areas of governance and control have been completed by senior management.
  - Consideration of risk management issues.
  - Detailed follow up of issues with relevant managers to provide evidence of controls in place.
  - Review of the action plan from the Statement of Internal Control for 2008/09.
  - Review of the implementation of recommendations made by Internal Audit.
  - Review of issues raised in External Audit reports, principally the Annual Audit Letter.
- 4.7 The Annual Governance Statement for 2009/2010 is attached as a separate document. The format of the statement takes into account both the mandatory pro-forma contained within CIPFA's proper practice guidance, together with subsequent examples of best practice.
- 4.8 The AGS includes a table showing significant internal control issues and planned actions to address these. A more detailed action plan is set out within this report at Appendix 2. The AGS should be an ongoing assessment and therefore a review of the progress against the action plan has been programmed into the internal audit plan for 2010/11. The results of this review will be reported to the Finance and Audit Scrutiny Panel in the normal manner.
- 4.9 As stated earlier this Committee is required to approve the AGS, which will then be signed and included within the Statement of Accounts.

## **5. Proposals**

- 5.1 That the panel consider the review of governance and internal control arrangements and approve the Annual Governance Statement for 2009/10.

## **6. Strategic Plan Implications**

- 6.1 The achievement of the strategic plan requires a sound system of governance to ensure the effective delivery of services. Therefore improving on existing governance arrangements will help to ensure that the strategic plan objectives can be achieved.

## **7. Risk Management Implications**

- 7.1 Risk Management is a fundamental part of the Governance process and a failure to implement the action plan may have an effect on the ability of the Council to control its risks. Therefore the actions should be incorporated into the risk management process.



## **8. Other Standard References**

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

### **Background Papers**

Head of Internal Audit report for the year ended 31 March 2010 by Deloitte

**DRAFT**  
**COLCHESTER BOROUGH COUNCIL**  
**ANNUAL GOVERNANCE STATEMENT**  
**FOR THE YEAR ENDED 31 MARCH 2010**

**Scope of responsibility**

Colchester Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Colchester Borough Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Colchester Borough Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk. The Council is also responsible for ensuring that any companies owned by the Council, and any jointly operated services, also have proper arrangements in place for the governance of their affairs.

Colchester Borough Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is on our website at [www.colchester.gov.uk](http://www.colchester.gov.uk) or can be obtained from Colchester Borough Council, P.O.Box 884, Town Hall, High Street, Colchester, CO1 1FR.

This statement explains how Colchester Borough Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

**DELIVERING GOOD GOVERNANCE IN LOCAL GOVERNMENT:**

**The purpose of the governance framework**

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled. Which in turn directs the activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Colchester Borough Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Colchester Borough Council for the year ended 31 March 2010 and up to the date of approval of the annual accounts.

## DRAFT

### Elements of the Framework

The framework consists of comprehensive processes that each ensure that the Authority complies with the principals of good governance. These include:

- **The Strategic Plan** – which identifies and communicates the authority's vision of its purpose and intended outcomes for citizens and service users. This is supported by an action plan that is updated annually.
- **The Strategic Risk Register** – which reflects the objectives of the strategic plan and identifies the implications for the Council's governance arrangements.
- **The Constitution** - This is the fundamental basis of the authority's governance arrangements and includes:
  - Defining and documenting the roles and responsibilities of the executive, nonexecutive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication.
  - Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes / manuals, which clearly define how decisions are taken.
  - The Policy Framework which includes the documents relating to Corporate Governance including:
    - The Local Code of Corporate Governance.
    - A risk management strategy detailing processes and controls required to manage risks.
    - The Anti-Fraud and Corruption Policy
  - The Ethical Framework which includes documents relating to standards of conduct and good practice which include:
    - A code of conduct which defines the standards of behaviour for all members.
    - Planning procedures Code of Practice
    - Protocol on Members/officer Relations
    - Media Protocol
    - Operational Protocol relating to Administration Arrangements
    - Monitoring Officer Protocol
    - Chief Finance Officer Protocol
    - Resources Protocol
    - A whistle blowing policy for receiving and investigating complaints from the public and staff.
    - Gifts and Hospitality Guidance
- **The operation of the Finance and Audit Scrutiny Panel** which undertakes the core functions of an audit committee, as identified in CIPFA's document 'Audit Committees – Practical Guidance for Local Authorities'.
- **The operation of the Strategic Overview and Scrutiny Panel** to ensure that the actions of the Cabinet accord with the policies and budget of the Council, monitor the financial performance of the Council, link spending proposals to the Council's policy priorities and review progress and to review decisions of the Cabinet via the call-in procedure.
- **The operation of a Standards Committee**, that enforces the code of conduct for members.
- **A performance management system** for all officers that identifies key objectives and development needs.
- **A members training programme.**

## DRAFT

- **A communications strategy** which establishes clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.
- **A partnership strategy** that ensures that the quality of the Council's partnerships are improved and that all partnerships, both current and proposed, add value.
- **Treasury management practices and policies**

## DELIVERING GOOD GOVERNANCE IN LOCAL GOVERNMENT:

### Review of effectiveness

Colchester Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the Internal Audit annual report, and also by comments made by the external auditors and other review agencies and inspectorates including the Benefits Fraud Inspectorate, Equal Opportunities Commission, Lexcel, Investors In People, the Vehicle Inspectorate, DEFRA, East England Tourist Board, the Office of Surveillance Commissioners and the Local Government Ombudsman.

As well as the annual review, the governance and control frameworks are maintained and reviewed by a series of comprehensive processes throughout the year. These include:

- **A robust Internal Audit function** where the planned work is based on identified key systems and risk areas
- **An embedded reporting system** for both internal and external audit issues that ensures that senior managers and members are fully briefed on key issues, which includes the requirement to report to the Finance and Audit Scrutiny Panel at least every quarter.
- **A comprehensive risk management process** that ensures the key risks across the authority, both operational and strategic, are captured and reported to senior officers and members.
- **The operation of an independent Standards Committee** that is fully briefed to review the conduct of members.
- **Reporting of key performance indicators** to the Strategic Overview and Scrutiny Panel.
- **A comprehensive budget monitoring process** that is reported monthly to senior managers.
- **A partnership register** that records the details of all of the partnerships that the Council is involved in.

