

# Annual Audit Letter

**Colchester Borough Council**

**Audit 2009/10**

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

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

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

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# Key messages

**This report summarises my findings from the 2009/10 audit. My audit comprises two elements:**

- **the audit of your financial statements (pages 4 to 5); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 6 to 8).**

**I have included only significant recommendations in this report. The Council has accepted these recommendations.**

## Audit opinion and financial statements

**1** The Council is required to prepare and approve its accounts by 30 June 2010. The Council met that deadline. The accounts were complete and were supported by a good set of working papers, which enabled me to complete my audit by the 30 September 2010 deadline.

**2** My audit did find some errors in the approved accounts. The Council agreed to correct all of these with the exception of one. This error was not so significant as to distort the overall financial position of the Council. I was therefore able to conclude that the accounts give a 'true and fair' view of the Council's financial position at 31 March 2010 and its income and expenditure for the year and issue an unqualified audit opinion.

**3** The 2010/11 accounts will be based on International Financial Reporting Standards (IFRS) for the first time. The Council has been proactive in responding to the work needed to meet these new requirements and remain on track to deliver good quality IFRS-compliant accounts.

## Value for money

**4** I assess and conclude on whether the Council's arrangements to secure economy, efficiency and effectiveness in its use of the resources at its disposal to provide local services. This is known as the value for money (VFM) conclusion.

**5** I concluded that the Council met the required standards during 2009/10 for all of the eight criteria assessed. The Council continues to operate effectively and I identified areas of improvement. In particular, project

management of the Firstsite visual arts facility has significantly improved, although further challenges remain in the completion of the project.

## Current and future challenges

**6** The Council faces significant challenges in future years as a result of the general economic downturn and the comprehensive spending review, which has identified cuts in funding for councils over the next four years.

**7** The Council has been financially stable for a number of years with a reasonable level of both general and earmarked reserves. The Council's medium term financial strategy has identified savings to be made over the next three years of over £3 million. However, this will need to be reassessed in light of the spending review and further savings will be required.

**8** The Council invested in Icelandic banks, and currently expects to receive compensation for 95 per cent of the £4 million invested. Despite this investment, the overall treasury management strategy is sound and the Council currently has general and specific reserves and provisions of £6.6 million which could, if necessary, be released to cover a loss of up to £4 million.

# Financial statements and annual governance statement

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

**I gave an unqualified opinion on the Council's 2009/10 financial statements on 29 September 2010, ahead of the statutory target date.**

## Overall conclusion from the audit

**9** The draft accounts were approved on 29 June 2010, prior to the 30 June deadline specified in the Accounts and Audit Regulations 2003.

**10** The working papers supporting the accounts were again of a good standard and responses to queries and requests for additional information were helpfully and promptly dealt with by finance staff.

**11** I issued an unqualified opinion on the Council's accounts on 29 September 2010, thereby meeting the 30 September deadline set within the Accounts and Audit Regulations 2003. In my opinion, the accounts give a 'true and fair' view of the Council's financial position at 31 March 2010 and its income and expenditure for the year then ended.

**12** 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 2009/10 audit. I presented my report on 28 September 2010.

**13** 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.

**14** My report to the Accounts and Regulatory Committee included the full details of the issues arising from my audit, including the adjusted and unadjusted errors.

## Significant weaknesses in internal control

**15** I did not identify any significant weaknesses in your internal control arrangements. The annual governance statement was in accordance with requirements. The 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.

