

Finance and Audit Scrutiny Panel

Town Hall, Colchester
24 March 2009 at 6:00pm

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

Information for Members of the Public

Access to information and meetings

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

Have Your Say!

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

Private Sessions

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

Mobile phones, pagers, cameras, audio recorders

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.

Access

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Terms of Reference

Finance and Audit Scrutiny Panel

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

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

**COLCHESTER BOROUGH COUNCIL
FINANCE & AUDIT SCRUTINY PANEL
24 March 2009 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 and items 6 to 9 are standard items for which there may be no business to consider.

Pages

1. Welcome and Announcements

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

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

- action in the event of an emergency;
- mobile phones switched 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 24 February 2009.

6. Have Your Say!

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

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

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

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

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

8. Referred items under the Call in Procedure

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

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

9. Decisions taken under special urgency provisions

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

10. Work Programme

See report from the Scrutiny Officer.

11. Freedom of Information

7 - 8

See report from the Head of Corporate Management.

12. Use of Resources Statement

9 - 24

See report from the Scrutiny Officer.

13. Supplementary opinion audit plan 2008/09

25 - 29

See report from the Scrutiny Officer.

14. 3rd Quarter Internal Audit Assurance Report

30 - 42

See report from the Head of Resource Management.

15. Internal Audit Annual Plan 2009-10

43 - 47

See report from the Head of Resource Management.

16. Annual Governance Statement - briefing paper **48 - 51**

See report from the Head of Resource Management.

17. International Financial Reporting Standards **52 - 58**

See report from the Head of Resource Management.

18. Exclusion of the public

Occasionally the Panel will need to discuss issues in private. When the Panel does so, members of the public will be asked to leave the meeting.

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

FINANCE & AUDIT SCRUTINY PANEL

24 FEBRUARY 2009

Present :- Councillor Sue Lissimore (Chairman)
Councillors John Bouckley, Martin Goss, Dave Harris,
Jackie Maclean, Jon Manning, Nigel Offen,
Gerard Oxford and Laura Sykes

Substitute Members :- Councillor Christopher Arnold
for Councillor Kevin Bentley
Councillor Andrew Ellis for Councillor Dennis Willetts

55. Minutes

The minute from meeting held on 20 January 2009 was confirmed as a correct record.

The minute from meeting held on 27 January 2009 was confirmed as a correct record.

The minute from meeting held on 29 January 2009 was confirmed as a correct record, subject to the following amendment;

Minute 54 Review of the Responsive Repairs and Decent Homes Contract, paragraph commencing "In response to Councillor Manning, Mr. Falvey said the decent homes contract was jointly managed by the three partners" to read "In response to Councillor Maclean, Mr. Falvey said the decent homes contract was jointly managed by the three partners".

In response to Councillor Goss, and in reference to the item on the Decent Homes Contract discussed at the meeting on the 29 January 2009, and where Councillor Lissimore had agreed to meet the present Chairman of Colchester Borough Homes, Ms. Alison Inman outside the meeting to discuss issues that had been raised, Councillor Lissimore confirmed that she had met with Ms. Inman, that the meeting was amicable and that Ms. Inman had taken a number of issues raised back to Colchester Borough Homes to discuss with the Chief Executive, Mr. Greg Falvey. Councillor Lissimore said her meeting and any outcomes would not have any future impact on the work of the panel.

56. Have Your Say!

Mr. Andy Hamilton addressed the panel, saying how regretful it was that due to a procedural error by the Council, that Colchester's Planning Committee would not have the opportunity to decide on an application, and therefore a developer would be able to proceed with the installation of a mobile telephone mast at the junction of Norman Way and Lexden Road. Mr. Hamilton said Councillors are responsible for directing staff to ensure this type of high profile planning application would be dealt with within the 56 day limit given to the Council to determine the application. Mr. Hamilton also said local ward Councillors had spent a lot of time and effort into preparing a case not to proceed with the application, and this was now to no avail.

Mr. Hamilton concluded by suggesting the Council appeals to the developer, O2, to change their stance, and that should they continue with the application this would be a hollow victory once the protests start, and that there was a case for going to the Ombudsman for maladministration and future compensation.

In response to Mr. Hamilton, Councillor Arnold addressed the meeting to clarify that ward councillors have no responsibility for directing the work of Council officers.

57. Work Programme

RESOLVED that the panel noted the amendments to the 2008-09 Work Programme.

58. Sale of Recyclable Materials

Mr. Matthew Young, Head of Street Services and Mr. Dave McManus, Street Care and Recycling Manager attended the meeting for this item.

Have Your Say

Mrs. Paula Whitney addressed the panel to explain that having made enquiries with current contractors for the collection of recyclable materials, that glass was collected by the contractors from 'bring sites' and kept separate, and this type of separation was needed as soon as possible at kerbside collection and for all recycling collections. Mrs. Whitney also confirmed that the contractor Premier did separate paper and card from 'bring sites', and that they had confirmed that without this separation they would lose money on their sell on prices.

Mrs. Whitney did not think that the rate of income received by the Council for various recyclable materials was competitive, and was born out by the fact that the revenue from recyclable materials received by Chelmsford Borough Council, a similar sized authority to Colchester, was much greater than that received by Colchester.

Mrs. Whitney spoke of the success of the past Mersea trials on recycling and concluded by passing to members of the panel leaflets on recycling e.g. Campaign for Real Recycling'.

Sale of Recyclable Materials

Mr. McManus presented the report on the Sale of Recyclable Materials.

In response to Mrs. Whitney, Mr. McManus said he would check and confirm the collection and separation process for glass, card and paper at 'bring sites'. It was confirmed after the meeting that;

- The vehicles from Berryman's do collect and transport the glass in separate colours from the bring sites;

- Card is not collected at bring sites by Premier, although it is taken at the County Council's main domestic recycling site at Shrub End;
- The sorting and destination of the various recyclable materials collected will be included as part of the waste options review;

During the presentation Mr. McManus pointed out that any comparisons with Colchester and Chelmsford in terms of revenue from recyclable materials had to be taken in context with the overall budget of each of the Councils, and that whilst Chelmsford's recycling revenue was higher than Colchester's, Chelmsford's net budget total for waste services was £1.6 million more than Colchester, even though Colchester's recycling rates currently exceeded those of Chelmsford.

Following the presentation of the report Councillor Offen commented that the panel should propose to the Cabinet, that new contracts are negotiated and completed with Berryman's Ltd and James Heys and Sons as a matter of urgency, and a proper appraisal of how Colchester deals with recyclable materials is carried out, to determine an overall strategy that is linked with the strategic review of waste recycling options to be undertaken by the Strategic Overview and Scrutiny Panel on 17 March 2009.

Mr. M Young confirmed to Councillor Offen that the new recyclable material collection contracts are being addressed and that a full options appraisal of recycling for Colchester would be considered by the Policy Review and Development Panel and the Strategic Overview and Scrutiny Panel in March prior to proposals going to Cabinet on 18 March 2009.

In response to Councillor Lissimore, Mr. McManus said tetra paks are currently collected at six major supermarket locations and the collections are dealt with externally, although the options appraisal review will address how this facility can be extended in Colchester.

In response to Councillor Ellis, Mr. McManus said all methods and journeys of transporting recyclable waste will be considered within the options appraisal review to ensure travel time is kept to a minimal.

In response to Councillor Arnold, Mr. McManus said that whilst Colchester did not have contingency plans should a collection contractor immediately stop collections, he confirmed that officers are in constant contact with all the contractors and he was confident an alternative contractor could be found at short notice.

Ms. Ann Wain, Executive Director, in response to Councillor Arnold said the Audit Commission's family of councils does still exist and could provide data with similar councils, although they may not have the same collection methods. Mr. M Young confirmed that the options appraisal report would focus on comparable data to ensure best practice.

In response to Councillor G Oxford, Mr. McManus confirmed that due to a reduction in world oil prices, the cost of the provision of 3.6 million clear plastic sacks would lower in 2009-10.

Councillor Harris commented that it was in Colchester's best interests to recycle as much waste material as was possible, and agreed with Councillor Offen and his desire to have contracts in place, and the panel should support and advocate this message.

Mr. McManus confirmed to Councillor Arnold that the expenditure on clear plastic sacks had, due to the increase in recyclable materials collected as a result of their introduction and various educational campaigns, been partly offset by increased recycling credits from Essex County Council.

Councillor Arnold said it would be helpful to have information on recycling credits available to members of the Strategic Overview and Scrutiny Panel for the 17 March 2009 review.

Mr. M Young confirmed to Councillor Bouckley that officers would respond to the comments made by Mrs. Whitney, and this information would be provided to members of both scrutiny panels.

RESOLVED that the Panel;

- i) Noted the report Sale of Recyclable Materials
- ii) Requested the Head of Street Services to provide quantitative and financial information on recycling credits to members of the Strategic Overview and Scrutiny Panel for the 17 March 2009 review of waste recycling options.
- iii) Requested that the comments made by Mrs. Whitney would be responded to, and the response would be copied to members of both scrutiny panels for information.

59. Financial Monitoring Report - April to December 2008

Mr. Sean Plummer, Finance Manager attended the meeting for this item and presented the report on the Financial Monitoring Report – April to December 2008. He commented that at this stage there was a comparatively small overspend forecast on both the General Fund and Housing Revenue Account. However, he added that there remained risks to the forecasts which were being monitored regularly by the Senior Management Team.

Given the current economic downturn, Councillor Offen commented that to get to a point of having a projected outturn for the General Fund currently at the level of a small overspend of £39,000 was a remarkable achievement and he complimented officers on this good work.

In response to Councillor Bouckley, Mr. Plummer said he believed a payments profile had been agreed with the debtor in reference to Coastal Initiatives, and they have agreed to pay the outstanding figure of £27,000 by the end of 2008-09.

Mr. Plummer confirmed to Councillor Arnold that he would provide him with the status of the allocation of the Government Grant for the museums Hub.

Mr. Plummer, in response to Councillor Arnold's question on whether the current budget for Bed and Breakfast reflects the current rise in the levels of homelessness due to the economic downturn, said the 2009-10 budget is based on an estimate of Bed and Breakfast for the forthcoming year, but has been identified as a risk area, and as such will be closely monitored. Mr. Plummer said he would provide members of the panel with the 2009-10 budget provision for Bed and Breakfast.

Councillor Smith, Portfolio Holder for Resources and Business addressed the panel to confirm the Administration's commitment to homeless people, reflected by the additional money spent in relation to the repairs and maintenance to the Council's Homeless Persons Units.

