

# Accounts & Regulatory Committee

Town Hall, Colchester  
16 September 2008 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 & REGULATORY COMMITTEE**  
**16 September 2008 at 6:00pm**

**Members**

Chairman : Councillor Sue Lissimore.  
Deputy Chairman : Councillor Dennis Willetts.  
Councillors Kevin Bentley, John Bouckley, Martin Goss,  
Dave Harris, Jackie Maclean, Jon Manning, Nigel Offen,  
Gerard Oxford and Laura 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 to off or to silent;
- location of toilets;
- introduction of members of the meeting.

**2. Substitutions**

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

**3. Urgent Items**

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

**4. Declarations of Interest**

The Chairman to invite Councillors to declare individually any personal

interests they may have in the items on the agenda.

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

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

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

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

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

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

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

## **5. Minutes**

**1 - 6**

To confirm as a correct record the minutes of the meeting held on 30 June 2008.

## **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. Annual Governance Audit Report**

**7 - 25**

See report from the Head of Resource Management.

## **8. Annual Statement of Accounts**

**26 - 28**

See report from the Head of Resource Management.

## **9. 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 & REGULATORY COMMITTEE

## 30 JUNE 2008

*Present :-* Councillor Sue Lissimore (Chairman)  
Councillors Kevin Bentley, John Bouckley, Martin Goss,  
Jackie Maclean, Jon Manning, Nigel Offen,  
Gerard Oxford, Laura Sykes and Dennis Willetts

*Substitute Member :-* Councillor Kim Naish for Councillor Dave Harris

### 3. Minutes

The minutes of the meetings held on 18 March 2008 and 15 May 2008 were confirmed as a correct record.

### 4. Have Your Say!

Mr Andy Hamilton addressed the panel, saying he believed the Firstsite Newsite project to be a total waste of public money. Mr Hamilton said he was not aware of any letters, telephone calls or press statements from the Council retracting the comments made by him and other members of the public.

Mr Hamilton said that the Standards Board should investigate the conduct and strong language of a Councillor in respect of the exchange of letters between himself and the Councillor, as recently published in the local press.

In respect of the financial aspects of the project, Mr Hamilton said that he believed the construction costs were increasing and that Essex County Council, one of the financial partners, was not prepared to increase its funding arrangements. Mr Hamilton said he believed the financial and governance arrangements of this partnership was not robust and lacked the necessary controls, with the accounts for the project showing little reality to what has happened.

Mr Hamilton concluded by saying press reports on the project is highlighting the gulf between Council officials and members of the public in what is an endless stream of wasted public money.

The Chairman thanked Mr. Hamilton for his attendance and said his comments had been noted.

**Councillor Sue Lissimore (in respect of being a former member of the Board of Colchestser Borough Homes) declared a personal interest in the following item pursuant to the provisions of Meetings General Procedure Rule 7(3)**

### 5. 2006-07 Audit and Inspection Letter

Mr. Paul King, District Auditor and Ms. Christine Connelly, Audit Commission, attended

the meeting for this item.

Mr. King introduced the 2006-07 Audit and Inspection Letter, spelling out the key messages within the letter including the Direction of Travel Statement, the work on the Local Area Agreement and audit on Health Inequalities in the Essex.

In response to Councillor Bouckley, Mr. King said it was for the Council to identify the reasons for high sickness levels and address them accordingly. Mr. King said there was no easy solution to improving the situation, though strict management was an imperative. Ms. Ann Wain, Executive Director, People and Performance addressed the panel saying the Council's Executive were aware of the high sickness levels during the time of this report 2006-07. Ms. Wain said the level of sickness had since improved and the target set for the Council at the commencement of 2007-08 had been met. Ms. Wain said the improved results would be reflected in next years Direction of Travel statement.

In response to Councillors Bentley and Offen, Mr. King said the statement within paragraphs 25 – 28 of the Letter, on Health Inequalities in the Essex audit, was a generic statement that appeared in the letters for all District Councils in Essex. Mr. King said the main issues for this audit were not about health issues but more about the roles of all partners within the service provision. Mr. King acknowledged that the paragraphs were only a broad summary and he agreed to forward to members a fuller detailed report on this audit.