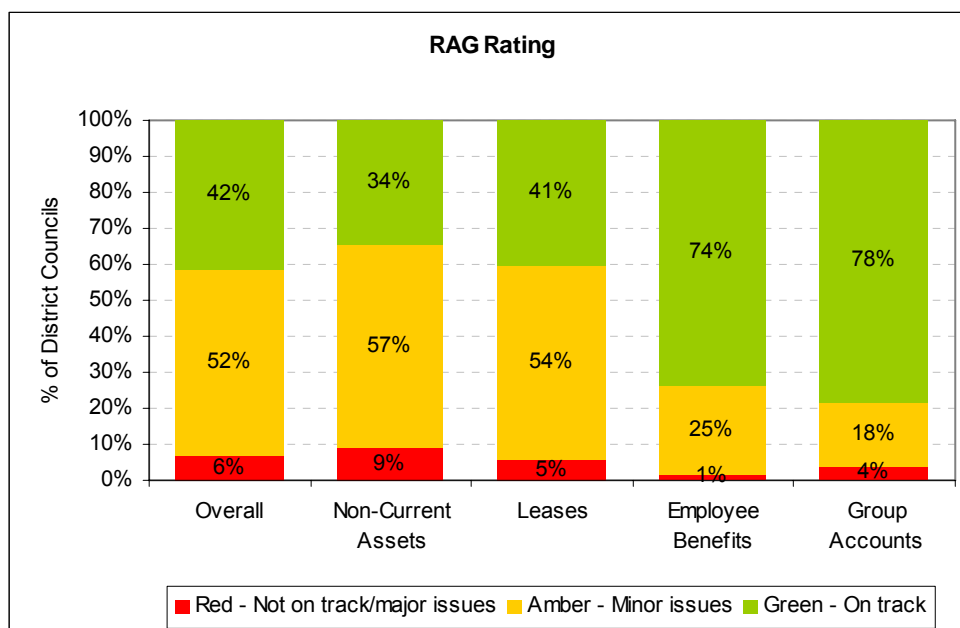
## International Financial Reporting Standards

**16** Local authorities have to produce their accounts under International Financial Reporting Standards (IFRS) for 2010/11. The Council has a plan to meet these new requirements and has reported progress to the Finance and Audit Scrutiny Panel, who challenge officers on progress made. The Council has taken a proactive approach to preparing for the introduction of IFRS and proposed methodologies have been shared with me at appropriate stages.

**17** The Audit Commission undertook a survey of auditors of all local authorities in summer 2010 to assess their readiness for IFRS. As part of this survey I rated Colchester as being on track to deliver good quality IFRS-compliant accounts on all areas assessed. The exception to this was non-current assets, where minor concerns were noted over the resources available within finance to produce the accounts by the end of the year.

Figure 1: **Overall readiness for IFRS**

Compared to other District Council, Colchester is well prepared



Source: Audit survey summer 2010

**18** The Council plans to restate the opening balance sheet at 1 April 2009 and the 2009/10 financial statements and produce a skeleton set of 2010/11 IFRS compliant accounts by 31 December 2010. This timescale will allow sufficient time for the external audit review of the work undertaken before the end of the financial year.

# Value for money

**I considered whether the Council is managing and using its money, time and people to deliver value for money.**

**I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.**

## 2009/10 use of resources assessments

**19** At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on Comprehensive Area Assessment (CAA) would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

**20** However, I am still required by the Code of Audit Practice to issue a value for money (VFM) conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

**21** I report the significant findings from the work I have carried out to support the VFM conclusion.

## VFM conclusion

**22** I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

**23** My findings are summarised in the following table:



Criteria	Adequate arrangements?
<b>Managing finances</b>	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
<b>Governing the business</b>	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
<b>Managing resources</b>	
Natural Resources	Yes

**24** I issued an unqualified conclusion stating that the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources. I reported my detailed conclusions on each of the areas in my Annual Governance Report.

**25** The Council continues to operate effectively in all areas previously assessed and has shown improvement, in particular through:

- the use of the fundamental service review process;
- the flexible working and accommodation project; and
- improvements in the work around the Firstsite and the learning demonstrated from this project (as referred to in paragraphs 31 to 36 below).

**26** My assessment of the Council's management of natural resources was new for this year and I concluded that the Council had proper arrangements in place. The Council has assessed its baseline and put in place an action plan to achieve targets covering energy, water, renewables and community leadership. Good progress has been made towards these targets. The Council's approach also covers sustainable procurement.

## Risk-based performance reviews

**27** To support my review of the value for money criteria outlined above, I undertook the following studies.

- Colchester Visual Arts Facility follow-up review; and
- Health inequalities follow up (Essex-wide review).

**28** I have reported my detailed findings to the Council in separate reports and have summarised the main findings below.

### **Colchester Visual Arts Facility (VAF) follow up**

**29** This follow up review evaluated progress against the recommendations of a previous review of the Firstsite project, a contemporary visual arts facility based in Colchester, published in April 2009. The review, which was undertaken in March 2010 considered progress on the project and its current funding position. In particular, it reviewed the ongoing commitment of partners to the funding arrangements and arrangements for alternative sources of funding if current arrangements failed. It also considered the robustness of future plans to ensure that the project is delivered and is fit for purpose.