The significant control issues found during the course of the review are highlighted in the table at the end of the statement. However it should be noted that two of the systems that form part of the governance framework - Payroll and IT Security – both received limited assurance levels from internal audit during the year. These have not been included in the action plan as Internal Audit have confirmed that the recommendations made have been implemented.

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### Effectiveness of Other Organisations

The Council owns two companies, Colchester Borough Homes which was created in 2003 and Colchester Community Stadium Limited that was created in 2007. As these are limited companies there is no requirement for them to produce Governance Statements in this format. However it is recognised by the Council that it is essential for these companies to operate effective governance procedures to ensure appropriate and cost effective service provision and protection of Council assets.

During 2009, Colchester Community Stadium Limited changed its name to CCSL Newco Limited. During the year the member and the directors decided that the current structure of this company did not achieve the intended objectives of the member. It was decided that the business assets and duties of the company would be transferred to a new company limited by shares (Colchester Community Stadium Limited), and that the member would be the sole shareholder of the new company. This transfer took place on 1 July 2009 and it is intended that CCSL Newco Limited will be dissolved during 2010.

A review of the management arrangements for Colchester Borough Homes (C.B.H.) was carried out as part of the preparation of this statement. Whilst C.B.H. is an 'arms length' company it is still necessary for the Council to ensure that it operates effectively to ensure that it provides an effective and economical service to housing tenants that the Council's asset, the housing stock, is adequately protected. During the course of the year an internal audit of the procedures used to appoint contractors raised four high level recommendations. These were all implemented before the end of the year.

A review of the management arrangements for Colchester Community Stadium Limited (C.C.S.L.) was carried out as part of the preparation of this statement. Whilst C.C.S.L. is an 'arms length' company it is still necessary for the Council to ensure that it operates effectively to ensure that it can make the necessary loan repayments to the Council and that the Council's asset, the stadium, is adequately protected. The governance review in 2008/09 highlighted some weaknesses in control arrangements of the stadium. These have been resolved in 2009/10 and whilst there are some controls around reporting that need to be embedded, they do not constitute significant governance issues.

The Council is the lead partner in a joint museum service with Ipswich Borough Council. Due to the nature of the arrangement, the joint museum service is required to produce its own annual governance statement. Therefore it is not intended to include any details relating to this service within this statement.

The Council is also the lead partner in a joint parking service with Braintree and Uttlesford District Councils. Due to the nature of the arrangement, the joint parking service is required to produce its own annual governance statement. Therefore it is not intended to include any details relating to this service within this statement.

The Council has a comprehensive partnership strategy and maintains a detailed register of the partnerships that it participates in. The strategy defines what a partnership is and details the governance arrangements that should be in place for all partnerships, both present and new. It also provides a mechanism for improving the effectiveness of the partnerships. The strategy was adopted by Cabinet in January 2009.

## **DRAFT**

### **Internal Audit Opinion**

From the work undertaken in 2009/10, Internal Audit has provided satisfactory assurance that the system of internal control that has been in place at the Council for the year ended 31 March 2010 accords with proper practice. This is excepting any details of significant internal control issues as documented hereafter. It is also the opinion of Internal Audit that the Council's corporate governance framework complies with the best practice guidance on corporate governance issued by CIPFA/SOLACE.

## DRAFT

### Significant Governance Issues

The review of the effectiveness of the governance and internal control arrangements has identified some areas where actions are required to ensure that the authority continues to provide appropriate and cost effective services. The issues and action plans are shown in the table below. These will be monitored and reviewed via the Internal Audit process and progress will be reported quarterly to the Finance and Audit Scrutiny Panel.

No.	Issue	Action
1	<p><u>Financial Procedure Rules</u> The financial procedure rules, contained in the Constitution, govern all aspects of the Council's financial affairs. These have not been updated since 2004.</p>	<p>The financial procedure rules need to be updated and reissued.</p>
2	<p><u>Governance Awareness</u> The understanding of Corporate Governance varies across the Authority with some service areas having a greater awareness than others. The Authority has adopted a code of corporate governance, senior officers are aware of their responsibilities and the individual policies that make up the framework are available to all staff. However, general training and guidance given to staff relating to Corporate Governance needs to be improved, including identification of a contact point for staff to seek further information.</p>	<p>A programme of awareness training will be delivered aimed at group management team level. Member training will also be provided, to ensure that they are aware of their role in embedding good governance.</p>
3	<p><u>Organisational Learning</u> There is no formal process for the organisation to get feedback, and learn from, issues such as customer complaints and service failures. Whilst individual areas are reviewed as necessary by senior management there needs to be a process that allows the whole organisation to benefit from the information.</p>	<p>Further development of existing programme of customer performance management to identify and manage opportunities for organisational learning and improvement.</p>
4	<p><u>Members on Outside Bodies</u> Members are annually appointed to represent the Council on outside bodies. However there is no formal review or feedback on progress relating to these appointments. Members should report back to the organisation to ensure that their appointment is achieving the intended purpose.</p>	<p>An annual feedback report will be provided by Councillors on outside bodies to Cabinet</p>
5	<p><u>Booking of Premises</u> During the course of the booking of premises audit it was highlighted that it could not always be proved that invoices were raised for room hires. This could have a significant impact on income and was therefore given a level 1 status.</p>	<p>The use of standard checklists was introduced in July 2009 as per the recommendations for paragraphs 3.9 – 15 of the Final Audit report</p>

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We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Accounts & Regulatory Committee and we propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

**Signed:**

..... & .....

Leader of the Council

Chief Executive

on behalf of Colchester Borough Council





## Finance & Audit Scrutiny Panel

Item

-

23 March 2010

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.

### 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.

### 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.

## Appendix 1

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.

