

Annual Audit Letter

Colchester Borough Council

Audit 2010/11



Contents



- Key messages.....3
 - Audit opinion and financial statements.....3
 - Value for money3
 - Current and future challenges3
- Financial statements and annual governance statement.....4
 - Overall conclusion from the audit.....4
 - Significant weaknesses in internal control.....4
- Value for money.....5
- Current and future challenges8
- Closing remarks11
- Appendix 1 – Fees12
- Appendix 2 – Glossary.....13

Traffic light explanation
Red  Amber  Green 

Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two elements:

- **the audit of your financial statements; and**
- **my assessment of your arrangements to achieve value for money in your use of resources**

Key audit risk	Our findings
Unqualified audit opinion	
Proper arrangements to secure value for money	

Audit opinion and financial statements

The changes arising from introducing International Financial Reporting Standards (IFRS) impacted on both the Council's preparation and my audit of the accounts. The Council adopted a positive approach to this challenged and engaged at an early and continuing basis with my staff. Only a few amendments were made to the accounts my audit. I was therefore able to issue an unqualified opinion and certificate on 30 September 2011.

The documentation and working papers supported the accounts were of a high standard, as they have consistently been in previous years.

Value for money

I issued an unqualified value for money conclusion stating the Council had proper arrangements:

- to secure financial resilience; and
- for challenging how it secures economy, efficiency and effectiveness.

Overall, the Council's arrangements are sound and, although the current financial position is finely balanced, this is being proactively managed. Over 50 per cent of the savings identified in the 2011/12 budget have already been delivered. The Council continually challenges spending on delivery of services, identifying areas where effective action can be taken and ensuring they provide best value for money. It has a good track record of delivering savings through Fundamental Service Reviews and other initiatives.

Current and future challenges

The Council has responded well to recent financial challenges and has a robust budget setting and financial management system. However the financial position for 2011/12 and future years remains challenging and needs to be kept under review. The planned legislative changes to housing financing, housing benefits and planning will have significant service and budgetary implications for the Council that will need to be considered as part of the ongoing development of the MTFF.

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.

Overall conclusion from the audit

I issued an unqualified opinion and certificate on the Council's accounts on 30 September 2011.

The move to IFRS set all councils the difficult task of reviewing their past accounting policies and accounts and restating them in the format required by IFRS. It also required the current year accounts to be prepared in the new format. The Council adopted a proactive approach to this challenge and engaged at an early stage with my staff. I only identified a few non-trivial errors in the accounts reflecting the success of the approach adopted. This is excellent performance in the context of the introduction of IFRS.

The errors which I set out in detail in my Annual Governance Report, relate to:

- separately disclosing pensions past service gains as an exceptional item on the face of the Comprehensive Income and Expenditure Statement (CIES);
- textual errors in the disclosure notes for Housing Revenue Accounts and Foreword to the accounts; and
- overstatement of a creditor accrual, which was not amended.

Other than the overstated creditor accrual, all other errors were corrected. None of the adjustments impacted on the usable reserves of the Council.

The documentation and working papers supporting the accounts continue to be of a high standard and overall the Council has maintained their level of performance at a time of major change.

Significant weaknesses in internal control

I did not identify any significant weaknesses in your internal control arrangements.

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.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

Value for money criteria and key messages

Criterion	Key messages
1. Financial resilience The organisation has proper arrangements in place to secure financial resilience. Focus for 2010/11: The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	<p>The Council continues to integrate its financial planning with its strategic and service planning processes. Key elements of the Council's arrangements are:</p> <ul style="list-style-type: none">■ the Performance Management Board and member scrutiny panels (FASP and SOSP) continue to provide the framework for making and reviewing financial decisions;■ the budget is a standing item on the Leadership Team's monthly agenda;■ there is a Budget Group which has an agreed project plan to manage the budget and schedules areas for consideration through the year;■ there is good understanding and routine challenge of financial assumptions and performance;■ Cabinet are provided with a clear budget strategy, Medium Term Financial Forecast (MTFF) and financial monitoring reports regularly; and■ there is a clear budget timetable which involves all necessary groups.