In response to Councillor Willetts, Mr. King said the dip in the planning service performance in regards to planning growth was not just in Colchester, that the planning service was under pressure across the County. Planning would continue to be a constant challenge for many authorities, with the next planning audit for Colchester due to be recorded in the next Direction of Travel Statement. Mr. King also confirmed to Councillor Willetts that Firstsite Newsite was a regular topic at his local audit meetings, that the risks of the project are being continually monitored, and will be reported to the Finance and Audit Scrutiny Panel at regular intervals.

In response to Councillor Willetts, Mr. King said in regards to Value for Money, during 2006-07 there was nothing within the audit that had caused a need for comment on the financial statement, which had recorded properly incurred expenditure. In regards to the Decent Homes Programme Mr. King said Basildon as well as Colchester had now ended their partnership with the contractor carrying out the programme.

Mr. King confirmed to Councillor Manning that he would supply a breakdown analysis of the information on the Use of Resources assessment table.

*RESOLVED* that:-

- i) The Committee noted the contents of the 2006 -07 Audit and Inspection Letter.
- ii) The Committee requested the District Auditor to supply further detailed analysis of the Health Inequalities in the Essex audit.
- iii) The Committee requested the District Auditor to supply a breakdown analysis of



the Information on the Use of Resources assessment table.

## **6. External Audit Progress Report - 2007-08**

Ms. Hayley McGrath, Audit and Risk Manager, attended the meeting for this item and introduced the report on the External Audit Progress Report 2007-08.

*RESOLVED* that the Committee noted the External Audit Progress Report 2007-08.

## **Councillor Sue Lissimore (in respect of being a former member of the Board of Colchester Borough Homes ) declared a personal interest in the following item pursuant to the provisions of Meetings General Procedure Rule 7(3)**

### **7. Year End Internal Audit Assurance Report**

Ms. Hayley McGrath, Audit and Risk Manager, supported by Mr. Daniel Hellary of Deloitte the Internal Audit provider attended the meeting for this item.

Ms. McGrath introduced the report on the Year End Internal Audit Assurance Report, giving details of the final quarter and year end summaries of internal audit recommendations, and emphasising the Key Messages listed in paragraph three of the report.

In response to Councillor Willetts, Mr. Hellary confirmed that in respect of the Cash Office Audit, one recommendation that was not agreed was as a result of a timing issue concerning the deadline for carrying out reconciliations, though the time difference was considered minimal. Ms. McGrath confirmed that the Housing repairs audit did not take place due to a number of issues around the project and the view that an audit at this moment in time would not be a good use of officer or audit time.

Ms. McGrath confirmed to Councillor Bentley that the surplus audit days from 2007-08 would be carried forward to 2008-09.

In response to Councillor Manning and Bentley, Ms. McGrath and Mr. Hellary confirmed that Deloitte carried out audit plan for both the Council and Colchester Borough Homes. Mr. Hellary said all audits were completed with total confidentiality. There was a protocol in place for carrying out all audits and to date there had not been an issue with this. Ms. McGrath confirmed there was no regulation to stop these partners from using the services of a single auditor.

Councillor Bentley, supported by Councillors Manning and Offen considered one internal auditor working on behalf of, but under the individual protocol of Colchester Borough Council and Colchester Borough Homes was not something they were comfortable with or would have expected, though understanding this was within regulation.

Ms. McGrath confirmed to Councillor Goss that the non-disclosure document from Deloitte to act for both partners had been certified and is available for viewing. Ms. McGrath confirmed to Councillor Willetts that audit assurance reports on the Housing Repairs Programme would be reported both to the Council and Colchester Borough Homes, and the new reporting arrangements would be presented to the Finance and Audit scrutiny Panel at the first quarter stage.