**30** I reported my detailed findings to the Finance and Audit Scrutiny Panel in September 2010. This identified that there was increasing confidence amongst the funding partners and the Council that the first phase of the VAF project would be completed in the revised timescales and budget. Project management had also improved significantly and progress against agreed plans was good. Agreements in principle were in place to provide the additional resources required to complete the second and final phase of the project. My report recommended that the Council should ensure that:

- it has sufficient capacity to challenge all aspects of the delivery of phase 2 of the project;
- external communications and marketing relating to the VAF, and in particular its future use, are robust and inform the general public of the use and potential of the building; and
- it scrutinises the final stages of the project to ensure that it delivers value for money.

**31** As part of my 2010/11 audit work, I have revisited current progress as at October 2010. The first phase of the project (phase 1a) to make the building airtight and watertight has been completed within the revised timescales and budget. There is a consensus amongst funding partners that project management has significantly improved, as demonstrated by the good progress against agreed plans. The Council has agreed to use the current project managers to support the delivery of the second and final phases of the project. Progress has been made in agreeing contracts to deliver phase 2, which is providing increasing cost certainty for the project.

**32** Despite this, some significant risks remain in relation to the outcome of legal action and associated costs, plus the potential impact of further delays on costs and the future use of the buildings. Funding uncertainties due to government budget reduction for all funding partners may also affect delivery of the project.

**33**

### **Recommendation**

**R1** Ensure the recommendations raised in the VAF follow up report are

## Recommendation

implemented.

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### Health inequalities follow up

**34** The purpose of this follow up review was to assess the arrangements now in place across Essex to reduce health inequalities, to assess progress against our original recommendations and to identify what outcomes have been achieved.

**35** Overall, Essex public sector organisations have made good progress against our recommendations. In particular, improvements have been made in consolidating strategic approaches to deal with health inequalities, working together to develop operational arrangements to deliver the strategies and improving member awareness. Some issues require further attention, particularly in delivery, target setting and local performance monitoring. Work on health inequalities in Essex has led to mixed outcomes. However, there are many examples of innovative and targeted action to reduce health inequalities.

**36** Specific review of Colchester Local Strategic Partnership (LSP) concluded arrangements for tackling health inequalities have been significantly strengthened since our original review in 2007/08. Further improvements are needed, but there is already a much stronger base for delivery and impact on health inequalities in the future. Good progress has been made against our original recommendations and outcomes achieved. There is a well established Life Opportunities Plan tackling inequalities across the Borough and we also identified a number of examples of notable practice.

### Approach to local value for money work from 2010/11

**37** Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work for 2010/11.

**38** My future work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

**39** I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my work and the key messages for the Council in my annual report to those charged with governance and my annual audit letter.

# Current and future challenges

## Financial standing

**40** There are some significant risks to the Council's future financial resilience which will need to be addressed over the coming months.

**41** The government has made clear its priority to tackle the UK's deficit. On 24 May 2010, the Chancellor of the Exchequer and Chief Secretary to the Treasury announced the first step in tackling the deficit, setting out how the government intends to save over £6 billion from spending in 2010/11.

**42** The Comprehensive Spending Review reported on 20 October 2010 set spending limits for every government department for the period 2011/12 to 2014/15. This included annual funding reductions of 7.1 per cent for four years for local authorities (totalling approximately 28 percent over the four years in real terms). The Council will need to build the outcome of the spending review into its financial plans and revisit the assumptions contained in its Medium Term Financial Strategy (MTFS).

**43** The Council's latest MTFS, as reported to Cabinet on 30 June 2010, anticipated the impact of the spending review to be a cut in general government grants of 20 percent over four years in cash terms, bringing the Council close to the Government's figure. As a result of these assumptions, the Council aimed to make savings of £3.2 million over the next three years, with £2 million of the savings in 2011/12. £2 million represents about 8 per cent of the Council's net spending and a £3.2 million cut over three years represents an overall drop in net spending of 10 percent. Achieving these levels of savings will be a significant challenge to the Council and further savings will now need to be made to deliver the figures confirmed by the government.

**44** Uncommitted revenue balances at 31 March 2010 stand at £2.8 million, with a projected level of £2 million at the end of March 2011. This compares with the approved minimum balance of £1.5 million. The Council also maintains a number of earmarked reserves and provisions which allows it to plan for future expenditure requirements. As at 31 March 2010 earmarked reserves totalled £6.18 million and provisions £0.45 million.

**45** A more accurate assessment of the impact of the Comprehensive Spending Review will not be possible until the provisional financial settlement is announced in December 2010. It is therefore a time of uncertainty, but the cumulative effect of the savings required will be significant. It is therefore crucial that the Council identifies the areas where the significant savings will be required, and that the necessary tough decisions are made to deliver these savings.

