

Annual Audit Letter

Colchester Borough Council

Audit 2008/09

December 2009



audit
commission

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Status of our reports

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

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

This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your accounts and the results of the work I have undertaken to assess the way in which you use your resources.

Accounts

- 1** The Council is required to prepare and approve its accounts by 30 June 2009. The Council met that deadline. The accounts were mostly complete and were supported by a good set of working papers, which enabled me to complete my audit by the 30 September deadline.
- 2** Our audit did find some errors in the approved accounts. The Council agreed to correct one of these but officers chose not to amend for a number of others. These errors were not so significant as to distort the overall financial position of the Council. However, I reported these to the Council's Accounts and Regulatory Committee (as those charged with governance of the Council), who agreed with officers' decisions not to amend the accounts for those errors. The Committee formally provided me with their rationale for not adjusting the accounts for these errors.
- 3** As a result of my work, I concluded that the accounts 'presented fairly' the Council's financial position at 31 March 2009 (an unqualified audit opinion) and its income and expenditure for the financial year.
- 4** An enhanced reporting framework (International Financial Reporting Standards) is to apply to all Councils accounts in 2010/11. The Council have developed a project plan to implement these standards and is progressing with the implementation of this plan.

Use of Resources

- 5** We assess how the Council makes use of the resources at its disposal to provide local services. A national framework is applied to our assessment, with a score given between 1 (inadequate and below minimum standards) and 4 (performing strongly) in each of three key areas.
- 6** The Council is performing well overall (Level 3). It attained the following scores in our assessment:
 - level 3 in respect of the way it manages its finance;
 - level 2 (performing adequately) in respect of the way it governs the business; and
 - level 3 in respect of the way it manages its people

Managing finances

- 7 Alongside the change in administration, financial pressures and the implementation of a new strategic plan, the Council continues to manage and understand its finances, moving money around to deal with changes in priorities or specific pressures.
- 8 There is ongoing engagement with stakeholders and evidence of shifting resources to reflect the outcome of consultation. It has a service review process which ensures that its services take advantage of new technology and are value for money. In 2008/09 the Council achieved £1.3 million of efficiency savings
- 9 Senior management take both individual and collective responsibility for budget planning and monitoring.

Governing the business

- 10 The Council commissions and procures quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money and has a clear vision of intended outcomes.
- 11 The Council has adopted and promotes the principles of good governance, and has a clear purpose and vision and is committed to achieving this goal. There are strong governance arrangements in place internally however these need to be further extended to partnership working.

Managing resources

- 12 The Council plans, organises and develops its workforce effectively to support the achievement of its strategic priorities. It has a range of HR policies, its turnover is low, and there is a performance and review system and an effective procedure for staff absence. It also has a well organised workforce planning approach to ensure that people have the right skills for future developments.
- 13 As a result of my assessment, I concluded that the Council had proper arrangements in place for the way it manages its use of resources.

Other supporting work

- 14 We also undertook a piece of work looking at the financial and project management of the firstsite newsite project which supported use of resources judgements. We found the Council and its funding partners are taking action to address previous weakness, but risks to the successful delivery of the project remain and more could be done to address the issues in order to ensure timely and cost effective completion of the Visual Arts Facility.

Managing Performance

- 15 The Audit Commission also assesses how well the Council manages and improves its services and contributes to wider community outcomes. The assessment considers how successful the Council is in delivering its corporate priorities. The priorities have been drawn from what matters most to the local people.

Key messages

- 16** The Council scores 3 out of 4 for managing its performance (the scoring mechanism is as for Use of Resources). The managing performance score is 3 as the Council is delivering against its priorities.
- 17** The Council is using partnership to focus effectively on its neighbourhoods and deprived areas. For example the Council is tackling deprivation and inequality through the Life Opportunities programme. This has resulted in fewer people smoking and a drop in antisocial behaviour. It has responded to the recession well by using its SOS bus as a mobile advice centre. This has included providing debt advice.
- 18** The Council is working well to tackle antisocial behaviour with some initiatives delivering significant reductions in town centres. Waste recycling is improving and generally the streets are clean. The Council is also moving forward with its regeneration plans for Colchester. However, it has performed less well on re-letting its housing and on benefits processing performance.

Overall Organisational Assessment

- 19** The Use of Resources and Managing Performance assessments are combined to give an overall organisational assessment judgement for the Council. The Audit Commission has determined that the organisational assessment judgement for Colchester Borough Council is that it performs well.
- 20** The Council's Managing Performance and Organisational Assessment are being reported separately by the Audit Commission's Comprehensive Area Assessment Lead for Essex.