RESOLVED that the Panel;

- i) Noted the financial performance of General Fund Services and the Housing Revenue Account in the first nine months of 2008-09.
- ii) The Head of Resource Management would provide members of the panel with the status of the allocation of the Government Grant for the museums Hub.
- iii) The Head of Resource Management would provide members of the panel with the 2009-10 budget provision for Bed and Breakfast

60. 3rd Quarter Risk Management Progress Report

Ms. Hayley McGrath, Risk and Resilience Manager attended the meeting for this item and presented the report on the 3rd Quarter Risk Management Progress.

Councillor Offen thanked officers for producing a Strategic Risk Register Impact Table that now included five risk impacts ranging from very low to very high, a change that he welcomed.

Ms. Wain explained to the panel that the specific risk "failure to adequately redirect the strategic vision and move the resources required to support it" was identified as a top five item because of the recent change in Administration, with a new vision that created a greater than normal shift in resources.

Ms. Wain also explained that the specific risk "failure or inappropriate performance management of one or more strategic partnerships or key contracts" was identified as a top five item in light of recent experiences and the need to reconsider partnerships and performance management arrangements.

RESOLVED that the Panel;

- i) Noted and commented upon the latest risk management issue, the performance relating to implementing the 2008-09 risk management action plan, and the Strategic Risk Register.

- ii) Requested that the Head of Resource Management ensures the Strategic Risk Register included details of the timings of each risk, by the fourth quarter report, and onwards.

61. Capital Expenditure Monitor 2008-09

Mr. Steve Heath, Finance Manager, attended the meeting for this item and presented the report on the Capital Expenditure Monitor 2008-09.

In response to Councillor G Oxford comment that in reference to the Town Hall capital project on access work to the Old Library, this project should not have commenced without all the required permissions granted and in place, a view supported by Councillor Bouckley, Mr. Heath said he would arrange for the financial costs to the revised drawings to be reported to the panel.

In response to Councillor Ellis, Mr. Heath said he would arrange a response to members of the panel in regards to why Firstsite are not included in a series of meetings to review the scope of the internal fit-out works to complete Firstsite:Newsite.

RESOLVED that the Panel;

- i) Noted the level of capital spending during 2008-09 and forecasts for future years.
- ii) Requested the Head of Corporate Management to provide the financial costs associated with the revised drawings for the access work to the Old Library.
- iii) Requested the Executive Director, Place Shaping to provide the reasoning for not including Firstsite in a series of meetings to review the scope of the internal fit-out works to complete Firstsite:Newsite



Finance and Scrutiny Panel

Item
11

24 March 2009

Report of	Head of Corporate Management	Author	Phil Pettit Tel. 282372
Title	Freedom of Information Case Management		
Wards affected	Not applicable		

The Panel is invited to review the Council's performance in the management of Freedom of Information Requests

1. Action required

1.1 The panel is asked to consider the authority's performance against requests for Information under the Freedom of Information Act 2001

2. Reason for scrutiny

2.1 This is the first time the panel has been asked to consider the Council's management of Freedom of Information requests since the introduction of the Act in January 2005.

3. Background information

3.1 The Freedom of Information Act came into effect from 1 January 2005, and placed a legal duty on all public bodies to confirm or deny the existence of information and release information upon written request. Public bodies have a responsibility to release any requested information within 20 working days, in any reasonable format requested.

3.2 The council does have the right, under certain circumstances, to refuse the release of information, for example where the release would contravene rights under data protection, security, and commercial sensitivity amongst others.

3.3 Recently, the number of requests has risen significantly, with an 82% increase in 2008 over 2007. The number of requests received so far this year, indicate that this upward trend is continuing. Requests are also becoming more sophisticated, journalists, and parliamentary researchers in particular are becoming more experienced in the wording of requests to get the information they want.

4. Performance and Caseloads

4.1 For the period 1 January 2005 to 5 March 2009, the council has received 644 requests under the Freedom of Information Act.

	01/01/05 31/12/05	01/01/06 31/12/06	01/01/07 31/12/07	01/01/08 31/12/08	01/01/09 05/03/09	Total
No of Requests received	135	141	113	206	49	644
Information released	112	121	94	171	26	524
Number exempted	11	3	2	11	1	28
Other (information not held, transferred, or case withdrawn)	12	17	17	1	22	92
Completed within 20 days	93%	95%	93%	96%	100%	95%

- 4.2 Only just over 50% of all requests have been made by members of the public, with requests from Businesses, Journalists and MPs making up a significant proportion of the balance.

Requestor	% of requests
Public	50.7
Businesses	20.6
Journalists	11.4
MPs and political researchers	6.4
Public bodies	3.3
Charities	2.6
Others (Students, lobby groups, unions, solicitors, councillors)	5.0

- 4.3 The 10 most popular subjects where information is requested are:

	Subject	% of all requests
1	Planning	7.7
2	Human Resources	6.6
3	Parking	5.1
4	Information Management	4.2
5	Financial Management	3.9
6	Contracts and Contractors	3.7
7	Waste Management	3.7
8	Zoos, Dangerous and Wild Animals	3.4
9	Visual Arts Facility	3.3
10	Housing	2.9
	Other Issues	55.5

- 4.4 The council has applied exemptions on 28 Occasions to date for the following reasons

Exemption	% of all exempt cases
Personal Information (section 40)	31.0
Environmental Information (section 39)	27.6
Commercial Interests (section 43)	17.2
Provided in Confidence (section 41)	10.3
Prejudice to local authority proceedings / investigations (section 25)	6.9
Accessible by other means (section 21)	3.5
Other	3.5

- 4.5 The Council has had its decision to withhold information under the Act, challenged on 5 occasions, of these the information Commissioner's Office (ICO), upheld the Council's decision on 1 occasion, the ICO decided not to proceed with two cases and a fourth was settled directly between the council and the requestor. The fifth case is still pending.

5. Strategic Plan references

- 5.1 There are no direct links to the Strategic Plan.

6. Other Standard References

- 6.1 Meeting the 20 day response target supports the Council's objective to listen and respond

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



Finance and Audit Scrutiny Panel

Item
12

24 March 2009

Report of	Scrutiny Officer	Author	Robert Judd 282274
Title	Use of Resources Statement 2008		
Wards affected	Not applicable		

This report asks the panel to note the contents of the Use of Resources Statement 2008.

1. Action Required

- 1.1 To note the contents of the Use of Resources Statement 2008.

2. Reasons for Scrutiny

- 2.1 The Accounts and Audit Regulations require the Council to consider the Audit Commission's Annual Audit and Inspection Letter.
- 2.2 The Use of Resources assessment forms part of this review.

3. Supporting Information

- 3.1 The 2008 Use of Resources Statement evaluates how well the Council has managed and used its resources and relates to the 2007/08 financial year, itself based on the key lines of enquiry for 2008.
- 3.2 The conclusion within the report is that overall, the Council is judged to be performing well and consistently above minimum standards.
- 3.3 Mr. Paul King, District Auditor, from the Audit Commission will attend the meeting and make a brief presentation relating to the Use of Resources Statement 2008.

4. Publicity Issues

- 4.1 There are no publicity issues.

5. Other Standard References

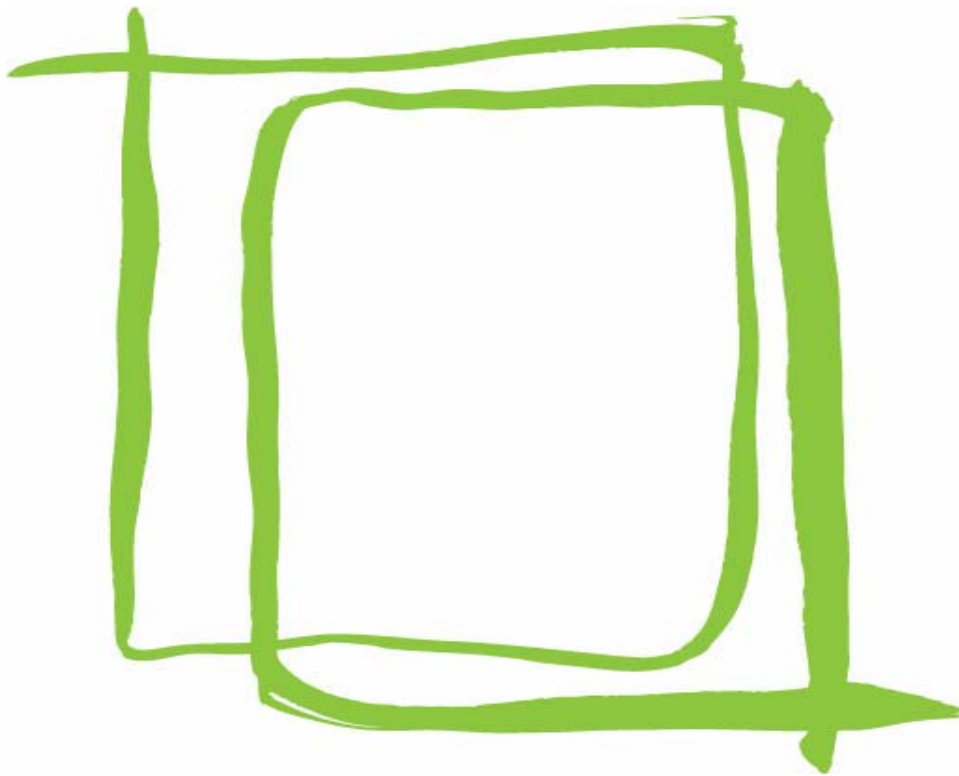
- 5.1 There are no direct Strategic Plan, Financial, Consultation, Human Rights, Risk Management Community Safety or Health and Safety implications as a result of this report

Use of Resources 2008

Colchester Borough Council

Audit 2008/09

March 2009



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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 members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

- 1 The Use of Resources assessment evaluates how well councils manage and use their resources. This is the fourth assessment carried out at Colchester Borough Council (the Council) and is the last under the CPA framework. Next year there will be a new assessment which will form part of the Comprehensive Area Assessment. The assessment Use of Resources focuses on the importance of having strategic financial management, sound governance and effective financial reporting arrangements. These should support your Council in the achievement of its priorities and improving services, whilst delivering value for money.
- 2 This assessment relates to the financial year 2007/08 and is based on the key lines of enquiry for 2008. Changes to the criteria underpinning the key lines of enquiry were consulted on in April 2007 and the final key lines of enquiry were published in August 2007. These changes were made to:
 - reflect developments in professional guidance, legislative requirements and best practice; and
 - signal some of the changes proposed for the new use of resources under CAA, smoothing the transition to CAA.
- 3 The overall use of resources assessment is made up of five themes. Judgements have been made for each theme using the Audit Commission's scale, see Table 1 below. This scale is used across its inspection and performance assessment frameworks.