Criterion	Key messages
	<p>To support effective financial management the Council has:</p> <ul style="list-style-type: none"> ■ good systems, processes and controls in place, including effective risk management systems and a clear fraud and corruption strategy; ■ the Council fosters an environment of understanding difficult financial matters through providing officers and members with suitable training, for example on risk management and the wider financial climate; ■ the budget and MTFF are underpinned by the Strategic Plan priorities and seek to preserve and shift resources where needed to these priorities. Even so, the Council continues to face significant financial pressures from cuts in government funding and the continuing difficult economic climate; ■ for 2010/11, there was a clear savings and efficiency plan to deliver the balanced budget; ■ the Council has historically been able to achieve financial balance through robust monitoring and challenge of overspends on budgets or non-delivery on agreed savings. Over 50 per cent of the savings identified in the 2011/12 budget have already been delivered. However the financial position for 2011/12 remains challenging and needs to be kept under review; and ■ the Council has a consistent track record of delivering savings through Fundamental Service Reviews (FSRs) and other initiatives.
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>The Council continually challenges spending on delivery of services, identifying areas where effective action can be taken and ensuring best value for money is being achieved. This is done through the FSR process and detailed consideration of the MTFF. The FSR process analyses why and how a service is provided, identifies the scope for making efficiencies and then tracks how these are achieved. Recent FSRs have included the following.</p> <ul style="list-style-type: none"> ■ Street services – This review is looking at innovative functions which will improve services, for example organising street service staff in to seven zones, so they can better get to know their community and be more multiskilled. There will also be more local ability to respond to changes. A four day bin collection has also started. This has been welcomed by operatives and has resulted in the Council no longer having to pay overtime for bank holidays and no need to change collection days for residents because of bank holidays. This also frees up vehicles to be serviced on their day off or used for other activities. Savings of £400,000 are expected in 2011/12, with further recurring savings of £371,000 identified over the following two years.

Criterion	Key messages
	<ul style="list-style-type: none"> ■ Revenues and benefits – This review identified revenue savings of £118,000 in 2010/11 with an extra £185,000 agreed in the 2011/12 budget (which has already been delivered). For 2012/13, revenue savings of £150,000 are expected. In addition, the new service will deliver shorter benefits processing time and an improved customer service. ■ Housing – This review has identified estimated ongoing savings for the general fund for the next three years of £225,000 per year. The new service went live on 14 June 2010, and the savings have already been delivered for 2011/12. <p>There are more plans to undertake FSRs on sports and leisure, customers and support services. One of the key elements of the FSR process is involving stakeholders. The Council also consulted widely on the strategic plan which drives the approach to the budget.</p> <p>A range of services are delivered through shared services or joint arrangements where these arrangements can deliver savings or service improvements.</p> <p>The procurement strategy stresses partnership and collaboration, local trade, equality and diversity and sustainability. The Council is a member of the Essex procurement hub, which enables them to access specialist support and knowledge and increased buying powers. Several procurement exercises achieved savings in 2010/11.</p>

Current and future challenges

Economic downturn and pressure on the public sector	<p>The economic downturn is placing increasing pressure on the public sector as a whole. This is reflected in the:</p> <ul style="list-style-type: none">■ challenging Comprehensive Spending Review settlement;■ increasing demand for key services; and■ reduced ability of members of the public to pay for services. <p>The Council has responded well to these challenges and has a robust budget setting and financial management system.</p>
Joint arrangements / shared services	<p>Central government has identified joint arrangement and shared services as a key element in councils reducing their overall costs. The Council continues to develop its joint, partnership and shared service working. Several arrangements are already in place and more being considered.</p>
Icelandic banks	<p>In 2008/09, along with several other local authorities, the Council was affected by the collapse of Icelandic banking institutions with £4 million in short-term investments with one of the affected banks (Landsbanki Islands hf). The eventual amount that may be recovered from these investments remains unclear; although current expectations are that much of these investments will be recovered.</p> <p>The Council has followed the detailed guidance issued by the CIPFA Local Authority Accounting Panel on the likely recovery of these investments. The overall treasury management strategy is sound and the Council has general and specific reserves which could be released to cover any loss.</p>
Housing Revenue Account (HRA) self-financing	<p>Under the existing housing subsidy system, councils with housing stock have to prepare a notional Housing Revenue Account (HRA). This uses a set of predetermined factors for such items as maintenance costs and rental income to reflect the mix and age of the housing stock. In simple terms, if this notional account is in credit then the surplus is payable to central government and if in deficit an equivalent payment is made to the council to support the housing landlord role.</p>