## Appendix 1

### 6.0 Suggested Process

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

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

## Appendix 1

### **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.

**Colchester Borough Council  
Annual Governance Statement – Action Plan for 2010/11**

**Significant Internal Control Issues – Relating to 2009/10 Financial Year**

No.	Issue	Action	Due Date	Responsible Officer	How this Issue was Identified
1	<p><u>Financial Procedure Rules</u> The financial procedure rules, contained in the Constitution, govern all aspects of the Council's financial affairs. These have not been updated since 2004.</p>	<p>The financial procedure rules need to be updated and reissued.</p>	30 June 2010	Finance Manager Audit & Governance & Head of Resource Management.	Annual Governance review
2	<p><u>Governance Awareness</u> The understanding of Corporate Governance varies across the Authority with some service areas having a greater awareness than others. The Authority has adopted a code of corporate governance, senior officers are aware of their responsibilities and the individual policies that make up the framework are available to all staff. However, general training and guidance given to staff relating to Corporate Governance needs to be improved, including identification of a contact point for staff to seek further information.</p>	<p>A programme of awareness training will be delivered aimed at group management team level. Member training will also be provided, to ensure that they are aware of their role in embedding good governance.</p>	By end of December 2010.	Monitoring Officer	Annual Governance review
3	<p><u>Organisational Learning</u> The processes for the organisation to get feedback, and learn from, issues such as customer complaints and service failures need to be embedded. Whilst Ombudsman complaints and individual service issues are reviewed as necessary by senior management it needs to be demonstrated that the whole organisation has learnt from the issues.</p>	<p>Further development of existing programme of customer performance management to identify and manage opportunities for organisational learning and improvement.</p>	December 2010	Executive Director Customer Excellence	Annual Governance review and Internal Audit work

No.	Issue	Action	Due Date	Responsible Officer	How this Issue was Identified
4.	<p>Members on Outside Bodies Members are annually appointed to represent the Council on outside bodies. However there is no formal review or feedback on progress relating to these appointments. Members should report back to the organisation to ensure that their appointment is achieving the intended purpose.</p> <p><u>Booking of Premises</u> During the course of the booking of premises audit it was highlighted that it could not always be proved that invoices were raised for room hires. This could have a significant impact on income and was therefore given a level 1 (senior management issue) recommendation.</p>	<p>An annual feedback report will be provided by Councillors on outside bodies to Cabinet</p>	<p>End of the municipal year 2010/11</p>	<p>Monitoring Officer</p>	<p>Annual Governance review, External Audit and self awareness.</p>
5.	<p><u>Booking of Premises</u> During the course of the booking of premises audit it was highlighted that it could not always be proved that invoices were raised for room hires. This could have a significant impact on income and was therefore given a level 1 (senior management issue) recommendation.</p>	<p>The use of standard checklists was introduced in July 2009 as per the recommendations for paragraphs 3.9 – 15 of the Final Audit report</p>	<p>Confirmation follow-up review due 2010/11.</p>	<p>Head of Corporate Management Facilities Manager</p>	<p>Internal Audit Review</p>

29 June 2010

<b>Report of</b>	<b>Head of Resource Management</b>	<b>Author</b>	<b>Steve Heath</b> ☎ 282389
<b>Title</b>	<b>Draft Annual Statement of Accounts 2009/10</b>		
<b>Wards affected</b>	Not applicable		

**This report presents the Draft Statement of Accounts for 2009/2010**

## 1. Decisions Required

- 1.1 To consider this report and supporting information and approve the pre-audit Statement of Accounts for 2009/10.

## 2. Procedure

- 2.1 Under the Accounts and Audit Regulations 2003 the 2009/10 annual accounts for the Council must be approved before the end of June. This approval has been delegated to this Committee.
- 2.2 In this context it is not the intention of the regulations that Members should undertake a detailed technical examination of the accounts in the role of accountants or auditors. The regulations make it clear that these responsibilities rest with the Head of Resource Management and External Audit respectively.
- 2.3 Equally, the Accounts and Regulatory Committee is not the forum for debating financial performance or policy issues. These are the roles of the Finance and Audit Scrutiny Panel and the Strategic Overview and Scrutiny Panel respectively. The Statement of Accounts is a factual record of the financial activities in the year and the position at year-end.
- 2.4 The Finance and Audit Scrutiny Panel receive periodic financial reports during the course of the financial year and an outturn report at year end. The financial outturn report for the financial year 2009/10 is being considered by the Panel on 29 June 2010.
- 2.5 The aim of the regulations, in requiring Member approval of the draft accounts, is to bring the accounts into the public arena at the earliest opportunity for public accountability reasons and to demonstrate corporate ownership of the accounts. Approval will indicate confidence in the Council's financial management and the process by which the accounting records are maintained and the Statement prepared. In this sense "Member approval" means that Members should be seeking to:
- gain a broad understanding of the content of the accounts;
  - be satisfied that the presentation appears appropriate; and
  - be satisfied that the accounts are consistent with other financial information provided

2.6 The approval of the draft accounts is necessary to release the draft accounts for review by external audit and to be made available for public inspection. The outcome of both of these will be reported to the September meeting.

2.7 The Committee is requested to:

- consider this report with supporting information
- approve the pre-audit Statement of Accounts for 2009/10 so that they can be submitted for audit by the statutory deadline.

### **3. Changes in the Presentation of the 2009/10 Accounts**

3.1 We have followed the accounting practices as recommended by CIPFA in producing these accounts. The accounts have been drawn up following the Code of Practice on Local Authority Accounting in the United Kingdom (2009): A Statement of Recommended Practice. The code is recognised as “proper accounting practice” under the Local Government Act 2003.

3.2 The revised 2009 code has amended the accounting treatment for Council tax and NNDR income in the accounts. It has also amended the classification relating to interest accrued on investments and borrowing, added new disclosures regarding the remuneration of senior employees, and removed a number of notes to the accounts. In addition, the amended Accounts and Audit regulations require the Council’s responsible financial officer to certify that the accounts present a ‘true and fair’ view. It is important to note that these changes do not impact on the results for the year or affect our financial standing with the outside world, and our financial position and resources remain unchanged.

### **4. 2009/10 Accounts**

4.1 The pre-audit revenue and capital outturn results for 2009/10 are included within the statement. Revenue and capital figures are being reported to the Finance and Audit Scrutiny Panel on 29 June.

4.2 The following key statements are attached as appendices to this report:

- **Appendix A – Statement of Responsibilities**

This sets out the respective responsibilities of the Authority and the Head of Resource Management. This makes clear that it is the Head of Resource Management’s responsibility to ensure the accounts are prepared in accordance with proper practices and give a true and fair view of the financial position. The statement will be signed to certify that this is the case. Under the regulations the Chair is required to sign to confirm approval of the accounts.