Table 1 Standard scale used for assessments and inspections

1	Below minimum requirements – inadequate performance
2	Only at minimum requirements – adequate performance
3	Consistently above minimum requirements – performing well
4	Well above minimum requirements – performing strongly

-
- 4 In forming our assessment, we have used the methodology set out in the Use of Resources Guidance for Councils 2008, which can be found on the Commission's website. We have also taken account of our findings and conclusions from previous years' assessments and updated these for any changes and improvements to the Council's arrangements.

- 5 The five theme scores for Colchester Borough Council are outlined overleaf. The Commission notified you of your Council's overall score for use of resources and the supporting theme scores on 8 December 2008.
- 6 This summary sets out our key findings in relation to each theme and key areas for improvement. It should be noted that the areas for improvement refer to the Use of Resources assessment under CPA of which this is the last assessment. There will be entirely new Use of Resources Key Lines of Enquiry for 2008/09 which form part of the Comprehensive Area Assessment framework.

Use of resources judgements

Table 2 Summary of scores at theme and KLOE level

Key lines of enquiry (KLOEs)	Score 2008	Score 2007
Financial reporting	3	3
1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.	3	3
1.2 The Council promotes external accountability.	3	3
Financial management	3	3
2.1 The Council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities.	3	3
2.2 The Council manages performance against budgets.	2	3
2.3 The Council manages its asset base.	3	3
Financial standing	3	3
3.1 The Council manages its spending within the available resources.	3	3
Internal control	3	3
4.1 The Council manages its significant business risks.	3	3
4.2 The Council has arrangements in place to maintain a sound system of internal control.	3	3
4.3 The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	3	3
Value for money	3	3
5.1 The Council currently achieves good value for money.	3	3
5.2 The Council manages and improves value for money.	2	2

Theme summaries

- 7 The key findings and conclusions for each of the five themes are summarised in the following tables.

Table 3 Financial reporting

Theme score 3	
Key findings and conclusions	
<p>The Council prepared annual accounts in accordance with the relevant timetables and statutory guidance and we were able to issue an unqualified audit opinion by the deadline. There were no material audit amendments. Supporting working papers provided were of a good standard.</p> <p>The Council continues to publish the accounts, annual audit letter and committee minutes on the website. Summary financial statements are also produced. Consultation has taken place in respect of the format of the accounts.</p>	
Improvement opportunities under CPA of which 2007/08 is the last year	
KLOE 1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.	Continue to improve and develop the working papers provided to support the accounts. This should minimise additional requests for information from the auditors.
KLOE 1.2 The Council promotes external accountability.	Include information in the summary financial statements which analyses the Council's environmental footprint in order to comply with the sustainability agenda.

Table 4 Financial management

Theme score 3	
Key findings and conclusions	
<p>The Council's Medium Term Financial Forecast (MTFF) is embedded throughout the organisation and includes key priorities driven by the Corporate Plan, links to other strategies and policies and is used in the setting of service plans. Budgets and the capital programme continue to be soundly based and are designed to deliver the Council's strategic priorities.</p> <p>Performance is actively managed against budgets, variances are reviewed and action taken. Budget monitoring is informed by a risk assessment and is focused on large, high risk or volatile budgets with focus on key variances. However, some weaknesses were identified around the financial review of some partnership and contract arrangements, principally the firstsite:newsite project, which has led to the score for this KLOE reducing from a level '3' to a level '2'.</p> <p>The Council has adequate processes to manage its asset base with members clearly taking responsibility for asset management arrangements and the property portfolio being used as an enabler of change.</p>	
Improvement opportunities under CPA of which 2007/08 is the last year	
<p>KLOE 2.1 The Council's medium-term financial strategy (MTFS), budgets and capital programme are soundly based and designed to deliver its strategic priorities.</p>	<p>Ensure the corporate business plan takes account of sensitivity analysis.</p> <p>Further develop the MTFF to include:</p> <ul style="list-style-type: none"> • descriptions in financial terms of joint plans agreed with partners and other stakeholders; and • model balances, resource requirements, and revenue items using different planning scenarios and link this to the council's risk management and financial reports.
<p>KLOE 2.2 The Council manages performance against budgets.</p>	<p>Improve arrangements surrounding financial review of partnerships and contract expenditure to ensure that the contract costs are maintained within budget and agreed amounts.</p> <p>The Executive should review its effectiveness and the leadership it provides with regard to financial management, and take appropriate action to address any areas of weakness.</p>

Theme score 3	
<p>KLOE 2.3 The Council manages its asset base.</p>	<p>Use performance measures to describe and evaluate how the council's asset base contributes to the achievement of corporate and service objectives, including improvement priorities, sustainability objectives so that challenging targets can be set for improvement.</p> <p>Ensure the role and contribution of property is explicit in business plans to ensure that asset management planning is fully integrated with business planning at corporate and service levels.</p> <p>Integrate the management of the asset base with other agencies to identify opportunities for shared use of property and to deliver seamless cross-sector, cross-agency and community based services to users.</p> <p>Challenge whether all assets are required, are fit for purpose and provide value for money to meet current and future needs by monitoring property performance and undertaking periodic property reviews and should rationalise or dispose of under-performing or surplus assets.</p>

Table 5 Financial standing

Theme score 3	
Key findings and conclusions	
<p>The Council continues to manage its spending within its available resources and has appropriate performance measures in place for reacting to under/over spend. The Council has set target levels for its balances in line with budget principles and set out in the MTF. Annual approval of the budget and treasury management practices includes an assessment of financial risk, levels of balances required and a holistic review of reserves.</p> <p>Budgets are set using detailed plans, are well monitored and have historically been under spent. A report is provided for review to Members on the adequacy of reserves and there is a policy and level for reserves. Income is monitored against budget, and this is regularly reported to at management level and to members.</p> <p>There is monitoring information to review overpayment recovery and debt recovery and this process is assisted by performance indicators and monthly reconciliations.</p> <p>Colchester has £4m invested with Landsbanki. These investments were made in accordance with their Treasury Management strategy. These investments were placed after 31 March 2008 which is the period under review and prompt action has been taken to deal with this issue. Reserves and balances are sufficient to ensure that there is no significant deterioration in the Council's overall financial standing.</p>	
Improvement opportunities under CPA of which 2007/08 is the last year	
<p>KLOE 3.1 The Council manages its spending within the available resources.</p>	<p>A corporate target should be set for the collection of sundry debtor income, which should be monitored regularly so that appropriate corrective action can be taken to achieve these targets. The effectiveness of recovery actions, associated costs should also be assessed as should the cost of not recovering debt promptly to ensure that the most cost effective use is made of council resources.</p> <p>Ensure challenging targets are set for a comprehensive range of financial health indicators and performance monitored to ensure that a good track record of achieving the targets is evident.</p>

Table 6 Internal control

Theme score 3	
Key findings and conclusions	
<p>Risk management arrangements continue to be embedded. A risk strategy is in place and approved by Members. A corporate risk register is regularly updated, and contains specific and generic risks in respect of partnerships. The Finance and Scrutiny Panel who are responsible for risk management regularly review the corporate risk register. Project initiation contains a risk assessment.</p> <p>The Council has adequate arrangements in place to maintain a sound system of internal control. An annual review of effectiveness has been carried out and the Annual Governance Statement has been reviewed by the Accounts and Regulatory Committee. Sources of assurance have been reviewed and an action plan is in place. A project is underway to bring business continuity plans into one comprehensive document which will be reviewed and tested regularly. The assessment at level 3 reflects the significant progress that has been made in this area despite plans not being finalised.</p> <p>The Council continues to have good arrangements in place to promote and ensure probity and propriety in the conduct of its business. A whistle-blowing policy is in place. There is a code of conduct in place with the appropriate anti-fraud and corruption policies and ethical standards which are communicated to all staff.</p>	
Improvement opportunities under CPA of which 2007/08 is the last year	
<p>KLOE 4.1 The Council manages its significant business risks.</p>	<p>Continue to roll out risk management awareness training to all members.</p> <p>Develop senior officer and member risk champion roles to take responsibility for embedding risk management throughout the council.</p> <p>Further embed risk management in to business processes, particularly with regards to policy making and review, performance management and project management.</p> <p>Ensure that reports to support strategic policy decisions and initiation documents for all major projects include a risk assessment, including a sustainability impact appraisal.</p> <p>Consider the opportunity side of risk management in the successful delivery of major innovative and challenging projects.</p>

Theme summaries

Theme score 3	
<p>KLOE 4.2 The Council has arrangements in place to maintain a sound system of internal control.</p>	<p>Ensure that a comprehensive business continuity plan which is reviewed and tested regularly is formalised and communicated to all departments. Assurance should also be obtained of the viability of the business continuity plans of contractors'/partners.</p> <p>Governance arrangements with respect to partnerships should be subject to regular review and updating.</p>
<p>KLOE 4.3 The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.</p>	<p>To ensure that pro active counter fraud work is undertaken, the council should provide training to all staff.</p> <p>Obtain assurance that council staff and staff within contracting organisations have confidence in the whistleblowing arrangements and feel safe to make a disclosure.</p>

Table 7 Value for money

Theme score 3	
Key findings and conclusions	
<p>The Council's performance compares well with others and a range of quality services are delivered appropriate to statutory duties and local needs, whilst relatively low overall costs are maintained. Total spending per service area is low when compared to the nearest neighbours groups and all districts.</p> <p>The Council understands areas of higher spend and these are planned within the overall budget strategy. Some managed savings were made although some were fortuitous rather than planned.</p> <p>There is a reasonably well managed capital programme linked to priorities with projects usually completed on time and within budget. However, there have been delays with the firstsite:newsite project.</p> <p>There is an embedded approach to reviewing services (both budgets and performance) including changes over time and clear evidence of improvements made in VFM leading to efficiency savings of £4.1m (£0.5m in excess of target).</p> <p>The council uses best procurement practices and consideration is given not only to costs, but also to benefits to the wider community. For example the council has adopted the OGC framework for energy, securing savings of approx 5 per cent of energy costs. Energy and cost savings are planned through a carbon management programme</p> <p>Significant weaknesses were found in contract monitoring of some large scale projects undertaken in partnership which led to substantial difficulties, additional expenditure, delays in project completion and negative press coverage.</p>	
Improvement opportunities under CPA of which 2007/08 is the last year	
<p>KLOE 5.1 The Council currently achieves good value for money.</p>	<p>Continue robust performance management of services which have seen increased investment to sustain improvement.</p> <p>Improve project management to ensure that projects are delivered on time and within budget.</p> <p>Improve performance further in targeted areas where other councils have improved faster, for example recycling.</p>