Ms. McGrath confirmed to Councillor Goss that the Audit Plan itemises each day of audit, and that it was her responsibility to track and confirm details of Deloitte invoices with the Plan, with the monthly invoice certified for payment by a Finance Manager

In response to Councillor Oxford, Ms. McGrath confirmed the District Auditor would be seeking assurances with regards to shared audits and reports for the remaining Decent Homes Programme, with detailed information reported to the Finance and Audit Scrutiny Panel at the first quarter stage.

*RESOLVED* that the Committee noted the Council's performance relating to Performance of Internal Audit by reference to national best practice benchmarks, executing the Internal Audit Plan 2007-08 and the status of outstanding recommendations as at 31 March 2008.

**Councillor Sue Lissimore (in respect of being a former member of the Board of Colchester Borough Homes) declared a personal interest in the following item pursuant to the provisions of Meetings General Procedure Rule 7(3)**

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

Ms. Hayley McGrath, Audit and Risk Manager, attended the meeting for this item and introduced the report on the Annual review of the Governance Framework and Draft Annual Governance Statement, saying the Committee was being asked to make the decision to agree the Annual Governance Statement for 2007-08 which would then be signed off by the Leader of the Council and the Chief Executive of the Council.

In response to Councillors Oxford, Bentley and Offen, Ms. McGrath confirmed that the Interim Letter of Intent and the Addendum to the Management Agreement with Colchester Borough Homes in respect of the Housing Repairs Contract, would, once completed, be reported to a scrutiny panel at the earliest convenient time.

In response to Councillor Goss, Ms. McGrath said she was confident all new contracts go through a rigorous and consistent procedure, though she confirmed there was no central record of contracts held in the Council. Ms. McGrath confirmed that this will be addressed by the introduction of the Contracts Register, managed by the Procurement Team in Resource Management Services. Ms. McGrath also confirmed that Colchester did have a Business Continuity Plan and was a member of the Essex Business Continuity Group, benefitting from partnership arrangements e.g. Serco, the

Council's external I.T. supplier, and Colchester's strategic partnership with Braintree.

In response to Councillor Goss, Ms. McGrath said Colchester's Risk Management procedures and reporting mechanism was in place, though there was a need for the risks associated with the construction of Firstsite Newsite to be identified within the Council's own risk register.

*RESOLVED* that:

- i) The Committee considered and noted the Governance Framework and Draft Annual Governance Statement.
- ii) The Committee requested that the Finance and Audit Scrutiny Panel review the Interim Letter of Intent and the Addendum to the Management Agreement with Colchester Borough Homes in respect of the Housing Repairs Contract at a date to be agreed with the Head of Strategic Policy and Regeneration.

**Councillor Sue Lissimore (in respect of being a former member of the Board of Colchester Borough Homes ) declared a personal interest in the following item pursuant to the provisions of Meetings General Procedure Rule 7(3)**

**9. Annual Governance Statement 2007-08**

*RESOLVED* that the Committee approved the Annual Governance Statement 2007/08.

**10. Draft Statement of Accounts**

Mr. Andy Wilks, Finance Manager, attended the meeting for this item and introduced the report on the Annual Statement of Accounts for 2007/08.

Mr. Wilks explained that the Draft Annual Statement of Accounts (SoA) had to be approved by 30 June 2008 and that this would be the first phase in the process. By approving the SoA, the Committee was doing so on behalf of the Council, and this would enable them to be released into the public domain for external audit examination.

In response to Councillor Bouckley, Mr. Wilks said the shortfall on the Pension Fund shown in the Statement of Accounts was a snapshot at a point in time, 31 March 2008. The fund is part of a national scheme managed by Essex County Council, and subject to regular actuarial review. The last review was in March 2007 which has resulted in extra contributions being made by the employer and employees to the scheme from April 2008. The figure of £55,000,000 was an estimate of the current value of the amount of money the fund would need to pay out in the longer term which current funds would not cover. It was anticipated that the funding gap would reduce over time given the increased contributions and future investment returns.