- **Appendix B – Income and Expenditure Account, Statement of Movement on General Fund Balance and Statement of Total Recognised Gains and Losses**

These statements summarise revenue spending and income in the year on all the activities of the Council, including the Housing Revenue Account, and it is important that they are viewed together. After taking account of funding from local taxes and Government grant, and statutory requirements the year-end balance is shown. The deficit shown on the Income and Expenditure account alone does not fully reflect the position of the authority; this is only revealed in the Statement of Movement on General Fund Balance. In order to give a full presentation of the financial performance of an authority during the year and the actual spending



power carried forward to future years, the outturn on the Income and Expenditure Account has to be reconciled to the balance established by the relevant statutory provisions. The results for the year are in line with the report to the Finance and Audit Scrutiny Panel. The Statement of Accounts also includes supporting notes.

The Statement of Total Recognised Gains and Losses brings together all the gains and losses of the Council for the year and relates the deficit/(surplus) generated on the Income and Expenditure Account back to the movement in net worth shown on the Balance sheet.

- **Appendix C – Balance Sheet and Cash Flow**

The Balance Sheet summarises the Council's financial position as at 31 March 2010. It shows the balances and reserves, tangible assets and current assets employed in operations and the long term borrowing position. The Statement of Accounts also includes supporting notes.

The Cash Flow Statement shows where the Council receives cash from and what this cash has been spent on.

4.3 In addition to the above the draft Statement of Accounts includes an "Annual Governance Statement" which sets out the Council's corporate governance arrangements, risk management processes and internal controls. The statement, together with a covering report, are separate agenda items for this meeting. The statement will be signed by the Chief Executive and the Leader of the Council. The Statement of Accounts has been prepared within this framework.

4.4 A summary of the main statements and an explanation of their purpose is in the Statement of Accounts on page (i). A background paper providing further commentary on some of the main areas within the Statement of Accounts will be available in the Members' Room.

4.5 The key statements are noted above in paragraph 4.2. The draft Statement of Accounts containing the remaining statements will be provided to each member of the committee and is being placed in the Members' Room.

## **5. External Audit**

5.1 All auditors appointed by the Audit Commission are subject to the Code of Audit Practice, which includes the requirement to comply with Auditing Standards. The standard requires auditors to report to those charged with governance before they give an opinion on the Statement of Accounts. For this purpose the report will go to the Accounts and Regulatory Committee as the body which approves the accounts.

5.2 The final accounts audit is planned for July to early September and the External Auditor will report to the meeting of this Committee on 28 September. The report will address any matters arising out of the final accounts audit and comment on the proposed opinion on the accounts.

5.3 It is planned that an audit opinion will be received so as to enable the Statement of Accounts to be published by the end of September, the statutory deadline. In keeping with the usual practice the published statement, including the auditor's opinion, will be submitted to the Committee following the audit.

## **6. Strategic Plan References**

- 6.1 The objectives and priorities of the Strategic Plan informed all stages of the budget process for 2009/10.

## **7. Publicity Considerations**

- 7.1 It is planned that the accounts will be open for public inspection from 26 July to 20 August to meet our legal duties. The dates will be advertised in the local press.
- 7.2 Staff will be available to provide information and respond to queries during this period. The local press usually take the opportunity to view the accounts and information will be provided as appropriate.

## **8. Financial Implications**

- 8.1 The approval of the draft Statement of Accounts meets a statutory requirement for financial reporting and is an important part of the process to demonstrate accountability in the use of public funds.

## **9. Other Standard References**

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

## **Background Papers**

### **Available in the Members' Room:-**

Annual Statement of Accounts – Notes 29 June 2010

Draft Statement of Accounts 2009/10

## STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

### The Authority's Responsibilities

#### The Authority must:

- Make arrangements for the proper administration of its financial affairs and make one of its officers responsible for the administration of those affairs. In this Authority, that officer is the Head of Resource Management.
- Manage its affairs to bring about economic, efficient and effective use of resources and to safeguard its assets.
- Approve the Statement of Accounts.

I confirm that these accounts were approved by the Accounts and Regulatory Committee at the meeting held on 29 June 2010.

Signed on behalf of Colchester Borough Council  
Councillor D. Willetts  
Chair of meeting approving the accounts:  
Date: 29 June 2010

### The Head of Resource Management's Responsibilities

The Head of Resource Management is responsible for preparing the authority's Statement of Accounts under the proper practices set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice').

In preparing this Statement of Accounts, the Head of Resource Management has:

- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the Code of Practice

The Head of Resource Management has also:

- kept proper accounting records which were up to date
- taken reasonable steps to prevent and detect fraud and other irregularities

#### *Head of Resource Management's Certificate*

I certify that the accounts set out on pages 1 to 98 give a true and fair view of the financial position of the Council as at 31 March 2010 and its income and expenditure for the year then ended.

Charles Warboys  
Head of Resource Management  
29 June 2010

## INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2010

This account summarises the income and expenditure used in providing all services and managing the Council during the last year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually used and the future value of retirement benefits earned by employees in the year.