Theme summaries

Theme score 3	
KLOE 5.2 The Council manages and improves value for money.	<p>Maintain progress on cost efficiencies and improve contract monitoring arrangements for large projects undertaken in partnership.</p> <p>When considering performance, increase comparisons made with other councils</p> <p>Continue to consider the long term social and environmental costs of decisions made and monitor and record their impact.</p> <p>Demonstrate that outcomes from partnership working are clearly identified in terms of cost and service provision.</p>

Conclusion

- 8** The Council continues to perform well in a number of key areas. Whilst the Council has maintained its overall score of '3' and the individual theme scores of '3', the score for KLOE 2.2 has dropped from a '3' to a '2'. This is due to the problems experienced with the firstsite:newsite project and the Colchester Borough Homes contract, which we believe indicates weaknesses in managing the performance of projects with partners. This has also affected the score for KLOE 5.2, which otherwise would have increased to '3'. At the same time we have recognised the Council's performance in other projects, such as the new Community Stadium.
- 9** Overall, we judged the Council to be performing well and consistently above minimum standards.

Use of resources 2008/09

- 10** From 2008/09, the auditors' assessment of use of resources will be based on new key lines of enquiry and will form part of the new performance assessment framework for local government and its partners, known as Comprehensive Area Assessment (CAA).
- 11** Key lines of enquiry for use of resources were published in May 2008 following consultation. These reflect the needs of CAA and incorporate a number of improvements including: a clearer focus on value for money achievements and further emphasis on commissioning of services, outcomes for local people and partnership working.
- 12** The assessment is structured into three themes:
- managing finances: sound and strategic financial management;
 - governing the business: strategic commissioning and good governance; and
 - managing resources: effective management of natural resources, assets and people.
- 13** The approach to use of resources will continue to be risk based and proportionate, drawing on evidence from previous years where relevant. Not all key lines of enquiry in the managing resources theme will be assessed each year. For district councils, auditors will assess work force planning.
- 14** The Commission will specify each year in its annual work programme and fees document which key lines of enquiry will be assessed in that year.

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Finance and Audit Scrutiny Panel

Item
13

24 March 2009

Report of	Scrutiny Officer	Author	Robert Judd 282274
Title	Supplementary opinion audit plan 2008/09		
Wards affected	Not applicable		

**This report asks the panel to note the contents of the
Supplementary opinion audit plan 2008/09.**

1. Action Required

- 1.1 To note the contents of the Supplementary opinion audit plan 2008/09.

2. Reasons for Scrutiny

- 2.1 This panel considered the audit and inspection plan for 2008/09 on 30 June 2008. The Audit Commission has requested that the attached supplementary paper be considered by the panel.

3. Supporting Information

- 3.1 The 2008/09 Supplementary opinion audit plan considers the additional risks that are appropriate to the current opinion audit issued in May 2008 and reported to this panel in June 2008.

4. Publicity Issues

- 4.1 There are no publicity issues.

5. Other Standard References

- 5.1 There are no direct Strategic Plan, Financial, Consultation, Human Rights, Risk Management Community Safety or Health and Safety implications as a result of this report

15 December 2008

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

Direct line 0844 798 5811
Email paul-king@audit-
commission.gov.uk

Dear Adrian

Supplementary opinion audit plan 2008/09

You will recall that I issued the initial audit plan for 2008/09 in May 2008, which set out the work that I proposed in order to satisfy my responsibilities under the Audit Commission's Code of Audit Practice. As this plan was produced at the start of the financial year to give you an indication of the proposed fee, I was not able at that time to specify the detailed risks that I would need to consider as part of my audit opinion work.

I am now in a position to do this as the opinion work is about to commence. This letter represents my supplementary opinion plan under International Standard on Auditing (United Kingdom and Ireland) 300.

The above standard requires me to:

- identify the risk of material misstatements in your accounts;
- plan audit procedures to address these risks; and
- ensure that the audit complies with all relevant auditing standards.

I have therefore considered the additional risks that are appropriate to the current opinion audit and I have set these out in the Appendix to this letter. .

In my original audit plan, the estimated fee for the opinion audit was based on my best estimate at the time and agreed at £114,320 as part of a total audit fee of £120,890. I am satisfied that the original fee estimate for the opinion audit was appropriate and no adjustment is therefore required to the fee in respect of the opinion audit at this stage. However, I will keep the fee under review as the opinion audit progresses. If I need to amend the fee subsequently, I will first discuss it with you.

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In respect of the other elements of the audit and opinion plan, as you know we have discussed the progress of the firstsite:newsite project on a continuing basis. We have discussed the options for us to do a piece of work looking at the financial and project management of the scheme early in the New Year, in response to the problems in respect of the project and our responsibilities. We will develop this and produce a more detailed project scope to discuss with you, but at this stage we would anticipate that this would result in the need for an additional fee of about £10,000 based on our estimated use of performance specialist and other staff time.

Yours sincerely

Paul King
District Auditor and Relationship Manager

cc Christine Connolly

Appendix 1 - risk assessment - opinion audit

Risk	Mitigating action by audited body	Residual risk	Audit response
There is ongoing significant investment in capital projects, including the Visual Arts Facility (VAF). There is a risk that this expenditure is not controlled, may not be properly reflected in the accounts and that governance and partnership arrangements may not be sufficiently robust. Account and monitoring arrangements may be complex.	Financial management and governance arrangements have historically been strong and the Council continue to monitor all projects.	Yes	On going review of capital projects and their impact on the financial position of the Council. Work will be undertaken to look at the financial and project management aspects of the VAF as it goes forward.
A change in key finance staff for 2008/09 may increase the risk to the production of a full set of accounts which are accurate, complete, comply with appropriate accounting standards and are supported by comprehensive working papers.	Arrangements have been put in place to minimise disruption.	Yes	We will continue to work closely with the finance team to identify a clear accounts preparation and audit process, including working paper requirements.
We identified some minor differences between the housing benefit subsidy grant claim and the accounts.	The Council continues to carry out regular reconciliations of its systems and general ledger. This process also forms part of the	Yes	As part of our interim audit, we will verify on a sample basis that monthly control account reconciliations are being undertaken and

	year end procedures.		independently reviewed by a member of the finance team. As part of our final accounts audit work, we will review the year end control account reconciliations and agree to the housing benefit grant claim.
Proposed changes to the CIPFA Statement of Recommended Practice (SoRP).	Officers attend our Chief Accountant's workshop and are aware of forthcoming changes.	Yes	Compliance with SoRP will be reviewed as part of our final accounts work.



Finance & Audit Scrutiny Panel

Item
14

24 March 2009

Report of

Head of Resource Management

Author

Hayley McGrath
282387

Title

3rd Quarter Internal Audit Assurance Report

Wards
affected

Not applicable

**This report concerns Internal Audit Activity between
October and December 2009**

1. Actions Required

1.1 To note and comment upon the Council's performance relating to:

- Executing the 3rd quarter of the Internal Audit plan for 2008/09;
- Performance of internal audit by reference to national best practice benchmarks

2. Reason for Scrutiny

2.1 The Accounts and Audit Regulations 2003 require local authorities to maintain an adequate and effective system of internal audit.

2.2 Internal audit is a key element of the Council's corporate governance framework. Robust implementation of audit recommendations gives assurance to members and management that services are operating effectively, efficiently and economically and in accordance with legislative requirements and professional standards.

3. Key Messages

- An increased number of audit days were provided this quarter, so that the total so far for the year is only just below the planned number of days. It is anticipated that the remaining days will be used during the quarter four.
- One audit, Benefits, has received full assurance. This is the first time that the audit provider has ever given a full assurance at Colchester.
- All other audits finalised in Quarter 3 have received a 'substantial' level of assurance.
- Twenty eight priority 2 recommendations and eight priority 3 recommendations were made this quarter.
- Two priority 3 recommendations made in relation to the Members Allowances audit, were not agreed by management.

4. Supporting Information

4.1 This report has been designed to show:

- Detailed information concerning audits finalised in the quarter
- Details of the effectiveness of the Internal Audit Provider to deliver the service

4.2 Using a risk-based approach, internal audit generate reports, for all audits, with recommendations to improve the effectiveness of the internal control framework and maximise potential for service improvement across the Council. The audit plan consists of a mix of regularity, systems and probity audits. Only systems audits generate an assurance level, these are categorised as follows:

- Full Assurance – a sound system of control
- Substantial Assurance – basically a sound system with some weaknesses
- Limited Assurance – weaknesses that may put the system objectives at risk
- No Assurance – control is generally weak leaving the system open to error or abuse

4.3 Internal Audit categorise recommendations according to their level of priority as follows:

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

4.4 Internal audit categorise the tracking of recommendations as follows:

- Fully implemented
- Partially implemented
- Not implemented

5. Performance Qtr 3 2008/09

5.1 Use of Audit Resources:

	Days	%
Audit days delivered – Q1	74	13
Audit days delivered – Q2	139	25
Audit days delivered – Q3	190	34
Remaining Days – per agreed Audit Plan*	163	28
	566	100

*The contracted number of audit days is 505 per annum, however there were an additional 61 days carried forward from last year.

5.2 Summary of Audits finalised during the quarter:

	Total No. of Reports		Level of Assurance – Systems Audits*				Change in Assurance Level – compared to last audit		
	Other	Systems	Full	Substantial	Limited	No	▲	▶ (or 1 st Audit)	▼
Audits finalised – Q3	1	5	1	4	-	-	1	4	-
From Q2	1	3	-	3	-	-	-	3	-
From Q1	-	-	-	-	-	-	-	-	-
Work in progress –Q3	1	7							
From Q2	1	-							
From Q1	-	-							

*Only systems audits are given an assurance level.

Please see Appendix 1 for a summary of results and outcomes of the 10 audits finalised in Quarter 3.