Financial Standing

- 21** The last year has seen the country enter a significant economic recession on the back of a global economic crisis triggered by the collapse of a number of high profile international banks.
- 22** The consequence locally, is an increasing demand for public services and the likelihood of reduced levels of central government funding. Together, these provide a significant challenge for local councils as they seek to continue to provide services to local residents, whilst maintaining a sound financial position.
- 23** The Council is responding to this challenge. The implications of the recession are understood and the challenges faced are being acknowledged by the Council as a whole. The latest financial strategy considers the impact of the economic downturn and addresses the funding shortfalls and increased demand for services identified.
- 24** The impact of the recession will continue to present a challenge to the Council in the coming financial year. I will continue to monitor the Council's response and actions in this key area.
- 25** Although the Council invested in Icelandic banks, the overall treasury management strategy is sound. The Council expects to receive compensation for 83 per cent of the £4 million invested and has sufficient reserves to cover the remaining loss.

Audit fees

- 26** I have been able to deliver and conclude my audit programme within the fee that I planned.

Independence

- 27** As the External Auditor appointed to audit the Council, I have to maintain my independence. I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Recommendations

- 28** I have made a number of recommendations within my Annual Governance and Use of Resources reports to further develop the arrangements in place at the Council.
- 29** The Council should monitor the implementation of these recommendations.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council's accounts for its stewardship of public funds.

- 30** I issued an unqualified opinion on the Council's accounts on 30 September 2009, thereby meeting the 30 September deadline set within the Accounts and Audit Regulations 2003. In my opinion the accounts present fairly the financial position of the Council as at 31 March 2009 and its income and expenditure for the year then ended.
 - 31** Before giving my opinion, I reported to those charged with governance, in this case the Accounts and Regulatory Committee on the issues arising from the 2008/09 audit. I issued my report on 22 September 2009.
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Accounting issues

- 32** The draft accounts were approved on 24 June 2009, prior to the 30 June deadline specified in the Accounts and Audit Regulations 2003.
 - 33** The working papers supporting the accounts were to a good standard and responses to queries and requests for additional information were helpfully and promptly dealt with by finance staff. There is still some scope for further improvements next year and these have been discussed with officers.
 - 34** The audit did not identify any material errors in the financial statements. However, a small number of amendments were made to ensure disclosure met the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2008.
 - 35** I did not identify any significant weaknesses in your internal control arrangements and the Council's annual governance statement was in accordance with requirements. The Council's internal audit team comply with the requirements of the CIPFA code. The financial systems underpinning the accounts continue to operate with generally sound controls in place.
 - 36** I presented my Annual Governance Report to the Accounts and Regulatory Committee on 24 September 2009, which included the full details of the issues arising from our audit of the accounts. I reported the adjusted and unadjusted errors that my audit had found. I requested that the Accounts and Regulatory Committee formally consider the audit errors, for which officers had chosen to not adjust.
 - 37** This consideration was formally recorded in a Letter of Representation to me, which allowed me to conclude my audit and issue my audit opinion.
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Certification of claims and returns

38 We certify the Council's claims and returns on the following basis:

- claims below £100,000 are not subject to certification;
- claims between £100,000 and £500,000 are subjected to a reduced, light-touch certification; and
- claims over £500,000 are subjected to a certification approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment leads to a reduced certification approach for these claims.

39 The Council's housing benefits, disabled facilities and base data returns required amendment prior to certification and a qualification letter was issued in relation to the housing base data return. The reasons for the amendments and the qualifications have been reported to officers and improvements to strengthen the Council's arrangements for the preparation of claims and returns have been agreed.

International Financial Reporting Standards

40 The national timetable for the implementation of International Financial Reporting Standards (IFRS) means that these will be first applied in the 2010/11 financial year. However, comparative figures for the 2009/10 financial year will be required.

41 Applying IFRS will have significant implications for the way in which local authorities prepare their annual financial statements. The Council has a detailed project plan in place, with clear roles and responsibilities, and progress is reported to the Finance and Scrutiny Panel. The intention is to restate the 2008/09 financial statements by the end of December 2009.

Value for money and use of resources

I considered how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources judgements

- 42** In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 43** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 44** The Council's use of resources theme scores are shown in Table 1 below.