Expenditure on Services 2009/10 (Notes 1&2)	2009/10 Gross Expenditure	2009/10 Gross Income	2009/10 Net Expenditure	2008/09 Net Expenditure Restated
	£'000	£'000	£'000	£'000
<b>CENTRAL SERVICES</b>				
Democratic Representation and Management	3,197	83	3,114	2,336
Corporate Management	2,068	599	1,469	1,381
Non Distributed Costs	2,165	-	2,165	1,694
Central Services to the Public				
Local Taxation (includes Council Tax Benefit)	13,401	11,580	1,821	1,528
Other Central Services	1,089	547	542	725
<b>Total for Central Services</b>	<b>21,920</b>	<b>12,809</b>	<b>9,111</b>	<b>7,664</b>
<b>CULTURAL, ENVIRONMENTAL &amp; PLANNING SERVICES</b>				
Cultural and Related Services				
Culture and Heritage	4,079	1,244	2,835	2,205
Recreation and Sport	6,730	4,578	2,152	2,689
Open Spaces	2,185	335	1,850	1,747
Tourism	512	209	303	441
Environmental Services				
Cemetery, Crematorium and Mortuary Services	1,024	832	192	180
Environmental Health	2,525	562	1,963	2,538
Community Safety	1,196	374	822	871
Street Cleansing (non-highway)	1,738	136	1,602	1,771
Waste Collection	5,914	1,743	4,171	4,545
Planning and Development Services				
Building Control	921	403	518	406
Development Control	12	-	12	(36)
Planning Policy	2,289	872	1,417	1,787
Economic Development	2,270	3,421	(1,151)	(1,503)
Other Planning and Development Services	121	58	63	(130)
<b>Total for Cultural, Environmental &amp; Planning Services</b>	<b>31,516</b>	<b>14,767</b>	<b>16,749</b>	<b>17,511</b>
<b>HIGHWAYS, ROADS AND TRANSPORT SERVICES</b>				
Transport Planning and Strategy	284	166	118	108
Highways, Traffic Management and Road Safety	422	28	394	741
Parking Services	3,193	5,214	(2,021)	(1,411)
Public Transport				
Concessionary Fares	2,516	689	1,827	1,865
Other Public Transport	109	17	92	106
<b>Total for Highways, Roads and Transport Services</b>	<b>6,524</b>	<b>6,114</b>	<b>410</b>	<b>1,409</b>
<b>HOUSING GENERAL FUND</b>				
Private Sector Housing Renewal	1,609	149	1,460	1,692
Homelessness	1,556	876	680	832
Housing Benefits	47,766	47,112	654	814
Other Housing General Fund	1,809	77	1,732	1,382
<b>Total for Housing General Fund</b>	<b>52,740</b>	<b>48,214</b>	<b>4,526</b>	<b>4,720</b>
<b>HOUSING REVENUE ACCOUNT</b>	<b>22,086</b>	<b>24,435</b>	<b>(2,349)</b>	<b>38,643</b>
<b>SOCIAL SERVICES – OLDER PEOPLE</b>	<b>1,055</b>	<b>793</b>	<b>262</b>	<b>145</b>
<b>COST OF SERVICES</b>	<b>135,841</b>	<b>107,132</b>	<b>28,709</b>	<b>70,092</b>

## INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2010 (continued)

	Notes	2009/2010 Net Expenditure £'000	2008/2009 Net Expenditure Restated £'000
<b>Cost of Services (net) Brought Forward</b>	1&2	<b>28,709</b>	<b>70,092</b>
(Gain)/Loss on the disposal of fixed assets (net of disposal costs)	3	(27)	18
Precepts paid to Parish Councils		846	801
Deficit/(surplus) on Internal Trading	4	-	-
Contribution of Housing Capital Receipts to Government Pool	5 & 37	779	150
Interest and investment income		(934)	(2,207)
Interest payable and similar charges		3,660	3,900
Investment impairment charge	1	449	938
Pensions interest cost and expected return on pensions assets	6	4,015	2,921
<b>Net Operating Expenditure</b>		<b>37,497</b>	<b>76,613</b>
Demand on the Collection Fund		(11,040)	(10,655)
General Capital Contributions	7	(131)	(229)
General Government Grants	8	(3,972)	(1,636)
Non-Domestic Rates redistribution		(10,303)	(10,871)
<b>Deficit/(Surplus) for the Year</b>		<b>12,051</b>	<b>53,222</b>

The balance on this account is not in accordance with the statutory provisions that specify the net expenditure that councils need to take into account when setting local taxes. In order to give a full presentation of the financial performance of the Council during the year and the actual spending power carried forward, the balance on this account needs to be reconciled in the Statement of Movement on the General Fund Balance to the amount established by the relevant statutory provision (see following statement, Page 21).

## STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

The Income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of income receivable and expenditure due in operating the Council for the year. However, the authority is required to raise council tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when the fixed assets are used.
- The payment of a share of housing capital receipts to the Government scores as a loss in the Income and Expenditure Account, but is met from the usable capital receipts balance rather than council tax.
- Timing differences on the charges and income under Financial Instruments.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

The movement in the General Fund Balance compares the Council's spending against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

This reconciliation statement summarises the differences between the result on the Income and Expenditure Account and the General Fund Balance.

	Notes	2009/2010 Net Expenditure £'000	2008/2009 Net Expenditure Restated £'000
<b>Deficit/(Surplus) for the year on the Income and Expenditure Account</b>	Page 20	12,051	53,222
Net additional amount required by statute and non-statutory proper practices to be debited or (credited) to the General Fund Balance for the year	Page 22	(13,086)	(52,766)
<b>(Increase)/Decrease in the General Fund Balance for the Year</b>		<b>(1,035)</b>	<b>456</b>
General Fund Balance Brought Forward		(2,891)	(3,347)
<b>General Fund Balance carried forward</b>		<b>(3,926)</b>	<b>(2,891)</b>

## NOTE OF RECONCILING ITEMS FOR THE STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

The net amount required to be credited to the General Fund balance for the year is made up of the following:

	Notes	2009/2010 Net Expenditure £'000	2008/2009 Net Expenditure Restated £'000
<b>Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year</b>			
Intangible fixed assets written down	14	(1,797)	(1,678)
Depreciation and impairment of fixed assets	15 & 17	(7,324)	(44,675)
Capital Contributions Deferred written down		632	564
General Capital contributions	7	131	229
Write down of revenue expenditure funded from capital under statute		(896)	(454)
Gain/(loss) on sale of fixed assets (excluding disposal costs)	3	75	(11)
Timing differences on interest on soft loans	35	(23)	(138)
Investment impairment charge	35	(449)	(938)
Interest receivable on impaired investments	35	233	133
Difference between the amount credited to the I&E account and amount receivable to be recognised under statutory provisions relating to Council Tax income	35	(32)	(94)
Capital receipts not linked to the disposal of fixed assets		475	15
Net charges made for retirement benefits in accordance with FRS 17	6	(6,204)	(6,163)
		<b>(15,179)</b>	<b>(53,210)</b>
<b>Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year</b>			
Minimum revenue provision for capital financing	13	549	104
Capital expenditure charged in-year to the General Fund Balance		344	455
Premiums and discounts written down		200	200
Transfer from Usable Capital Receipts to meet payments to the Housing Capital Receipts Pool	5 & 37	(779)	(150)
Employers contributions payable to the ECC Pension Fund and retirement benefits payable direct to pensioners	6	4,888	4,648
		<b>5,202</b>	<b>5,257</b>
<b>Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year</b>			
Housing Revenue Account balance	Page 65	1,091	20
Net transfer to or (from) Major Repairs reserve	Page 67, Note 5	(2,524)	(3,667)
Net transfer to or (from) other earmarked reserves	39	(1,676)	(1,166)
		<b>(3,109)</b>	<b>(4,813)</b>
<b>Net additional amount required to be credited to the General Fund balance for the year</b>		<b>(13,086)</b>	<b>(52,766)</b>