Councillor Bentley congratulated officers in their hard work in insuring the Council's accounts were closed within the statutory timescale. Councillor Bentley requested that the Portfolio Holder for Resources and Business considers activating 'Charity Accounts' to make better use of these resources, and report his deliberations to the next convenient meeting of the Finance and Audit Scrutiny Panel.

Councillor Goss, in respect of the anticipated increase in telephony costs, requested a reply detailing the anticipated increases.

Councillor Oxford, in respect of the Council's Revenue Balances within the Housing Revenue Account, requested the Portfolio Holder for Resources and Business to report to the next convenient meeting of the Finance and Audit Scrutiny Panel, his proposals to begin to rebuild this balance. Mr. Wilks confirmed this piece of work was already under consideration.

In response to Councillor Offen, Mr. Wilks confirmed that the Council's LABGI grant notified and received to date was higher than expected. The scheme provided a fixed sum to be distributed to local authorities over a three year period ending in 2007-08. However, at national level the Government has not released the full sum yet but has held back a contingency. This is because some local authorities have challenged the basis of distribution of the sum between authorities. It is anticipated that the full sum will be released once the issues over the distribution basis have been resolved.

*RESOLVED* that:

- i) The Committee considered the report and supporting information and approved the pre-audit Statement of Accounts 2007/08.
- ii) The Committee requested the Portfolio Holder for Resources and Business consider activating 'Charity Accounts' to make better use of these resources, and report his deliberations to the next convenient meeting of the Finance and Audit Scrutiny Panel.
- iii) The Committee agreed to request the Executive Director, People and Performance, in respect of the anticipated increase in telephony costs, to provide details of the anticipated increases to Members of the Committee.
- iv) The Committee requested the Portfolio Holder for Resources and Business to report to the next convenient meeting of the Finance and Audit Scrutiny Panel, his proposals to begin to rebuild the Council's Revenue balance within the Housing Revenue Account.

# Annual Governance Report

Colchester Borough Council

Audit 2007/08

Date 16 September 2008

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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.

# Summary

## Purpose

- 1 This report summarises the findings from our 2007/08 audit, which are substantially complete. It identifies the key issues that you should consider before we issue our opinion, conclusion and certificate.
- 2 This report includes only matters of governance interest that have come to our attention in performing our audit. Our audit is not designed to identify all matters that might be relevant to you.

## Financial statements

- 3 Our work on the financial statements is substantially complete, although there are still outstanding issues to be resolved at the date of drafting this report (11 September 2008). I still need to undertake my overall review of work done and ensure completion of all tests. Should any further matters arise in concluding the outstanding work that need to be reported, we will raise them with the Chair of this Committee. Subject to the completion of the audit and outstanding issues, we expect to issue an unqualified audit opinion by 30 September 2008 (a draft report is attached at Appendix 2).

## Value for Money

- 4 We are currently in the process of reviewing whether the Council has put in place adequate arrangements for securing, economy, efficiency and effectiveness in its use of resources. We will report our findings as part of the report on our Use of Resources assessment and in the Annual Audit and Inspection Letter. However, on the basis of assessment from last year and the work we have undertaken to date, we expect to issue an unqualified value for money conclusion by 30 September 2008.

## Next steps

- 5 We ask the Accounts and Regulatory Committee to:
  - consider the matters raised in the report before approving the financial statements; and
  - approve the representation letter on behalf of the Council before we issue our opinion, conclusion and certificate.

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# Financial statements and Annual Governance Statement