5.3 Comments on Audits finalised this Quarter

There is one audit finalised during the quarter where recommendations were not agreed. This was Members' Allowances. The recommendations and auditee comments are detailed in appendix 1. The comments from the auditees have been reviewed and it is confirmed that it would not be practical to implement the recommendations.

5.4 Status of all recommendations as at 31st December 2008 (Audits Finalised by Priority):

	Due Q1	Due Q2	Due Q3	Total Due	Fully Implemented	Partially Implemented (c/fwd)	Not Implemented (c/fwd)
Priority 1							
2008/09	0	0	0	0	0	0	0
2007/8	<u>0</u>	<u>0</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>0</u>	<u>0</u>
Total	0	0	1	1	1	0	0
Priority 2							
2008/09	3	18	19	40	29	11	0
2007/8	<u>21</u>	<u>12</u>	<u>21</u>	<u>54</u>	<u>30</u>	<u>19</u>	<u>5</u>
Total	24	30	40	94	59	30	5
Priority 3							
2008/09	2	5	3	10	6	4	0
2007/8	<u>2</u>	<u>5</u>	<u>2</u>	<u>9</u>	<u>2</u>	<u>6</u>	<u>1</u>
Total	4	10	5	19	8	10	1
Total							
2008/09	5	23	22	50	35	15	0
2007/8	<u>23</u>	<u>17</u>	<u>24</u>	<u>64</u>	<u>33</u>	<u>25</u>	<u>6</u>
Total	28	40	46	114	68	40	6
Percentage					60%	35%	5%

All recommendations from 2008/09, that are due, are included in the above table, including implemented, only *outstanding* recommendations from other years are included. All recommendations where auditee's have confirmed implementation but a follow-up audit has not been completed have been included as 'partially' implemented to ensure that they are monitored until they are confirmed by Internal Audit. The figures above do not include any recommendations that are not yet due for completion.

5.5 **Status of Outstanding Recommendations as at 31st December 2008 (Audits Finalised by Service):**

The 114 recommendations that are due (from the table above) are made up as follows:

	Customer Service Centre	Corporate Services	Environmental & Protective Services	Life Opportunities	Resource Management	Strategic Policy & Regeneration	Street Services
Priority 1							
2008/9	-	-	-	-	-	-	-
Other	-	-	<u>1</u>	-	-	-	-
Total	-	-	1	-	-	-	-
Priority 2							
2008/9	2	9	10	8	11	-	-
Other	-	<u>17</u>	<u>13</u>	<u>4</u>	<u>11</u>	<u>9</u>	-
Total	2	26	23	12	22	9	-
Priority 3							
2008/9	-	0	2	4	4	-	-
Other	-	<u>5</u>	-	-	-	<u>4</u>	-
Total	-	5	2	4	4	4	-
Total							
2008/9	2	9	12	12	15	0	-
Other	-	<u>22</u>	<u>14</u>	<u>4</u>	<u>11</u>	<u>13</u>	-
Total	2	31	26	16	26	13	0

Please see Appendix 2 for details of individual audits as at 31st December 2008. This details all audits undertaken in 2008/09 and 'outstanding' audits from previous years.

Comment:

The outstanding recommendations will continue to be closely monitored and progress will be reported to the panel each quarter.

5.6 **Performance of Internal Audit 2008/09 to date – Key Performance Indicators (KPIs):**

KPI	Target	Actual
Efficiency:		
Percentage of annual plan completed (to at least draft report stage)	75%	64%
Average days between exit meeting and issue of draft report	10 max	10
Average days between receipt of management response and issue final report	10 max	10
Quality:		
Meets CIPFA Code of Practice – per Audit Commission	Positive	Positive
Results of Client Satisfaction Questionnaires (Score out of 10)	7.8	8.0
Percentage of all recommendations agreed	95%	96%
Percentage of Priority 1 recommendations implemented	100%	50%
Percentage of Priority 2 & 3 recommendations implemented	90%	49%
Improved assurance for 2 nd & subsequent audit reviews – as a percentage of all recurring reviews	25%	33%

The key performance indicators show that the internal audit provider is successfully meeting or exceeding the majority of standards. One target that has not been met is the percentage of annual plan completed, this is due two audits being postponed earlier in the year, these are now being undertaken and a 100% of the plan should be completed by the end of quarter 4.

6. Colchester Borough Homes

- 6.1 Colchester Borough Homes have their own agreed audit plan which is administered by the Council's auditors. The coverage of the plan, and the scope of the audits, is decided by Colchester Borough Homes and in general the audits do not affect the systems operated by the Council.
- 6.2 However there are a few audits that, whilst they are carried out for either Colchester Borough Homes or the Council, have a direct relevance and impact on the other organisation and in these circumstances it is appropriate that the results of the audit are reported to both organisations. These are known as joint audits.
- 6.3 There were no joint audits finalised in the third quarter.

7. External Audit

- 7.1 The last item to be received from the external auditors was the annual audit and inspection letter for 2006/07 which was reported to Accounts and Regulatory on 30th June 2008. No new audit reports were issued by external audit in the third quarter. As there are no outstanding external audit recommendations from previous reports, a separate monitoring report has not been presented this quarter.

8. Proposals

- 8.1 To note and comment upon the Council's progress and performance in implementing quarter 3 of the Internal Audit program for 2008/09.

9. Strategic Plan Implications

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

10. Risk Management Implications

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

11. Other Standard References

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

Summary of Audits Finalised in Quarter 3:

311– Benefits Investigations	Days	Assurance	Priority of Recommendations			Agreed
			1	2	3	
Team	20	Substantial (First audit)	-	1	-	1

Scope of Audit: This review examined the following areas:

- Policies and Procedures
- Referrals
- Investigations
- Information and Data Security
- Subsidy Claim
- Partnership Arrangements

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

- Documented procedure updates relating to the Council's Fraud Instructions and Procedures Manual should incorporate a recorded date of implementation and appropriate references of version control.(2)

313 – Benefits	Days	Assurance	Priority of Recommendations			Agreed
			1	2	3	
	20	Full ▲	-	-	1	1

Scope of Audit: This review examined the following areas:

- Assessment of applications;
- Calculation of benefit entitlement;
- Monitoring of assessed claims;
- Reconciliation of Academy to FMIS; and
- Management information.

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

- Failed login reports should be reviewed by management on a regular basis. The reports should be reviewed for reasonableness and followed up where necessary.(3)

314 – Cash Office Procedures	Days	Assurance Substantial	Priority of Recommendations			Agreed
			1	2	3	
	5	▶	-	2	-	2

Scope of Audit: This review examined the following areas:

- Contract;
- Coding of Payments
- Reconciliation;
- Clearance of the Holding Account;
- Contract Payments; and
- Management Information

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

- Management should request that Barclays supply regular relevant information in respect of the provision of services supplied to the Council.(2)
- Reconciliations of the Co-Operative Account and the Direct Data payments should be undertaken on a monthly basis and reviewed in a timely manner.(2)

321 – Highwoods	Days	Assurance Regularity	Priority of Recommendations			Agreed
			1	2	3	
	5		-	4	1	5

Scope of Audit: This review examined the following areas:

- Issuing of Tickets to Centre Users;
- Recording of Ticket Sales and Transactions;
- Banking of Remittances;
- Staff, Public and Asset Insurance;
- Stock Checks;
- Centre Security.

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

- The Sports Centre's policy and procedure on casual bookings should be amended to state that all people wanting to book facilities on a one-off casual basis should be made to pay in advance. (2)
- The Council should investigate the possibility of installing a CCTV camera into the reception to monitor the area behind the reception. (2) **Not Agreed. It is felt that the CCTV in place is sufficient for its needs as it records the Receptionist face on and, although you cannot quite see the actual till, there is sufficient enough deterrent to both customers and staff. We do not feel that the benefit of another camera would outweigh the cost to install it.**
- Stock checks on vending machines should be undertaken on a weekly basis without fail. Evidence that these checks have been reviewed by the Sports Centre Manager should be retained. This should also be the case for monthly stock checks of re-saleable items.(2) **Partly Agreed. Would be happy to increase frequency of checking vending machine stock to a fortnightly basis, but we feel a weekly check would not be possible within current resources. The re-saleable items are turned over so slowly that we are comfortable with a monthly stock check.**
- The Sports Centre Manager should investigate whether financial procedures have been developed for the Life Opportunities Directorate or more specifically for the Council's sports facilities. Where procedures have not been developed in respect of such issues as de-minimis amounts and financial discrepancies requiring further investigation, as well as the method of investigation and disciplinary procedures attached to any wrong doing, these should be developed.(3)
- Completion of a delivery checklist should be reviewed by a senior independent officer upon receipt of the invoice for the goods received. Where these are continually not completed, management action should be taken.(2)

329 – Freedom of Information	Days	Assurance	Priority of Recommendations			Agreed
			1	2	3	
	7	Substantial (first audit)	-	6	-	6

Scope of Audit: This review examined the following areas relating to the Freedom of Information:

- Strategies, Policies and Procedures;
- Scheme of Publication;
- Recording and Processing of Requests;
- Exemptions;
- Appeals; and
- Management Information.

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

- The Freedom of Information Procedures should be finalised and approved. (2) *Agreed*.
- A system for monitoring compliance against the Scheme of Publication should be introduced. (2)
- Management should remind staff of the need for formal responses to requests to be sent out within the 20 day deadline. (2)
- Management should remind staff of the need for case owners to send the appropriate supporting documents to Corporate ICT in all cases. (2)
- Activity reports should be issued to Heads of Departments on regular basis. The reports should detail both the volume of requests and the level of achievement against the set deadline. (2) *Agreed*
- Activity reports, in relation to the FOI Act, should be issued to the Finance and Audit Scrutiny Panel at regular intervals. (2)

330 Members Allowances	Days	Assurance	Priority of Recommendations			Agreed
			1	2	3	
	5	Substantial▶	-	-	2	0

Scope of Audit: The audit was designed to provide a review of the following areas

- Allowance Rates;
- Processing Claims;
- Allowance Payments; and
- Corporate Policies.