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

This Statement brings together all the gains and losses of the Council for the year and shows the total change in its net worth. In addition to the deficit/(surplus) generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

	Notes	2009/2010 Net Expenditure £'000	2008/2009 Net Expenditure Restated £'000
Deficit/(Surplus) for the year on the Income and Expenditure Account	Page 20	12,051	53,222
(Increase)/Decrease arising on the revaluation of fixed assets	33	(39,643)	11,355
Actuarial losses/(gains) on pension fund assets and liabilities	6	17,773	(4,847)
<b>Total recognised (gains)/loss for the year</b>		<b>(9,819)</b>	<b>59,730</b>
Prior period adjustments		-	-
<b>Total recognised (gains)/loss</b>		<b>(9,819)</b>	<b>59,730</b>



## BALANCE SHEET AS AT 31 MARCH 2010

This statement shows the financial position of the Council as a whole and summarises its assets and liabilities.

	Notes	31 March 2010 £'000	31 March 2009 Restated £'000
<b>Fixed Assets</b>			
Intangible Fixed Assets	14	1,033	2,097
Tangible Fixed Assets	15 & 16		
Operational Assets			
Council Dwellings		399,920	369,396
Other Land and Buildings		91,686	75,863
Operational Equipment		5,435	4,319
Infrastructure Assets		3,444	4,038
Community Assets		288	275
Non-Operational Assets			
Investment Properties		34,429	51,523
Assets under Construction		25,976	21,191
Surplus Assets held for Disposal		13,787	15,554
<b>Total Fixed Assets</b>		<b>575,998</b>	<b>544,256</b>
Investments (Long Term)	20	10	4,010
Long Term Debtors	21	579	550
<b>Total Long Term Assets</b>		<b>576,587</b>	<b>548,816</b>
<b>Current Assets</b>			
Stock	22	168	144
Debtors	23	11,357	8,449
Investments (short term)		13,081	15,499
<b>Total Current Assets</b>		<b>24,606</b>	<b>24,092</b>
<b>Current Liabilities</b>			
Short Term Borrowing	25	(6,047)	(11,978)
Creditors	24	(8,654)	(8,214)
Cash Overdrawn		(917)	(1,259)
<b>Total Current Liabilities</b>		<b>(15,618)</b>	<b>(21,451)</b>
<b>Net Current Assets</b>			
		<b>8,988</b>	<b>2,641</b>
Long Term Borrowing	25	(57,400)	(57,400)
Provisions	30	(450)	(347)
Capital Contributions deferred	31	(39,130)	(34,023)
Pension Scheme Liability	6	(71,028)	(51,939)
<b>Total Net Assets</b>		<b>417,567</b>	<b>407,748</b>
Represented by:			
Revaluation Reserve	33	63,093	23,976
Capital Adjustment Account	34	407,004	418,520
Financial Instruments Adjustment Account	35	(2,087)	(2,049)
Collection Fund Adjustment Account		23	55
Usable Capital Receipts Reserve	37	4,562	4,999
Deferred Capital Receipts	38	71	90
Pensions Reserve	6	(71,028)	(51,939)
Earmarked Reserves	39	9,394	9,687
Revenue Balances	40	6,535	4,409
<b>Total Net Worth</b>	<b>32 &amp; 41</b>	<b>417,567</b>	<b>407,748</b>

## THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2010

This statement has been drawn up to show where the Council receives cash from and what this cash has been spent on.

	Notes	2009/2010 £'000	2009/2009 Restated £'000
<b>Net Cash (Inflow)/Outflow from Revenue Activities</b>	48	(6,010)	(2,256)
<b>Returns on Investments and Servicing of Finance</b>			
Cash outflows			
Interest Paid		3,630	3,617
Cash inflows			
Interest Received		(1,397)	(2,451)
<b>Net Cash Outflow from Returns on Investments and Servicing of Finance</b>		<b>2,233</b>	<b>1,166</b>
<b>Capital Activities</b>			
Cash outflows			
Purchase of Fixed Assets		11,036	30,129
Other Capital Cash payments		103	2,284
Purchase of Long Term Investments		-	4,000
Total Cash outflows		11,139	36,413
Cash inflows			
Sale of Fixed Assets		3,997	797
Proceeds from Long Term Investments matured in year		-	10
Capital Grants Received		5,013	6,533
Other Capital Cash Income		46	735
Total Cash inflows		9,056	8,075
<b>Net Cash Outflow/(Inflow) from Capital Activities</b>		<b>2,083</b>	<b>28,338</b>
<b>Net Cash Outflow/(Inflow) before Financing</b>		<b>(1,694)</b>	<b>27,248</b>
<b>Management of Liquid Resources</b>			
Net (Decrease)/Increase in Short Term Investments	50	(5,500)	(18,450)
Net (Decrease)/Increase in Other Liquid Resources		922	1,354
<b>Financing</b>			
Cash outflows			
Repayments of Amounts Borrowed		5,930	-
PWLB Premium Paid		-	-
Cash inflows			
New Loans Raised		-	(9,930)
Discounts Received		-	-
<b>Net Cash (Inflow)/Outflow from Financing</b>		<b>5,930</b>	<b>(9,930)</b>
<b>Decrease/(Increase) in Cash</b>		<b>(342)</b>	<b>222</b>



## Accounts and Regulatory Committee

Item

29 June 2010

<b>Report of</b>	<b>Head of Resource Management</b>	<b>Author</b>	<b>Steve Heath</b>
<b>Title</b>	<b>Background Paper – Annual Statement of Accounts 2009/10</b>		
<b>Wards affected</b>	Not Applicable		

### 1. Summary

- 1.1 This background paper summarises the main issues and outturn results included in the draft Statement of Accounts for 2009/10.