- 6 The Council's financial statements and Annual Governance Statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for the financial statements and Annual Governance Statement. It is therefore important that you consider our findings before you adopt the financial statements and the Annual Governance Statement.
- 7 Our work on the financial statements is substantially complete, although there are still outstanding issues to be resolved at the date of drafting this report (11 September 2008). In particular, our work on the following has yet to be concluded.
- formal confirmation of balances from your bank;
  - additional work being undertaken to respond to questions raised by local electors;
  - work to ensure balances in the accounts due from Government Departments are not materially misstated;
  - assurances are still to be received from the auditors of Colchester Borough Homes on which we place reliance for the accuracy of the figures included in the note on group accounts; and
  - agreement of the housing revenue account, collection fund and trust fund accounts.
- 8 As the audit is still continuing, a final revised set of accounts is yet to be prepared to review all agreed amendments and I still need to undertake my overall review of work done and ensure completion of all tests. Should any further matters arise in concluding the outstanding work that need to be reported, we will raise them with the Chair of this Committee. We expect to issue an unqualified audit opinion by 30 September 2008 (a draft report is attached at Appendix 2).
- 9 In planning our audit we identified specific risks and areas of judgement that we have focused on during our audit. We report to you the findings of our work in those areas.
- 10 In addition, auditing standards require us to report to you:
- the draft representation letter which we are asking management and you to sign;
  - our views about the Council's accounting practices and financial reporting;
  - errors in the financial statements;
  - any expected modification to our report;
  - weaknesses in internal control; and
  - certain other matters.



## Financial statements and Annual Governance Statement

### Key areas of judgement and audit risk

- 11 In planning our audit we identified key areas of judgement and audit risk that we have considered as part of our audit. Our findings are set out in Table 1.

**Table 1 Key areas of judgement and audit risk**

Issue or risk	Finding
Proposed changes to the CIPFA Statement of Recommended Practice (SoRP), in particular proposals to introduce a revaluation reserve and the risk that the financial statements will not be compliant with the 2007 SoRP.	We specifically reviewed the Council's compliance with the SoRP and relevant disclosures in the accounts. We did not identify any significant areas of non compliance.
There is an ongoing significant investment in capital projects, especially the new Community Stadium and the Firstsite: new site development. Large capital projects present the risk that expenditure is not adequately controlled and may not be properly reflected in the accounts.	We reviewed the expenditure on significant capital projects and determined that expenditure had been correctly accounted for within the financial statements. We reviewed in further detail the expenditure on the Visual Arts Facility (VAF) to enable us to respond to detailed questions from local electors.
There is a risk of further issues with the invoices passed for payment by Inspace and Colchester Borough Homes (CBH). The Council have worked with CBH to strengthen controls in place for the administration of the work performed by CBH and the entire operation of the service. However, there is a risk that expenditure may not be properly reflected in the financial statements.	We reviewed in detail amounts paid to CBH and Inspace. We also undertook additional work to assess the adequacy of controls in place. We are satisfied that all material entries were correctly reflected in the accounts.
Our interim work noted that further improvements were possible in terms of evidencing reconciliations and control procedures as detailed in our interim and final accounts memorandum.	Our review did not identify any weaknesses in internal controls which might result in a material error in the financial statements.
Whole of Government Accounts (WGA) working papers have not been received on a timely basis in previous audits.	We have received the WGA working papers. The deadline for completion of our work is 1 October 2008.

### Draft representation letter

- 12** Before we issue our opinion, auditing standards require us to obtain from you and management, written representations that:
- you acknowledge your collective responsibility for preparing financial statements in accordance with the applicable financial reporting framework;
  - you have approved the financial statements;
  - you acknowledge your responsibility for the design and implementation of internal controls to prevent and detect fraud and error;
  - you have told me the results of your assessment of the risk that the financial statements might be materially misstated because of fraud;
  - you have told me any actual or suspected fraud by management, employees with significant roles in internal control or others (where the fraud could have a material impact on the financial statements);
  - you have told me of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
  - you have told me about all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements;
  - you have assessed the reasonableness of significant assumptions, including whether they appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Council where relevant to the fair value measurements or disclosures;
  - you are satisfied that all related parties requiring disclosure in the financial statements have been disclosed and that the disclosure is adequate;
  - you are satisfied that the individual or collective impact of errors we have identified, but that you have not corrected, is not material; and
  - cover areas where other sufficient appropriate evidence cannot reasonably be expected to exist, for example the completeness of the disclosure of contingent liabilities.
- 13** We need specific representations from you that expenditure in relation to the Inspace contract has been correctly capitalised in relation to work on the decent homes programme and other major improvements to the Council's housing stock in accordance with accounting policies.
- 14** Appendix 1 contains the draft of the letter of representation we seek from you.