Table 1 **Use of resources theme scores**

Use of resources theme	Scored judgement
Managing finances	3
Governing the business	2
Managing resources	3

- 45** The key findings and conclusions for the three themes, and the underlying KLOE, are set out in my detailed Use of Resources report. The key theme findings are summarised below.

Managing Finances

- 46** Alongside the change in administration, financial pressures and the implementation of a new strategic plan, the Council continues to manage and understand its finances, moving money around to deal with changes in priorities or specific pressures. The Council integrates its financial planning with its strategic and service planning; the Medium Term Financial Plan (MTFP) reflecting the strategic aims of the council and used to identify future budget gaps. However, the capital plan is not currently in line with the strategic plan. Budgets are proactively managed and were delivered in 2008/09.
- 47** There is a sound understanding of costs and performance, including wider implications such as social and environmental impact, with efficiencies being achieved. Costs and performance are considered as part of all decision making and commissioning and there is ongoing engagement with stakeholders and evidence of shifting resources to reflect the outcome of consultation. A full range of options for delivery are identified through service reviews to ensure that its services take advantage of new technology and are value for money. In 2008/09 the Council achieved £1.3m of efficiency savings. Cost benchmarking is not used routinely; however it is used as part of the budget setting process and as part of specific fundamental service reviews.
- 48** Timely, reliable and understandable financial monitoring and forecasting information is produced, with a traffic light system identifying areas for improvement, which is challenged by senior managers and members. Financial information is considered with performance information. Senior management take both individual and collective responsibility for budget planning and monitoring and each service group management team includes a senior service accountant representative to support managers and provide training. The 2008/09 accounts were prepared in accordance with requirements and supported by good quality working papers. Our audit identified no material errors but a number of non-trivial errors were found. The latest accounts and annual audit and inspection letter are available on the Council's website which meets all accessibility requirements.
- 49** The Council has arrangements in place to effectively manage its investments and its reserves and balances remain within prudent levels. A treasury management policy and strategy is in place, in line with CIPFA guidance, that clearly outlines the bodies where investments can be made. Although the Council invested in Icelandic banks, their overall treasury management strategy is sound.

Governing the Business

- 50** The Council commissions and procures quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money and has a clear vision of intended outcomes for local people which shapes its commissioning and procurement. The revised priorities included an exhaustive consultation process which ensured all sections of the population had their say. There is a clear system for options appraisal and all new decisions take account of whole life costing. There is a procurement review team and e-procurement has been implemented.

Value for money and use of resources

- 51** Data produced by the Council is relevant and reliable; however data quality policies have not been updated following the change to national indicators. A traffic light system is used to present performance information in a clear and concise way and there are good IT security arrangements in place and the Council achieved Government Connect Status.
- 52** The Council has adopted and promotes the principles of good governance, training is provided to all new members and it is making progress to obtaining East of England Regional Assembly Member Charter status, which is externally validated recognition of good practice in member development.
- 53** The Council has a clear purpose and vision and is committed to achieving this goal. It demonstrates a strong ethical commitment through its standards committee, information about which can be found on the website along with whistle blowing policies and how to make a complaint. Although strong governance arrangements are in place internally this needs to be extended to partnership working. The council has now developed a partnership register to strengthen arrangements and in response to the difficulties experienced in regard to the Visual Arts Facility.
- 54** There is an effective internal risk management system embedded within the organisation and a clear fraud and corruption strategy in place as well as a sound system of internal control, which is reviewed regularly by internal audit.

Managing Resources

- 55** The Council plans, organises and develops its workforce effectively to support the achievement of its strategic priorities. It has a range of HR policies, its turnover is low and there is a performance and review system and an effective procedure for staff absence. The Council has responded to staff survey feedback by providing more opportunities for engagement with management and there are examples of staff suggestions for improvement.
- 56** Workforce planning is comprehensive over the medium term enabling the council to be proactive about gaps and identifying improvement actions such as succession planning. The Council is also developing a longer term workforce plan.
- 57** It has also achieved Level 3 of the Equality standard and is working on improvement actions, having recruited a joint Diversity Officer with Colchester Homes.