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

- Members and the officers administering the process should be reminded that all expense claims should be supported by receipts which detail the nature of the expense. (3) Not Agreed. ***As claim forms already include a reminder note for claims to be supported by receipts, the control is already communicated. The audit review identified that on one occasion there was a control failure covering a return rail fare to London. However on the very few occasions when no supporting receipts are submitted the processing officer, in consultation with the manager, makes a judgement regarding the legitimacy of the claim based on length of the journey, value of claim and frequency of previous unsupported claims submitted by claimant. Where there is a concern it is referred back to claimant. Where there is sufficient other evidence to support the validity of the claim, then, as in the instance identified in the audit, the claim is processed.***
- Members and the officers administering the process should be reminded that all members' expense claims should be made within two months of the expenditure being incurred. (3) ***Not Agreed. The Members Allowance Scheme already includes guidance that claims should be submitted within a two month time frame. 'Out of date' claims are received infrequently and therefore not considered burdensome. The low relative value of claims does not lead to a risk o material misstatement of the Council's financial position.***

331 – Payroll	Days	Assurance	Priority of Recommendations			Agreed
			1	2	3	
	10	Substantial▶	-	5	1	5

Scope of Audit: This review examined the following areas relating to Risk Management:

- Compliance with policy, procedures and legislation, including submission of HMRC returns;
- Starters and leavers;
- Allowances and deductions, including PAYE and superannuation;
- Variations and adjustments to pay;
- Accounting for payroll costs and related items;
- Management information;
- System security; and
- Systems reconciliation.

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

- Upon successful adoption of the new self service software, the following will need to be tested to ensure that it satisfies the Councils requirements:
 - Monthly establishment list checks by managers.
 - Only line managers (and more senior staff) are able to authorise employee time/pay records.
 - Access rights will be specific to employees.
 - Employees are aware of how to amend personal details. (2)
- Until the new self service option is adopted, the Council must use their "old" procedures. This means requesting each department to update the authorised signatories list and requesting managers to confirm establishment lists on at least a monthly basis. (2)
- Evidence of the checking of documents, such as the pay review and exception reports, should be retained on file. (2)
- The Council should introduce a checklist for all new starters, to ensure that all required paperwork is received and scanned into IDOX . (3) **Not Agreed. The issue was that the P45 had been received, but a copy could not be traced in Idox. The remedy for this would be to check every document scanned. This would be too labour intensive and the costs would outweigh the risks.**
- Checks should be undertaken in respect of the accuracy of the data held on the payroll system following major amendments affecting the majority of the records on the system, e.g. in respect of the annual pay awards and changes to tax bands, allowances, etc.(2) Emergency Payment procedures should be documented, clearly defined and include independent verification. (2)

332-Vending Machine	Days	Assurance	Priority of Recommendations			Agreed
			1	2	3	
	3	Regularity (first audit)	-	2	-	2

Scope of Audit: This review examined the following areas:

- Contract
- Collection of Income
- Coding of income to the General Ledger
- Payment of Fees
- Security
- Usage information and Analysis

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

- Management should ensure that the usage readings taken by the service provider (Coffee Point) are promptly submitted to the Council immediately after the readings are taken (on the same day). These readings should be used to check the invoices received from Coffee Point. (2)
- Reconciliations should be performed between the income coded against the vending machines income code and the actual income received.(2)

333 – Council Tax	Days	Assurance Substantial ▶	Priority of Recommendations			Agreed
			1	2	3	
	5		-	5	-	5

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

- Reconciliation to the Valuation List;
- Debits to Individual Council Tax Accounts;
- Receipting of Income Received;
- Amendments to Council Tax Accounts;
- Procedures for Dealing with Suspense Items;
- Reconciliation of Council Tax System to FMIS;
- Processing Council Tax Refunds;
- Recording Housing Benefit Rebates;
- Reductions and Exemptions;
- Access Privileges;
- Monitoring and Follow Up of Council Tax Arrears;
- Authorisation of Write Offs; and
- Management Information.

Key Outcomes: The recommendation resulting from this review is summarised as follows:

- Timely reconciliations between the Council Tax system and the general ledger should be undertaken.
(2)
- Regular reconciliations should be undertaken between the value of refunds actually made and the amount recorded in the ledger.
- A regular cycle of exempt property inspections should be completed.
- Starters joining dates should be added to the access level report the new user access request form is filed systematically.
- The Council Tax system should be updated with recovery actions taken on accounts in arrears.

334 – NNDR	Days	Assurance Substantial ▶	Priority of Recommendations			Agreed
			1	2	3	
	10		-	5	1	6

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

- Debits to individual NNDR accounts;
- Receipting of income received;
- Amendments to NNDR accounts;
- Procedures for dealing with suspense items;
- Reconciliation of NNDR system with FMIS;
- Processing of NNDR refunds;
- Access privileges to the system;
- Monitoring and follow up of NNDR arrears;
- Authorisation of write offs;
- Management information;
- Voids; and
- Reliefs.

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

- Timely reconciliations between the NNDR system and the general ledger should be undertaken. (2)
- Regular reconciliations should be undertaken between the value of refunds actually made and the amount recorded in the ledger.(2)
- Starters joining dates should be added to the access level report the new user access request form is filed systematically.(3)
- The Academy System should be fixed in order to enable reporting to the bailiffs..(2)
- A regular cycle of exempt property inspections should be completed.(2)
- A review of charitable exemptions should be undertaken. (2)
- Management should establish formal targets, thereby facilitating the effective performance monitoring of the team on a monthly basis. Performance reports should indicate the performance of the team against the targets established by management.(2)

Status of Recommendations as at 31st December 2008

Service/Assignment	Priority			No. Agreed	Date Due	Implemented		Comments
	P1	P2	P3			Total	Fully	
2008/09								
LO Anchor Trust - Staying Put 302		1	1	2	30/09/2008	2		Awaiting confirmation by follow-up. Recommendations related to invoices and reports.
Res Commercial & Invest Props 303		2		2	01/05/2008	2		Complete. Recommendations related to evidence of rent reviews and signing annual property inspections.
Corp Land Charges 305		4		4	31/03/2009			4 Not due yet. Recommendations relate to performance and finance monitoring and Essex County responses.
Res Petty Cash 306		1	1	2	30/06/2008	2		Complete. Recommendations relate to the revision of procedures and placing it on the hub.
LO Transfer Incentive Scheme 307		6	3	9	01/08/2008	4	4	Awaiting confirmation by follow-up. Recommendations relate to policies and procedures, advertising, objectives, documents, budget statements and performance objectives.
EPS Alcohol Licenses 308			1	1	31/05/2008	1		Complete. 1 recommendation regarding budget reports.
Corp Best Value Perform Indicators 309				5	N/A	5		Complete - Recommendations relate to the compilation of the BVPI figures which are not on-going issues. Calculations have been amended to reflect the recommendations.
EPS Building Control Fees 310		3	1	4	01/08/2008	3	1	Awaiting confirmation by follow-up. Recommendations relate to policies and procedures, advertising, objectives, documents, budget statements and performance objectives.
41								
Corp Construction Industry Scheme 315		2		2	30/09/2008	2		Awaiting confirmation by follow up. Recommendations relate to deduction statements and staff information
LO Equity Share Scheme 320		1		1	31/12/2008	1		Awaiting confirmation by follow up. Recommendation relates to the development of procedures.
EPS Food Control 327		7		7	31/09/2008	7		Awaiting confirmation by follow up. Recommendations relate to procedures, financial management and target setting.
Corp Freedom of Information 329		6		6	31/03/2009	6		6 Not due yet. Recommendations relate to procedures, monitoring compliance and activity levels, deadlines and supporting
Corp Members Allowances 330			2	2	-	-		None of recommendations in this area has been agreed as implementation would prove administratively burdensome. Recommendations relate to supporting receipts and time limits.
Corp Payroll 331		5	1	6	31/01/2009	5		Managed audit performed annually. Will be confirmed during 09/10 audit. Recommendations relate to testing of self service software, confirmation of establishment lists, starters checklist, evidence of checking exception reports and emergency payment procedures.
Corp Vending Machine 332		2		2	On going	2		Awaiting confirmation by follow up. Recommendations relate to taking of usage readings and reconciliations.
CS Cash Office Procedures 314		2		2	On going	2		Managed audit performed annually. Will be confirmed during 09/10 audit. Recommendations relate to provision of services by Barclays
Res Benefits 313		1		1	01/12/2008	1		Managed audit performed annually. Will be confirmed during 09/10 audit. Recommendations relate to check of failed logins.

Service/Assignment	P1	Priority			No. Agreed	Date Due	Implemented		Not Due	Comments
		P2	P3	Total			Fully	Part.		
Res Benefits Investigations Team	311		1	1	1	31/12/2008	1			Managed audit performed annually. Will be confirmed during 09/10 audit. Recommendation relates to documented procedure version
Res Council Tax	333		4	5	5	01/12/2008	5			Managed audit performed annually. Will be confirmed during 09/10 audit. Recommendation relates to reconciliations, property inspections, new user access, recovery action system updates.
Res NNDR	334		5	6	6	01/01/2009	6			Managed audit performed annually. Will be confirmed during 09/10 audit. Recommendation relates to reconciliations, new user access,
LO Highwoods Sports Centre	321		4	5	4	31/03/2009			4	Not due yet. Recommendations relates to procedure for casual bookings, vending stock checks, de minimis amounts, disciplinary procedures, completion of delivery check lists.
2007/08			55	15	75		51	5	0	14
LO Financial Assistance Policy	205		4	4	4	15/02/2008	1	3		Awaiting confirmation by follow-up. Recommendations related to creating a formal policy, updating procedures, requiring 2 quotes for work and reconciliations.
SPR Right to Buy	206		3	5	5	31/12/2007		4	1	Procedure not yet on the intranet. Remainder of recommendations related to policies, completion of forms and processing of payments.
EPS Planning Fees & S106 Agree	208		3	3	3	31/03/2008		3		Resolution dependant on software supplier - relates to the production of system audit trails and changes to information. Also recommended that it should be ensured that S106 funds are used for purpose agreed.
PS Council Mortgages	209		7	7	7	31/07/2007	4		3	After follow up 4 Fully implemented, 1 no longer applicable and 2 will not be implemented due to change of circumstances.
Res Procurements - Marketplace	210		4	4	4	31/03/2008	2	1	1	Recommendations related to reconciliations, procedural arrangements with the new contractors and management reporting
Corp Environmental System	221		8	13	10	30/06/2008		10		Awaiting confirmation by follow-up. Recommendations related to delegating limits, system back-ups, order raising and staff usage.
SPR Firstsite:Newsite	229		4	4	4	31/08/2008	4			Awaiting confirmation by follow-up. Recommendations relate to recording of tenders, negotiations, changes to the scheme and a
EPS Museums - Merged Service	233	1	10	11	8	31/12/2008	8			Awaiting confirmation by follow up. Recommendations related to financial records, procedures and stock and asset control.
Corp Reprographics Contract	235		9	9	9	31/10/2008	9			Awaiting confirmation by follow up. Recommendations relate to procures, spot checks, performance measures, customer questionnaires, VAT, contract meetings, insurance and performance
SPR Renaissance Programme Management Arrangements	231		2	4	4	01/10/2008	4			Awaiting confirmation by follow up. Recommendations relate to document retention, scheme of delegation, workstation assessments and monitoring audit recommendations.
TOTAL FOR ALL YEARS			54	9	64		32	21	5	0
			109	24	139		83	26	5	14



Finance & Audit Scrutiny Panel

Item
15

24 March 2009

Report of	Head of Resource Management	Author	Hayley McGrath 282387
Title	Internal Audit Plan 2009/10		
Wards affected	Not applicable		

**This report concerns the Internal Audit Plan of work for
2009/10**

1. Action(s) Required

- 1.1 To comment upon and agree the suggested Internal Audit plan for 2009 / 10 shown in appendix 1.