### 2. Approval of Draft Statement of Accounts

- 2.1 The Accounts and Audit Regulations 2003 provide that it is the responsibility of the Council's Chief Finance Officer to certify that the Statement of Accounts gives a true and fair view of the financial position of the Authority at the end of the relevant financial year. The regulations also state that the Statement of Accounts shall be approved by Members as soon as reasonably practicable and in any event by 30 June.
- 2.2 The Accounts and Audit Regulations 2003 include a requirement for the Chair of the committee approving the accounts to sign and date the Statement of Accounts. The guidance issued states "the Chair's signature should formally represent the completion of the Council's approval process of the accounts. The requirement for the Chair to sign does not relate to the role of the responsible financial officer in certifying that the Statement of Accounts is a proper reflection of the body's financial position."

### 3. Timetable

- 3.1 There are three reports required which are planned as follows:

- 29 June 2010: Draft Statement of Accounts (SOA) to be submitted for approval
- 28 September 2010: External audit report on the SOA.
- 19 October 2010: Formal reporting of the completion of the final accounts audit and the publication of the SOA

### 4. Technical Changes

- 4.1 There are three main changes to accounting policies that impact on the published accounting statements. These are:
- The accounting treatment for Council Tax income has changed under the 2009 SORP to reflect that the collection of Council Tax income by the Council is an agent activity on behalf of the major preceptors. Changes have been made to the accounting treatment of Council Tax income in the accounts in order to reflect this agency arrangement.
  - The accounting treatment for the National Non-Domestic Rates (NNDR) has changed under the 2009 SORP to reflect that the collection of NNDR by the Council is an agent activity on behalf of Central Government. Changes have been made to the

accounting treatment of NNDR income in the accounts in order to reflect this agency arrangement.

- The principal and interest that is accrued on long term loans and long term investments which is due to be paid/received within one year is to be included within current liabilities and current assets on the Balance Sheet. The Council's accounting policies for financial liabilities and financial assets have been updated to reflect this change. Prior period adjustments have been made to the 2008/09 comparatives reported in the Balance Sheet and associated notes, in order to reclassify the interest accruals due to be paid/received within 2009/10.

4.2 In addition to the above there are a number of activities that have impacted on the results for the year and the presentation of the figures. These are detailed in the following paragraphs:

#### **Icelandic investments**

4.3 Early in October 2008, the Icelandic bank Landsbanki Islands hf went into administration. The Council had £4m deposited with this institution. All monies within this institution are currently subject to the respective administration and receivership processes. The estimated repayment to Landsbanki's preferential claimants is 95%, including interest to 22 April 2009. The Council has therefore decided to recognise an impairment based on a total repayment of 95%, using this latest estimate. It is also estimated that repayments to depositors will be made annually between October 2011 and October 2018. Further adjustments to the assumptions will be made in future accounts as more information becomes available. An additional impairment loss recognised in the Income and Expenditure Account in 2009/10 (£449k) takes into account adjustments to the assumptions with regards to the recoverable amount, the repayment schedule and the rate of interest payable. The Council has taken advantage of the Capital Finance Regulations to defer the impact of the impairment on the General Fund until 2010/11, and a sum of £216k has been transferred to the Financial Instruments Adjustment Account. The balance of £233k relates to interest which has been borne in full by the General Fund.

#### **VAT**

4.4 An amount of £657k has been included within the Income and Expenditure Account for 2009/10. This relates to the recovery of VAT paid to HM Revenue and Customs on certain Leisure activities between January 1990 and March 1994, together with interest thereon. Along with many other local authorities, Colchester Borough Council submitted a claim to recover this VAT on the basis that European law had not been correctly implemented in the UK at that time.

#### **Joint Committees**

4.5 The Colchester and Ipswich Museum Service Joint Committee was formed with Ipswich Borough Council on 1 April 2007. A separate Joint Committee for Parking Services was formed with Braintree District Council and Uttlesford District Council with effect from 1 April 2009. As the Joint Committees were established under Sections 101 and 102 of the Local Government Act 1972, they are required to produce accounts annually and have them subjected to external audit. The draft accounts for 2009/10 will be submitted to the Joint Committees for approval on 23 June (Parking) and 29 June (Museums) 2010.

4.6 For accounting purposes, Joint Committees are considered to be a 'joint arrangement which is not an entity' (JANE). Adjustments have been made to exclude the other partners' share of the Joint Committee's income, expenditure, assets, liabilities and cash flows in accordance with the accounting treatment prescribed for JANES.

4.7 These adjustments have no impact on the Council's Income and Expenditure account for 2009/10 as equal adjustments have been made to reduce both the income and expenditure reported for "Cultural and Heritage" and "Parking Services". Furthermore, there is no impact on the Council's total net assets reported in the Balance Sheet for either year, as equal adjustments have been made to reduce both current assets and current liabilities.

## **5. Statement of Accounts 2009/10**

5.1 The accounts have been drawn up following the Code of Practice on Local Authority Accounting in the United Kingdom (2009): A Statement of Recommended Practice (SORP). This includes the Best Value Accounting Code of Practice requirements on the service analysis for the Income and Expenditure Account. The service groupings were brought in under this national guidance to help comparison between different local authorities.

5.2 While the service groupings will be broadly familiar they do not directly match our local service structure. For internal management purposes on budgets and outturn reporting we will continue to report in our local structure. However, for the Statement of Accounts we have followed the Best Value service analysis in accordance with the Code of Practice guidance. This only affects the analysis of spending; the final net outturn result and impact on balances, of course, remains the same.

### **Annual Governance Statement**

5.3 This sets out the Council's corporate governance arrangements, risk management processes and internal controls which support the Council's activities. The statement includes action plans to address issues identified. It will be signed by the Chief Executive and the Leader of the Council.

### **Income and Expenditure Account**

5.4 This shows the income receivable and expenditure incurred in operating the Council for the year. The revised code states that this account is fundamental to the understanding of the local authority's activities. It brings together all of the functions of the authority and summarises all of the resources that the authority has generated, consumed or set aside in providing services during the year. As such it is intended to show the financial position of the authority on a UK GAAP (Generally Accepted Accounting Practice) basis.