**46** In addition, the Council invested a total of £4m in Icelandic banks in September 2008, and suffered a default following the collapse of the Icelandic banking system. The Council's general and specific reserves and provisions could be released to cover the loss of £4 million. However, the Council is awaiting confirmation that an agreement has been reached to compensate creditors of Landsbanki equal to (or exceeding) 95p in the pound, leaving a loss of £200,000.

## Recommendation


**R2** Continue to monitor the financial position closely and make the necessary tough decisions about services to balance the budget and respond to the government's comprehensive spending review.

## Benefit services

**47** The Audit Commission, under section 10 of the Local Government Act 1999 and in line with the Audit Commission's strategic principles, undertook an inspection of Colchester's Benefits Service (the Service) in June 2010.

This inspection assessed Colchester Borough Council as providing a 'fair', one star service with 'promising' prospects for improvement.

**Table 2: Scoring chart<sup>i</sup>**

	Prospects for improvement?					'a fair service that has promising prospects for improvement'
Excellent					A good service?	
Promising						
Uncertain						
Poor						
	Poor	Fair ★	Good ★★	Excellent ★★★		

*Source: Audit Commission*

**48** The Council is working hard to improve the service it provides to its customers, whilst at the same time reducing costs. The Council has embarked on a radical fundamental service review, which is designed to provide significant savings and a much improved service to its customers.

**49** Strengths of the service include:

**i** The scoring chart displays performance in two dimensions. The horizontal axis shows how good the service or function is now, on a scale ranging from no stars for a service that is poor (at the left-hand end) to three stars for an excellent service (right-hand end). The vertical axis shows the improvement prospects of the service, also on a four-point scale.

- it has an informed understanding of its customers' needs;
- it has well-established arrangements for consulting with partner organisations;
- it works well with partners to raise awareness of benefits in the community; and
- customers are dealt with quickly at the customer service centre.

**50** Weaknesses include:

- customers do not have their new claims, and changes to claims, processed quickly;
- people experience delays when contacting the service by telephone; and
- the results of benefit take-up campaigns are not always clear.

**51** To help the service improve, the inspection made a number of recommendations. These include:

- make the service more accessible to those who are, or may be, entitled to benefits;
- design the service to better meet the needs of all customers;
- improve value for money by ensuring that the fundamental service review delivers the intended efficiencies.

**52** The Council will need to respond to the recommendations raised to ensure delivery of the required improvements.

**53** Copies of the report are available from Colchester Borough Council or from the Audit Commission website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).

## Closing remarks

**54** 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 23 November 2010 and will provide copies to all Council Members by the end of November 2010.

**55** Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Council during the year.

Report	Date issued
Audit and inspection fee letter	April 2009
Audit opinion plan	March 2010
Colchester Visual Arts Facility follow-up	June 2010
Health inequalities follow up	September 2010
Annual governance report	September 2010
Opinion on the financial statements	September 2010
Value for money conclusion	September 2010
Annual audit letter	November 2010

**56** The Council has taken a positive and helpful approach to our audit. I wish to thank the Colchester Borough Council staff for their support and cooperation during the audit.

Debbie Hanson  
District Auditor  
November 2010

## Appendix 1 – Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	£84,250	£80,250	£4,000
Value for money	£43,090	£43,090	£0
Whole of government accounts	£2,530	£2,530	£0
<b>Total audit fees</b>	<b>£129,870</b>	<b>£125,870</b>	<b>£4,000</b>

**57** I reported in my 2009/10 Audit Opinion Plan that the revised audit fee for the 2009/10 audit was £129,870. This was an increase of £4,000 from the previously reported fee, due to the need for additional work on payroll costs as a result of the limited assurance internal audit report. I have been able to deliver and conclude my audit programme within that increased fee.



## Appendix 2 – Glossary

### Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

### Audit opinion

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

### Financial statements

The annual accounts and accompanying notes.

### Unqualified

The auditor does not have any reservations.

### Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

# Appendix 1 Action Plan

Recommendations	
Recommendation 1	
Ensure the recommendations raised in the VAF follow up report are implemented.	
Responsibility	
Priority	
Date	
Comments	
Recommendation 2	
Continue to monitor the financial position closely and make the necessary tough decisions about services to balance the budget and respond to the government's comprehensive spending review.	
Responsibility	
Priority	
Date	
Comments	