2. Reasons for Scrutiny(s)

- 2.1 The Accounts and Audit Regulations 2003 require local authorities to maintain an adequate and effective system of internal audit.
- 2.2 Internal audit is a key element of the Council's corporate governance framework. A comprehensive system of reviewing systems over a period of time is required to ensure that there is assurance that services are operating effectively, efficiently and economically and in accordance with legislative requirements and professional standards.

3. Key Messages

- The plan has been drawn up in consultation with senior management over coverage and timings.
- The plan has been drawn up with due regard to the key risks to the Council.
- There has been a fundamental review of the plan to ensure that maximum value is added by the audit process and it supports the internal control process, including the Annual Governance Statement.

4. Supporting Information

- 4.1 The Council operates a 10 year plan showing coverage of the key audits. This is an overview of the areas that require assurance, and annually it is agreed with management the specific areas to be covered during the coming year. The Audit Commission require the fundamental systems, such as the General Ledger, to be reviewed every year, and these are known as managed audits.
- 4.2 The Internal Audit contract provides for 505 auditing days a year. For 2009/10 a total of 100 days are taken up by the managed audits and 50 days are allocated to follow-ups and management, leaving 355 days to be allocated to other areas. There are no audit days to be carried forward from 2008/09.

- 4.3 The Risk and Resilience Manager has discussed the plan and timings with senior managers to ensure that there is commitment in supporting the auditors whilst carrying out the reviews. This is designed to minimise any disruption to services.
- 4.4 The Annual Governance Statement identifies areas where controls need to be strengthened to ensure that systems work correctly and an action plan is drawn up to deal with these issues. Many of the issues on the action plan are identified during the course of normal internal auditing work and are therefore subject to individual follow-up. However as the Annual Governance Statement should be a continually updated process, it is felt appropriate to include a review of progress against the action plan part way through the year.
- 4.5 A total of 15 days have been included in the plan to review significant contracts. Whilst the days have been allocated to quarter one on the plan the specific contracts will be identified during the year as required.
- 4.6 The proposed plan has been discussed with our external auditors to ensure that it complements their objectives over the coming year.

5. Colchester Borough Homes

- 5.1 Colchester Borough Homes have their own agreed audit plan which is administered by the Council's auditors. The coverage of the plan is decided by Colchester Borough Homes and is not reported to this Panel.
- 5.2 However there are a few systems that also involve input from the Council and it is appropriate that in these circumstances that the audit resource required to provide assurance is shared by, and reported to, both organisations. In 2009 / 10 there are three 'shared' audits – Management of Expenditure (12 days), Governance Review (10 days) and Rent Collection (5 days) – which have been included on the attached audit plan.

6. Proposals

- 6.1 The suggested Internal Audit plan for 2009/10 provides a comprehensive assessment of the internal controls across the Council, with due regard to the key risks, and it is recommended that it is approved.

7.0 Strategic Plan Implications

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

8. Risk Management Implications

- 8.1 Agreeing an audit plan enhances the ability of the Council to control its risks and therefore will support the internal control process.

9. Other Standard References

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

INTERNAL AUDIT PLAN 2009/10																
AUDIT TITLE	Type of Audit	Total Days	Key system	A.G.S. issue	Quarter 1			Quarter 2			Quarter 3			Quarter 4		
					Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Cross Cutting Reviews																
Annual Governance State Action Plan Review	Regularity	5										5				
National Indicators	System	15	✓		15											
Corporate Governance & Scrutiny	System	10		✓								10				
IT Audits																
General IT (to be allocated)	System	30							15					15		
Corporate Management																
Booking of Public Premises	System	7				7										
Contract Audit	Sys/VFM	15					15									
Payroll	System	10	✓							10						
Security of Premises (test)	Regularity	4				1				1				1		
Consultants	System	10		✓								10				
Customer Service Centre																
Cash Collection Procedures	Regularity	7	✓												7	
Site Cash Ups	Regularity	3	✓					1.5							1.5	

INTERNAL AUDIT PLAN 2009/10																		
AUDIT TITLE	Type of Audit	Total Days	Key system	A.G.S. issue	Quarter 1			Quarter 2			Quarter 3			Quarter 4				
					Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar		
Resource Management																		
Bailiffs	System	7				7												
Council Tax	Regularity	5	✓					5										
Creditors	System	10	✓												10			
Corporate Debt	System	10				10												
Debtors	System	10	✓												10			
General Ledger	Regularity	5	✓												5			
Housing Benefits	System	30	✓										30					
NNDR	Regularity	5	✓					5										
Risk Management	System	10	✓	✓													10	
Secure Stationery	Regularity	5				5												
Treasury Management	System	10	✓								10							
Strategic Policy and Regeneration																		
CBH Governance & Performance Monitoring Arrangements	System	10										10						
Management of Expenditure CBH	System	15																15
Enterprise/Economic Development	System	5						5										
Housing Rents	System	7															7	
Renaissance Project Management	System	15								15								
Visitor Information Centre	System	5																5
Environmental and Protective Services																		
Museums-Admissions, Shops and Inventories	System	15								15								
Museums Partnership Arrangements	System	8									8							
Pest Control	System	7													7			
Rechargeable Works- Environmental Health	System	10														10		

INTERNAL AUDIT PLAN 2009/10

AUDIT TITLE	Type of Audit	Total Days	Key system	A.G.S. issue	Quarter 1			Quarter 2			Quarter 3			Quarter 4			
					Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	
Street Services																	
CCTV	System	7								7							
Decriminalised Parking - Final Account	System	5				5											
Fleet Management	System	10				10											
Parking Services Income	Regularity	5		✓					5								
Parking Services Partnership	System	10										10					
Vehicle Workshop	System	10									10						
Life Opportunities																	
Council Property Exchange and Choice Based Lettings	System	10				10											
Crime and Disorder Reduction Partnership	System	10				10											
Highwoods Country Park	Regularity	3							3								
Joint Use Sports Centres	System	10									10						
Leisure World	System	15										15					
Temporary Accommodation	System	5					5										
Other Areas																	
Life Opportunities - Management Review		15							15								
Resource Management - Management Review		15										15					
Follow Up		25				2	2	2	2	2	2	2	2	2	2	2	3
Contingency		5															5
Management of Contract		25				2	2	2	2	2	2	2	2	2	2	2	3
Total No. of Days		505				55	42	49	27	33	46	39	45	71	44	24	31
(Agreed no of days = 505)																	

Plan shows the managed audits (key systems) and the audits that cover issues raised in the Annual Governance Statement (A.G.S.) for 2008/09.



Finance & Audit Scrutiny Panel

Item
16

24 March 2009

Report of

Head of Resource Management

Author

Hayley McGrath
282387

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.

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

4.0 What is an Annual Governance Statement?

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

4.2 It should include the following:

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

4.3 The Audit Commission has commented that:

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

5.0 Other Reviews that Influence the Annual Governance Statement

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

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

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

6.0 Suggested Process

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

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

7. Proposals

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

8. Strategic Plan Implications

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

9. Risk Management Implications

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

10. Other Standard References

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

24 March 2009

Report of	Head of Resource Management	Author	Laura Skinner Tel. 282355
Title	Implementation of International Financial Reporting Standards		
Wards affected	Not applicable		

The Panel is invited to note the impact of the implementation of International Financial Reporting Standards on the Council.

1. Actions required

- 1.1 The panel is asked to note the following regarding the implementation of International Financial Reporting Standards ('IFRS'):
- the requirement for the implementation
 - the timescale of the implementation within Local Government
 - the key areas of change within the Council
 - the progress and preparations being made by the Council
 - the potential financial and risk management implications of the implementation

2. Reason for scrutiny

- 2.1 The purpose of this report is to brief the Panel on the statutory requirement for the implementation of IFRS within the Council.

3. Background information

- 3.1 The Council is currently required to prepare its annual statement of accounts in accordance with United Kingdom Generally Accepted Accounting Practice ('UK GAAP'), as modified for the public sector.
- 3.2 In the 2007 Budget, the Government made a commitment that the UK public sector would move towards the adoption of IFRS. A major reason for this change is to bring about the benefits in consistency and comparability between financial reports in the global economy and to follow private sector best practice in the UK public sector.
- 3.3 International Financial Reporting Standards are set by the International Accounting Standards Board (ISAB), the independent standard-setting body of the International Accounting Standards Committee Foundation (IASC Foundation), with the aim for having a single set of high quality, understandable and international financial reporting standards for general purpose financial statements.
- 3.4 IFRS have already been implemented within EU listed private sector organisations. Experience has shown from this sector that the transition to IFRS is both lengthy and complex and has wide reaching implications, as it involves not only Finance, but HR, Estates, Procurement, IT and a range of other stakeholders. The experience within the

private sector has been that their accounts have increased in size on average by 60% since the adoption of IFRS.