5.5 There is not a requirement for the Income and Expenditure Account to have a brought forward or carried forward balance. The surplus or deficit for the year represents the degree to which income is greater or less than expenditure in the financial year in question for all activities, including the HRA. This represents the same UK conventions as a large unlisted UK company would adopt when it prepares its audited accounts. However, local authorities are not companies and this accounting basis is currently out of line with the statutory provisions that specify the net expenditure that authorities must take into account when setting local taxes. These are addressed in the Statement of Movement on the General Fund Balance. Therefore, the following points must be taken into account when analysing the surplus\deficit position on the Income and Expenditure Account:

- Any substantial surplus on the Account does not necessarily mean that the authority has resources available to increase spending or reduce council tax
- Any substantial deficit on the Account does not necessarily mean that immediate action is needed to cut expenditure or raise council tax

The position with regard to this can only be assessed by reviewing the overall position shown by both the Income and Expenditure Account and the Statement of Movement on the General Fund Balance against budget plans.

### **Statement of Movement on the General Fund Balance**

- 5.6 This provides the necessary reconciliation between the Income and Expenditure result for the year and the General Fund Balance for that same year. The movement on the general fund balance is an important part of an Authority's stewardship role. The movement on the general fund will be derived from the income and expenditure account entries and other entries which are not included for the purposes of UK GAAP. In order to give a full presentation of the financial performance of an authority during the year and the actual spending power carried forward to future years, the outturn on the Income and Expenditure Account needs to be reconciled to the balance established by the relevant statutory provisions.
- 5.7 The authority is required to raise council tax on a different accounting basis to that shown in the Income and Expenditure Account and two of the main differences are:
- Capital investment is accounted for as it is financed, rather than when the fixed assets are used.
  - Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

Full details are provided in the statement and supporting notes.

- 5.8 The provisional outturn figures are being reported to Finance and Audit Scrutiny Panel on 29 June 2010. This report indicates an overall revenue outturn surplus of £2.03m before carry forwards. The General Fund balance now stands at £3.9m, of which £2.8m is uncommitted.

### **Statement of Total Recognised Gains and Losses**

- 5.9 This Statement brings together all the gains and losses of the Council for the year and shows the total change in its net worth. The change will match the movement in net worth shown on the Balance sheet. In addition to the deficit/(surplus) generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

### **Balance Sheet**

- 5.10 This is a statement of the Council's year-end position at 31 March 2010 showing the assets, liabilities, balances and reserves. For a company, the balance sheet would usually be balanced to shareholders' funds – the net worth of the company that is attributable to shareholders. The same concept can be applied to a local authority balance sheet but balancing to reserves. These reserves represent local taxpayers' 'net worth' in the local authority, although the use of some local authority reserves is restricted.
- 5.11 Council Dwellings were revalued as at 1 April 2005. In accordance with the guidance the value has now been revised to 31 March 2010. The net book value of Council dwellings at 31 March 2010 is £399.9m, which takes account of spending and sales in the year as well as the revised values.
- 5.12 Land and buildings assets, other than HRA dwellings, were all revalued as at 1 April 2004. Assets are now being revalued under a five year rolling programme. The Land and Building assets under this year's programme were valued at £31 million; a net gain of £3.4m.

### **Cash Flow Statement**

- 5.13 This statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. Its objective is to ensure that the significant elements of receipts and payments of cash are highlighted in a way that enables comparison of the cash-flow performance of different organisations and to provide information that assists in assessing their liquidity, solvency and financial adaptability.

### **Housing Revenue Account and Statement of Movement on the HRA Balance**

- 5.14 This account shows the main areas of housing revenue spending and how this is paid for from rents, subsidies and other income.
- 5.15 The accounts show that the Housing Revenue Account balance has increased to £2.609m of which £1.252m is planned to support future spending. The surplus for the year of £1.091m compares to the budgeted surplus of £143k. The provisional HRA outturn figures are being reported to Finance and Audit Scrutiny Panel on 29 June 2010.

### **Capital Expenditure and Financing**

- 5.16 This statement summarises the capital spending in the year and the way it has been financed. This is in accordance with the principles approved in the Medium Term Capital Strategy. The final figure requiring funding of £13.0 million is in line with the spending reported to the Finance and Audit Scrutiny Panel on 29 June.

### **Pensions Funding**

- 5.17 The full reporting arrangements under FRS17 have been included in this Statement of Accounts. There are extensive notes included with the relevant statements. The aim is to give a clearer picture of both the current cost of the pension scheme and the potential long term implications. However, the overall amount to be met from Government Grants and local taxation remains unchanged.
- 5.18 The triennial revaluation of the Pension Fund was carried out, as at 31 March 2007. The actuary to the Essex County fund has provided information on the background to the FRS17 disclosure and an update to 31 March 2010. This indicates that this Council's share of the assets and liabilities of the fund show an estimated £71.03m deficit at 31 March 2010. Investments performed better than previously assumed over the year to 31 March 2010 and provided a higher than expected return. However, the actuarial assumptions used for the liabilities calculation at 31 March 2010 were more conservative than those used as at 31 March 2009. The impact on estimated liabilities has more than offset the improvements in investment returns during the year. The net result has led to a significant increase in the overall liability. While the figure is substantial it should be remembered that:
- It is not an immediate deficit that has to be met now. The statement gives the current assessment taking a long term view of the future liabilities both for existing pensioners and current employees who are accruing pension entitlement.
  - It is not a problem unique to Colchester Borough Council or indeed local authorities generally. There is a national problem for pension funds both private and public sector.
  - This has not come as a sudden total surprise. The Essex pension fund is regularly reviewed and back funding contributions have already been initiated to address the problem over a period of years. These contributions are one of the factors contributing to our budget pressures.

### **Contingent liabilities**

- 5.19 We have disclosed contingent liabilities on matters that are outstanding at the end of the financial year. It is, in our view, correct to disclose these potential liabilities although appropriate steps are being taken to protect the Council's position.

### **Group Accounts**

- 5.20 These statements reflect not only the direct financial activities of the Council but also services provided by those bodies over whom we have a formal controlling influence. The principal impact is to bring together the activities of the Council, Colchester Borough Homes and Colchester Community Stadium Limited. The opportunity has also been taken to consolidate the activities of the various trust funds into the statements.
- 5.21 These requirements have no impact on our financial results and standing. The aim is to provide a clearer financial picture of the Authority's control and influence.