### Accounting policies and financial reporting

- 15** We considered the qualitative aspects of your financial reporting and have not identified any significant issues to raise with you.

## Financial statements and Annual Governance Statement

### Errors in the financial statements

- 16 We have not identified any errors (other than those of a trivial nature) that management has declined to correct.

### The audit report

- 17 We plan to issue an unmodified report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of our draft report.

### Material weaknesses in internal control

- 18 We have not identified any weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware.
- 19 We have not provided a comprehensive statement of all weaknesses which may exist in internal control, nor of all improvements which may be made. We have reported only those matters which have come to our attention because of the audit procedures we have performed.

### Other matters

- 20 There are no other matters that auditing standards require me to report to you.

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# Value for money

- 21 We are required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. We assess your arrangements against twelve criteria specified by the Commission. Our conclusion is informed by our work on Use of Resources, a scored judgement reported to the Audit Commission.
- 22 We are currently in the process of reviewing the arrangements of the Council in all twelve areas. We will report our findings as part of the report on our Use of Resources assessment and in the Annual Audit and Inspection Letter. However, on the basis of the work we have undertaken to date, we expect to issue an unqualified value for money conclusion by 30 September 2008.

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# Formal audit powers

23 We have:

- a power to issue a public interest report. We do so where we believe this is necessary to draw a matter to your attention, or to that of the public;
- a power to apply to court for a declaration that an item in the Council's accounts is contrary to law;
- a power to issue an advisory notice. An advisory notice requires the Council to meet and consider the notice before:
  - making a decision that might give rise to unlawful expenditure; or
  - taking an unlawful course of action that would give rise to a loss; or
  - making unlawful entry in the accounts; and
- a power to seek judicial review of a decision of the Council.

24 We have not and do not anticipate having to exercise these powers.

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# Independence

- 25 The Code of Audit Practice and the Auditing Practices Board's (APB) Ethical Standards with which auditors must comply require that auditors act, and are seen to act, with integrity, objectivity and independence.
- 26 We confirm that we comply with the APB's Ethical Standards, that we are independent and that our objectivity is not compromised.
- 27 We communicate to you:
- any relationships between us and the [Council/Authority], its members and senior management that might affect our objectivity and independence and any safeguards put in place;
  - total fees charged to you for audit and non-audit services; and
  - our arrangements to ensure independence and objectivity.

## Relationships with the Council

- 28 We have identified no relationships that might affect objectivity and independence.

## Audit fees

- 29 We reported our fee proposals as part of the Audit Plan for 2007/08. The table below reports the outturn fee against that plan.

**Table 2      Audit fees**

	<b>Plan 2007/08</b>	<b>Expected 2007/08</b>
Financial statements and Annual Governance Statement (including Whole of Government Accounts)	81,527	87,527
Value for Money	30,073	30,073
National Fraud Initiative	625	625
<b>Total Audit Fees</b>	<b>112,225</b>	<b>118,225</b>

- 30 The increase in the audit fee relates to additional risks that were appropriate to the 2007/08 opinion audit and specific to this Council which came to my knowledge since the audit plan and supplementary fees letter were issued. These were:
- issues regarding the payments due for contract works and related performance fees to Inspace, which has been the subject of dispute for the last three years and is a material figure in the 2007/08 accounts;

## Independence

- further work required from us in addition to that anticipated in our previous correspondence due to the fact that internal audit have not performed year end work on transactions relating to the ALMO due to the sensitivities in respect of the contract negotiation. We therefore needed to carry out this work ourselves to obtain the necessary assurance; and
- questions received from local government electors regarding the expenditure in the accounts relating to the Visual Arts Facility.