The current year, 2011/12, is to be the last year of the existing system. Under a new financing system, councils will be responsible for financing of the HRA, and the existing system of grants and payments will end. To fund this, central government will pay some local authorities and for others that currently contribute to the scheme, they will transfer a debt liability. Early modelling of the likely outcomes shows the Council will be obliged to take on a significantly higher level of debt in return for keeping council house rents in the future. Over the long-term, the Council anticipates that it and local residents are likely to benefit from the new arrangements, but there will be associated risks relating to debt repayment.

The debt liability transfer, in the region of £72 million, is to take place on 28 March 2012.

Localism review

This Bill is expected to receive Royal Assent in early 2012 to allow the HRA self-financing proposals referred to above to continue. However, the Bill has far-reaching implications for local authorities including the following.

- Granting of a 'general power of competence', to provide councils with the legal power to do what is not specifically prohibited.
- New rights and powers for communities. These include:
 - 'community right of challenge' – would allow voluntary and community groups to express an interest in taking over and running local authority services; and
 - 'community right to buy' – local authorities to hold a list of community value assets and if wishing to dispose of them, community groups must have time to put together bids and finance.
- Planning system reforms including changes to the community infrastructure levy with a proportion going to neighbourhoods affected by the developments.

The full implementation of the provisions of the Bill will have significant service and budgetary implications for the Council that will need to be considered as part of the ongoing development of the MTFF.

Welfare reform

The Welfare Reform Bill was introduced in Parliament in February 2011. The Bill means significant changes to the welfare system. It introduces a 'universal credit' to replace several existing means-tested benefits and tax credits for people of working age, starting from 2013. These include housing benefit and council tax benefit, which councils run. The Bill follows the November 2010 White Paper, 'Universal credit: welfare that works', which set out the coalition government's proposals for reforming welfare to improve work incentives, simplify the benefits system and tackle administrative complexity.

Besides introducing universal credit and related measures, the Bill makes other significant changes to the benefits system. The changes that specifically affect councils include:

- limiting housing benefit entitlement for social housing tenants whose accommodation is larger than they need;
- up-rating of local housing allowance rates by the consumer price index; and
- capping of the total amount of benefit that can be paid.

The government has yet to confirm the detailed timescale over which the full move from the existing housing benefit and council tax benefit systems to the universal credit will take place. However, clearly this will have significant operational and resource implications for the Council.

More recently, the coalition government released a consultation paper on local support for council tax. This stated that council tax support would not form part of universal credit and would remain a local authority responsibility. The paper also set out the need for a 10 per cent cut in the existing level of support.

Closing remarks

I have discussed and agreed this letter with the Chief Executive, Interim Head of Resource management and the Finance Manager. I will present this letter at the Finance and Audit Scrutiny Panel on 22 November 2011 and will provide copies to all board members.

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.

Report	Date issued
Audit and inspection fee letter	April 2010
Audit opinion plan	February 2011
Annual governance report	September 2011
Auditor's report giving an opinion on the financial statements and value for money conclusion	September 2011
Annual audit letter	November 2011

The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and cooperation during the audit.

Debbie Hanson
District Auditor

November 2011

Appendix 1 – Fees

	Actual	Proposed	Variance
Scale fee	£139,550	£139,550	£0
Total	£139,550	£139,550	£0

In addition, the Council also received two rebates totalling £11,249 directly from the Audit Commission. This total rebate comprised £9,046 for the extra audit costs from the transition to IFRS and £2,203 for a reduction in the work on the value for money conclusion. The net fee therefore paid by the Council for the 2010/11 audit was £128,301.

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. It includes how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the points when I have completed my responsibilities for the audit of the period covered by the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my 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; and
- whether they have been prepared properly, following the relevant accounting rules.

International Financial Reporting Standards (IFRS)

Guidelines and rules set by the International Accounting Standards Board that companies and organisations follow when compiling financial statements. The creation of international standards allows comparison of financial statements with greater ease.

Opinion

If I agree the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm the statements give a true and fair view.

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 resources based on criteria specified by the Audit Commission.

If I find the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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