VFM Conclusion

- 58** I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body.
- 59** Based on the Use of Resources assessment, which was linked to the criteria set out above, I was able to issue an unqualified conclusion, stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Colchester Visual Arts Facility review

- 60** I carried out a review looking at the financial and project management of Colchester's Visual Arts Facility (VAF) which provided me with assurance for my use of resources assessment. The aim of the review was to consider how learning from earlier project stages has been used to strengthen current planning and delivery. It also considered the funding position of the project and the robustness of future plans to ensure that the project is delivered and is fit for purpose.
- 61** Key conclusions were:
- the Council and its funding partners are taking action to address previous weaknesses in project delivery and assure the completion of the project. All funding partners are demonstrating a strong commitment to the completion of the project. They are increasingly engaged in the detailed monitoring of project delivery prioritising the understanding of completion costs and ensuring that value for money is achieved for the final stages of project delivery. Funding partners are providing additional resources to meet the estimated budget shortfall. Project management capacity has been enhanced through the appointment of a completion coordinator. Contractual arrangements to support the delivery of the supplemental contract to make the building secure and watertight have been strengthened. Action has been taken to improve communications although this is at an early stage; and
 - despite these actions, risks to the successful delivery of the project remain. Key decisions, such as roles and responsibilities in future project management and the allocation of contracts for the completion of the project, have yet to be taken. Professional disputes remain a significant risk - for example where there is a lack of agreement on the contractual relationship for their resolution such as the replacement of damaged cladding. Public perception of the project is currently poor and further delays to completion pose significant risks for funding partners.
- 62** High level recommendations have been made to the Council and its funding partners to ensure that:
- they have sufficient capacity to act as an intelligent client throughout the final phase of project;
 - there are robust costed plans for completion which are SMART and established on a robust and enforceable contractual basis;
 - risks and plans for their mitigation are accurately detailed and monitored in an open and transparent manner;
 - progress with the delivery of the plans, against allocated budgets, is monitored in an open and timely manner; and
 - improvements to communication lead to the sharing of consistent and accurate information about the project both internally and externally.
- 63** We will be undertaking a formal follow up next year.

Financial standing

- 64** The economic downturn and banking crisis is having a very significant impact on public finances and the bodies that manage them. The impact on treasury management strategies has been immediate, but there are wider and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes, including pressures on income streams.
- 65** There are further challenges for policy priorities where patterns of demand for services are changing. I have reflected on the wider environmental, specific issues and risks and the Council's response.
- 66** The financial position of the Council is becoming increasingly challenging, in particular for future financial periods (2009/10 onwards):
- increased use of balances to support the budget in 2009/10. The use of reserves has increased from £0.5 million to £1.5 million; and
 - medium term financial planning has identified funding gaps in the region of £1.5 million over the next two years, however there are a number of factors that may affect this forecast.
- 67** The Council is responding to this challenge; the medium term financial strategy considers the impact of the economic downturn and addresses the finding shortfalls identified. The implications of this are understood and the challenges faced are being acknowledged by the Council as a whole.
- 68** The Council invested a total of £4m in Icelandic banks in September 2008, which suffered a default following the collapse of the Icelandic banking system. The Council are awaiting confirmation that an agreement has been reached to compensate creditors of Landsbanki equal to (or exceeding) 83p in the pound. The Council has sufficient reserves to cover the remaining loss.
- 69** Though the economic downturn is presenting specific issues and risks to the Council, I am satisfied that it is taking appropriate steps to respond. However, this is an area I will continue to consider closely when assessing how the Council makes effective use of resources during my 2009/10 audit.

Audit fees

70 The audit has been delivered and concluded within the planned fee.

Table 2 Audit fees

	Actual	Planned	Variance
Financial statements and annual governance statement	£79,098	£79,098	£0
Use of resources and performance reviews 2007/08	£22,455	£22,455	£0
Review of VAF	£10,000	£10,000	£0
Data quality 2007/08	£9,504	£9,504	£0
Whole of government accounts	£3,263	£3,263	£0
Total audit fees	£124,320	£124,320	£0

Closing remarks

- 71** I have discussed and agreed this letter with the Chief Executive and the Head of Resource Management. I will present this letter at the Finance and Audit Scrutiny Panel on 26 January 2010 and will provide copies to all members.
- 72** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Table 3

Report	Date issued
Audit and inspection plan	May 2008
Opinion audit plan	December 2008
Review of Visual Arts Facility	April 2009
Annual Governance Report	September 2009
Opinion on the financial statements	September 2009
Value for money conclusion	September 2009
Annual audit letter	December 2009
Use of resources report	December 2009
Managing performance and organisational assessment	December 2009

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- 73** The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Availability of this letter

- 74** This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website.

Paul King
District Auditor
December 2009

The Audit Commission

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

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

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

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