### Our arrangements to ensure independence and objectivity

31 We have comprehensive procedures to ensure independence and objectivity. These are outlined in Table 3.

**Table 3 Arrangements to ensure independence and objectivity**

Area	Arrangements
Independence policies	<p>Our policies and procedures ensure that professional staff or an immediate family member:</p> <ul style="list-style-type: none"> <li>• do not hold a financial interest in any of our audit clients;</li> <li>• may not work on assignments if they have a financial interest in the client or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the client; and</li> <li>• may not enter into business relationships with UK audit clients or their affiliates.</li> </ul> <p>Our procedures also cover the following topics and can be provided to you on request:</p> <ul style="list-style-type: none"> <li>• the general requirement to carry out work independently and objectively;</li> <li>• safeguarding against potential conflicts of interest;</li> <li>• acceptance of additional (non-audit) work;</li> <li>• rotation of key staff;</li> <li>• other links with audited bodies;</li> <li>• secondments;</li> <li>• membership of audited bodies;</li> <li>• employment by audited bodies;</li> <li>• political activity; and</li> <li>• gifts and hospitality.</li> </ul>
Code of Conduct	<p>The Code of Conduct forms part of the terms and conditions of all Audit Commission employees. The Code of Conduct states that staff have to comply with ethical guidance issued by their relevant professional bodies.</p>

Area	Arrangements
Confidentiality	All staff are required to sign an annual undertaking of confidentiality as a condition of employment.

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# Appendix 1 – Management representation letter

To: Paul King  
District Auditor  
Audit Commission  
2nd Floor Sheffield House  
Lytton Way  
Off Gates Way  
Stevenage SG1 3HG

## Colchester Borough Council - Audit for the year ended 31 March 2008

I confirm to the best of my knowledge and belief, having made appropriate enquiries of directors and other officers of Colchester Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2008. All representations cover the Council's accounts included within the financial statements.

### Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which present fairly the financial position and financial performance of the Council and for making accurate representations to you.

### Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council meetings, have been made available to you.

### Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or

- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

### Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

### Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

### Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

### Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

## Appendix 1 – Management representation letter

### Post balance sheet events

Since the date of approval of the financial statements by the Accounts and Regulatory Committee, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

### Specific representations:

The expenditure in relation to the Inspace contract has been correctly capitalised in relation to work on the decent homes programme and other major improvements to the Council's housing stock in accordance with accounting policies.

Signed on behalf of Colchester Borough Council

I confirm that the this letter has been discussed and agreed by the Accounts and Regulatory Committee on 16 September 2008

Signed:

Name: Charles Warboys

Position: Head of Financial Services

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# Appendix 2 – Proposed auditor's report

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## Independent auditor's report to the Members of Colchester Borough Council

### Opinion on the financial statements

I have audited the Authority and Group accounting statements and related notes of Colchester Borough Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority and Group Balance Sheet, the Authority and Group Statement of Total Recognised Gains and Losses, the Authority and Group Cash Flow Statement, the Housing Revenue Account, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Colchester Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

### Respective responsibilities of the Head of Financial Services and auditor

The Head of Financial Service's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). I report to you my opinion as to whether the Authority and Group accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial position of the Group and its income and expenditure for the year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered,

## Appendix 2 – Proposed auditor's report

whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

I read other information published with the Authority and Group accounting statements, and consider whether it is consistent with the audited Authority and Group accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority and Group accounting statements. My responsibilities do not extend to any other information.

### Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority and Group accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority and Group accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Authority and Group accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Authority and Group accounting statements and related notes.

### Opinion

In my opinion:

- The Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended; and
- The Group financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended.

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**Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources**

**Authority's Responsibilities**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

**Auditor's Responsibilities**

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

**Conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, Colchester Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008.

**Best Value Performance Plan**

I have issued our statutory report on the audit of the authority's best value performance plan for the financial year 2007/08 on 21 December 2007. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

**Certificate**

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

**Paul King**

**District Auditor**

Audit Commission, Sheffield House, Lytton Way, Stevenage. SG1 3HG

September 2008

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## Accounts and Regulatory Committee

Item  
**8**

16 September 2008

<b>Report of</b>	<b>Head of Resource Management</b>	<b>Author</b>	<b>Andy Wilks</b> ☎ 282355
<b>Title</b>	<b>Annual Statement of Accounts</b>		
<b>Wards affected</b>	Not applicable		

**This report provides comments on the Auditors' report on the Statement of Accounts for 2007/08.**

### 1. Decisions Required

- 1.1 To:-
- Accept the Auditors' report.
  - Note the comments in this covering report, and
  - Approve the letter of representation.