- 3.5 The standards are currently being adapted for Local Government by The Chartered Institute of Public Finance and Accountancy (CIPFA), which is due to release its IFRS based Code of Practice on Local Authority Accounting in May 2009.
- 3.6 The first full set of IFRS compliant accounts will be published by the Council for the financial year of 2010/11.
- 3.7 There are a number of significant tasks which are required to be undertaken prior to 2010/11, alongside preparing the Council's UK GAAP accounts for the financial years of 2008/09 and 2009/10, these include –
- Restatement of the Balance sheet for 2008/09 in accordance with IFRS
 - Preparation of the Whole of Government Accounts for 2009/10 in accordance with IFRS
 - Restatement of the full statement of accounts for 2009/10 in accordance with IFRS
 - Restatement of the accounting policies of the Council to be in line with IFRS
 - Amendments to the structure of the chart of accounts within the General ledger to bring it into line with IFRS
 - Consideration of the impacts of the changes required for IFRS to the Council's Budgeting process, internal systems and staff resourcing and training.
- The specific timetable and deadlines for the preparation of these conversion tasks is still being drafted by CIPFA. A watching brief is to be maintained to ensure that this information is obtained once it has been released by CIPFA.
- 3.8 Central Government and the National Health Service produce their first full set of IFRS compliant accounts in 2009/10, which is one year earlier than Local Government. Therefore it is envisaged that it will be possible to learn valuable lessons from these bodies, as well as draw from the experiences encountered within the private sector.
- 3.9 The implementation of IFRS represents a significant change to existing financial reporting and therefore is required to be successfully managed. Due to the scale and complexity of this project, a project team has been formed to control and monitor the implementation of the new requirements under IFRS within the Council.
- 3.10 It has been recognised in the private sector that the introduction of IFRS was most successful when functions other than Finance were also involved at an early stage. As such officers from Estates, Procurement, HR and Legal have been invited to attend project team meetings. These officers will work closely within individual working groups to concentrate on specific areas such as leases and accruals for employee benefits.
- 3.11 The changes proposed by the Government are statutory and are not optional. It is important that the conversion process is managed successfully as it will be subject to review by our external auditors through their audit of the statement of accounts and through the Council's Use of Resources assessment.

4. Key areas of Change

- 4.1 The following sections examine the key areas of change that have been identified for the Council. It should be noted that this is not a definitive list. It is subject to change as further areas could be uncovered as a result of CIPFA finalising its IFRS based Code of Practice on Local Authority Accounting.

Fixed assets

- 4.2 IFRS requires fixed assets to be valued and held at 'fair value', whereas the current requirements under UK GAAP require these assets to be valued and held at 'current value'. A review of the assets held under current value is to be made by Finance and Estates officers to determine the impacts of this change in valuation basis and to determine which assets which are required to be re-valued.
- 4.3 In addition, under IFRS, significant components of an asset that have different useful economic lives for depreciation purposes are required to be recorded, valued and depreciated separately within the accounts. The services of professional valuers will be required in order to identify and value the significant components held by the Council. This change will impact on the Council's fixed asset register by increasing the number of assets held within the system that are required to be administered each year.
- 4.4 Finance officers have attended an initial meeting with the Estates department to discuss the new valuation requirements under IFRS. Further guidance is being awaited from CIPFA prior to any new valuations being performed by the Council.

Separation and classification of leases

- 4.5 IFRS requires leases of land and buildings to be accounted for and disclosed separately within the accounts, whereas under UK GAAP these leases are currently accounted for as single leases and are not required to be separated out.
- 4.6 Under UK GAAP where the present value of minimum lease payments is greater than 90% of the fair value of the asset being leased; the lease is treated as a finance lease. Under IFRS, there has been a change to this classification criteria for finance leases, this rule has been amended removing the 90% cut-off level, replacing it with 'substantially all' under IFRS.
- 4.7 Currently all of the leases held by the Council are classified within the statement of accounts as operating leases. Under the IFRS there is risk that some of the leases held by the Council may be classified as finance leases and would be required to be brought onto the Balance sheet and considered as assets held by the Council.
- 4.8 A full review of all the leases is required to be made to determine their appropriate accounting treatment under IFRS. This will require additional staff resources in order to obtain the relevant lease information and review each lease in depth.
- 4.9 Where changes in the treatment of any leases are identified, these are required to be accounted for retrospectively within the accounts starting from the lease inception date.

Group Accounts

- 4.10 Under IFRS, the Council now only requires the power to influence another entity for it to be treated as a group entity, whereas under UK GAAP the Council has to actually exercise its power for the entity to be treated as part of the Group. This change under IFRS could lead to more entities being accounted for within the Council's group accounts.
- 4.11 The Council already prepares group accounts, due to its relationships with Colchester Borough Homes Limited and Colchester Community Stadium Limited. A full review of the Council's relationships with other parties is required to be performed to ensure that

all the relevant group relationships are identified and accounted for appropriately under IFRS.

Employee benefits

- 4.12 Under IFRS the Council is required to accrue for the cost of accumulating short term employee benefits. Accumulating benefits are those that are able to be carried forward and can be used in future periods if the employee's current period's entitlement is not utilised in full at the year end.
- 4.13 A review has been undertaken regarding the accumulating short term employee benefits payable by the Council. From the completion of this review the following benefits have been identified for which year end accruals will be required to be made under IFRS - untaken annual leave and outstanding flexitime.
- 4.14 The details of Council employees' untaken annual leave and outstanding flexitime are not currently recorded on the Council's HR/Payroll system. Therefore a sampling exercise will be required to be performed at the year end in order to estimate the accrual values.
- 4.15 The Council does not have a set year end for annual leave so this will make it more difficult to gather the required information at the year end. Notifications have already been sent to all of the Heads of Service within the Council to inform them of this new requirement for their staff to provide details regarding their outstanding annual leave and flexitime at the year end.
- 4.16 The sampling methodology is currently being drafted in preparation for a review by external audit. This is to ensure that external audit is satisfied with the Council's year end process for calculating the accruals required under IFRS.

Segmental Reporting

- 4.17 Under IFRS the Council will be required to prepare separate disclosures of the results and assets for its major operating segments. These new disclosures are considered to be significant as the structure of the chart of accounts within the Council's general ledger system will need to be modified. Separate sub ledgers will be required to be set-up to allow the required information to be held and extracted for each operating segment within the Council.
- 4.18 CIPFA is currently reviewing the disclosures required for the operating segments within Local Government. A watching brief is to be maintained on the decisions made by CIPFA.

Format and content of the Accounts

- 4.19 International Accounting Standard 1 details the requirements for the presentation of the financial statements under IFRS. This standard prescribes the format and the naming conventions required for IFRS compliant accounts. CIPFA are in the process of reviewing this standard and the Council is awaiting the publication of guidance from CIPFA.
- 4.20 It is anticipated that the terminology within the core financial statements will be amended to fall in line with IFRS, and the disclosures included within the notes to the accounts will need to be modified and expanded in both number and content.

- 4.21 International Accounting Standard 1 requires accounting changes under IFRS to be applied retrospectively. This requires that upon first time adoption of the IFRS at the transition date of 1 April 2009, the accounts are required to be restated as though the Council had always accounted using IFRS. The Council is required to review and restate the accounting records back to the commencement date of the transactions (e.g. lease inception date). The adjustments that are identified are to be made to the opening balance sheet as at 1 April 2009.
- 4.22 The accounting policies applied by the Council within its statement of accounts will need to be reviewed. The policies will need to be updated to be in line with IFRS and will need to be formally approved by the relevant committee as part of the approval of the Council's first set of IFRS compliant statement of accounts for the financial year of 2010/11.

5. Next steps

- 5.1 Officers will monitor the release of further technical guidance from CIPFA and the Audit Commission. Further reports will be presented to the panel as and when further information is released and/or further developments have been made within the Council.
- 5.2 It is important to engage with external audit during the transition phase, in order to establish audit trail and working paper expectations, materiality considerations, preliminary views on accounting treatment proposals and the audit timetable. Initial discussions have already taken place with external audit regarding the implementation of the IFRS within the Council. Quarterly meetings have now been set-up with the implementation of IFRS as a standing agenda item.

6. Strategic Plan references

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

7. Financial implications

Revenue impacts

- 7.1 There are potential revenue impacts from implementing the required changes under IFRS, such as the requirement to accrue for the cost of carried forward annual leave and outstanding flexi-time.
- 7.2 The Council's 2010/11 budget is required to be prepared under IFRS. A watching brief will be maintained to ensure the officers are kept up to date of any mitigation regulations that are announced by the Government in order to apply these within the budget setting process.

Staff Resources

- 7.3 The introduction of the IFRS will be a significant challenge to the Council, as seen in the implementation within the private sector where their accounts on average have increased by 60% in content. Additional staff resources will be required to be diverted to the closure of the accounts process due to the increased complexity of the financial reporting required and the new information requirements. This will mainly impact on the Finance, HR, Procurement, Estates, Legal and IT departments of the Council.

- 7.4 The transition to IFRS will be challenging and will require the re-education of staff within the Finance department and other Services. This is due to different terminology, systems needing updating and amending, and the increased information collation requirements at the year end.
- 7.5 It is anticipated that additional professional training costs will be incurred to enable officers to keep up to date with the ongoing developments. Actions have already been taken to enhance the IFRS knowledge within the Council through the attendance of Finance officers at external IFRS implementation training courses.
- 7.6 Members of the Accounts and Regulatory Committee will be required to review and approve the first set of IFRS compliant accounts in June 2011 for the year ended 31 March 2011. Training will be provided for the members of this committee in June 2011, in preparation for this significant change in the financial reporting standards.

External audit fees

- 7.7 In December 2008, the Audit Commission published its work programme and scale of fees for 2009/10 and its indicative fee scales for 2010/11 and 2011/12. These provided for an increase in audit fees in all sectors to reflect the costs of the additional audit work arising from the transition to IFRS.
- 7.8 The Audit Commission has reported that there will be an average 3% increase in audit fees from the year of transition and in subsequent years, in order to reflect the cost of the additional audit work that will be required to be performed.

Financial management systems

- 7.9 The complexity of the accounting transactions and new presentational requirements under IFRS may need to be addressed through investment in new, or development of existing financial management systems. For example, the Council's fixed asset register is required to be upgraded in order to cope with the demands of the component accounting. Finance officers are currently working with their existing software providers to review and upgrade this system.

Valuation of fixed assets

- 7.10 The change in valuation basis under IFRS and the new requirement to perform component accounting will result in additional professional valuation fees being incurred by the Council.

8. Risk Management implications

- 8.1 Preparation for the implementation of IFRS is vital to ensure that the Council's accounts are prepared properly in accordance with IFRS and within the statutory deadlines. Failure to comply could lead to the Council's statement of accounts being qualified.
- 8.2 The production of high quality financial statements is a key component within the 'Financial reporting' theme in the Use of Resources assessment, which the Council is scored on each year. Failure to meet the IFRS requirements could lead to a poor Use of Resources score being awarded.
- 8.3 Discussions are currently being held with the Risk and Resilience Manager regarding adding the risks relating to the implementation of IFRS onto the Council's risk register.

9. Other Standard References

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

Background Papers

None.