### 2. Auditors' Annual Governance Report

- 2.1 The pre-audit Statement of Accounts (SOA) was presented to this Committee on 30 June. The accompanying reports gave information on the major items affecting the 2007/08 accounts including the changes introduced for 2007/08.
- 2.2 The presentation of the Auditors' report to those charged with governance is the second stage in the process to approve the Council's Statement of Accounts. The District Auditor has stated that he anticipates being able to issue an unqualified Opinion (Audit Report, page 3, paragraph 3) by the statutory deadline of 30 September.
- 2.3 The Auditors' report sets out five "Key areas of judgement and audit risk" in table 1 on page 5 and their findings do not raise any concerns over our accounting treatment of these areas. Their report also sets out six areas for potential comment (pages 6 & 7) on the SOA but makes comment under only one of these. The specific issue referred to is commented on below.

#### Draft Representation Letter (Audit Report page 6, paragraph 13)

- 2.4 It is not considered that the specific representation requested is a problem and an appropriate statement has been included in the letter accordingly. The accounts include the final sums due, inclusive of all fees, to Inspace for the works carried out under the Housing contract to 31 March 2008. The contract covered all works to council dwellings and a major part of this was the rolling programme for Decent Homes. The payments have been allocated between capital and revenue on the basis of the nature of the works in accordance with our usual accounting policies.
- 2.5 In paragraph 30 on page 10 of the auditors report the auditors notify us of an increase in audit fees of £6,000 to reflect additional work relating to payments to Inspace and responses to local electors as set out in their report.



### **3. Statement of Accounts**

- 3.1 The time allowed for members of the public to inspect the accounts has now ended and the final accounts audit is nearly complete. The issues raised during the audit have been discussed with the District Auditor and dealt with, and the Statement of Accounts is being agreed. The District Auditor is proposing to issue an unqualified opinion that the accounts are a fair presentation of the Council's financial position as at March 2008.
- 3.2 The disclosure notes and Group Account statements in the draft SOA were based on draft accounts for Colchester Borough Homes (CBH). Following the audit of CBH accounts minor presentational changes on classification of balances have been made to their accounts. These do not affect the financial standing of CBH or the Council. In agreement with our auditors the consequential amendments to our draft SOA, arising from the changes to CBH accounts, have been made.
- 3.3 In line with International Standards of Auditing, the Audit Commission request a general "letter of representation" in support of the SOA. This provides assurance about the information within the SOA and any issues that could arise between the end of the financial year and the conclusion of the audit. A draft of the letter required is set out in Appendix 1 of the auditors report and this will be signed by the Head of Resource Management.
- 3.4 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. In keeping with the usual practice the published statement, including the Auditor's opinion, will be submitted to the Committee following conclusion of the audit.

### **4. Joint Museum Service**

- 4.1 The joint museum service with Ipswich commenced in April 2007. Colchester is the lead authority and all financial transactions are recorded in our accounts. However, it has been determined under audit regulations that a separate audit and report are required because it is a joint service by two authorities under a joint committee. The auditors report on the joint museum service will be submitted to a future meeting of this committee.

### **5. Publicity**

- 5.1 The accounts were open for public inspection from 28 July to 22 August to meet our legal duties. This had been advertised in the local press. Some parties did exercise their rights to inspect the accounts and question the auditor.

### **6. Financial Implications**

- 6.1 The approval of the 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.

### **7. Other Standard References**

- 7.1 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 on the Hub:**

Annual Statement of Accounts – Reports to Accounts and Regulatory Committee on 30 June 2008.

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

Draft Statement of Accounts 2007/08 (also on website)

