

**Report of Corporate Director, Resources (Section 151 Officer)****Statement of Accounts 2009/10 – subject to audit****1 Purpose of Report**

- 1.1 This report provides members with the annual Statement of Accounts showing an analysis of the Council's financial activity for the year ended 31 March 2010. It is a statutory requirement that this is presented and approved by the Council, or a delegated committee by 30<sup>th</sup> June each year.

**2 Executive Summary**

- 2.1 Members should note that at this point in the accounts closedown Finance are subject to external audit. The audit is due to commence on 24<sup>th</sup> July 2010 and an audited set of accounts will be presented to this Committee at its meeting on 28<sup>th</sup> September. Any changes identified by officers and / or external audit from the Accounts presented here will be highlighted to Members.
- 2.2 The Statement of Accounts is attached to this report at Appendix 1. The Accounts within the Income and Expenditure Account at pages 26 and 27, shows a deficit of £15.576m. This large negative balance is due mainly to the way local authority accounts for capital charges, such as depreciation, and is not the way the Council monitors its budget through out the year. After accounting for transfers to earmarked reserves and capital transactions the actual movement in the General Fund reserve is £1.8m, some £372k less than budgeted for in the revised budget. The £372k is the year end surplus position therefore after accounting for capital transactions. The detailed reasons for this have been reported to Members of the Resources Committee on 23<sup>rd</sup> June. Further explanation is also contained within the Foreword to the Accounts at pages 6 and 7 by the Corporate Director, Resources.
- 2.3 The Accounts have been prepared in accordance with the Council's Policies that were reported to the Audit & Performance Committee on 11<sup>th</sup> May 2010. The policies are set out at pages 14 to 25. The Accounts include:
- The Core Statements, including the Income & Expenditure, Balance Sheet and Cash Flow (pages 26 to 33)
  - Notes to the Accounts explaining further the figures within the Core Statements (pages 34 to 68)
  - The Collection Fund detailing income and expenditure on Council tax and NNDR (pages 69 to 72)
  - The Annual Governance Statement, this is also considered as a separate agenda item during this meeting (pages 73 to 86)
  - A glossary of terminology within the Accounts (pages 87 to 93)
  - Provision to provide feedback on the Accounts (pages 94 to 96)

### **3 Appendices**

Appendix 1: Statement of Accounts 2009/10 - subject to audit.

#### **4 Proposed Action:**

**Members of the Audit Committee are invited to RESOLVE to:**

- 4.1 Receive this report and approve the draft Statement of Accounts 2009/10 as submitted at Appendix 1 to this report, and receive the audited accounts at its next meeting on 28<sup>th</sup> September 2010.**

### **5 Background**

- 5.1 The Council has a statutory duty to produce an Annual Statement of Accounts. The Accounts and Audit Regulations 2003 require that the Annual Statement be formally approved by the Council or by a Committee of the Council on or before 30 June 2010. Council at its meeting on 11<sup>th</sup> May 2010 approved the establishment of an Audit Committee and the approval of the accounts is included within its terms of reference.

### **6 Discussion**

- 6.1 The format and content of the 2009/10 Accounts is very similar to those produced relating to 2008/09 with only relatively minor changes in the Statement of Recommended Practice (SORP). There has been one significant change to the format of the Accounts, that being the analysis and accounting for Council Tax and National Non Domestic Rates (NNDR). Unlike prior years the Council is now required to split out its element of these figures from the elements that relate to the County Council for Council Tax and the Government in respect of the NNDR Pool. As such the Council has had to include a large number of Prior Year Adjustments, and Members will note that a number of the 2008/09 columns are thus headed 'restated' for this fact.

#### Structure and Content of Statement of Accounts

- 6.2 The remainder of the report follows the order in the Statement of Accounts (SOA) and provides as simply as possible a brief overview and commentary on each section and an interpretation of any significant changes. There are of course more detailed notes and explanations within the SOA itself.

#### **Forewords by the Leader and by the Corporate Director, Resources**

- 6.3 These are set out on pages 2 to 11. The inclusion of a Foreword by the Leader reflects the significance and importance this Authority places on the Accounts and financial stewardship of public funds.

6.4 The inclusion of a Foreword by the Corporate Director, as Section 151 Officer, is recommended as it provides an opportunity to highlight significant issues and an interpretation and explanation of the accounts. It contains a summary of the revenue and capital expenditure incurred in 2009/10, a commentary on significant issues and a financial outlook for the future.

### Statement of Accounting Policies

6.5 These are set out on pages 14 to 25 and are seen as critical to an understanding of the accounts and these policies form part of the Audit Opinion. Accounting policies are the principles, bases, conventions, rules and practices applied by the Council.

6.6 The use of such policies effectively secures consistency in the financial figures being reported year on year. Effectively they specify how the effects of transactions and other events are to be reflected in its financial statements through recognising, selecting measurement bases for and presenting assets, liabilities, gains, losses and changes in reserves. The policies were approved by the Audit & Performance Committee at its meeting on 11<sup>th</sup> May 2010.

### Statement of Responsibilities

6.7 This is set out on page 12 and contains the respective responsibilities of the Council under local government legislation and other requirements as well as the Corporate Director, Resources own legal and professional responsibility for the accounts. The attention of Members is specifically drawn to the responsibilities of the Council as listed in the statement.

### Income and Expenditure Account (I&E)

6.8 This statement is set out on pages 26 and 27 and is fundamental to the understanding of the Council's activities in that it reports the net cost for the year of the functions for which the Council is responsible. It also demonstrates how that cost has been financed from general government grants. It brings together expenditure and income relating to all of the Council's functions. The main variations from 2007/08 net expenditure are as follows:-

Item	2008/09 £000	2009/10 £000	Explanation
Cultural and related services,	13,049	5,313	The main reason has arisen from a change from 2008/09 in the accounting practices adopted to redistribute revaluation, depreciation and impairment.
Highways, roads & transport and Non	1,681	4,171	
Distributed Costs	121	4,603	

<b>Item</b>	<b>2008/09 £000</b>	<b>2009/10 £000</b>	<b>Explanation</b>
Discontinued Operations	0	0	Reflects the closing of the Housing Revenue Account following transfer to Wellingborough Homes
Contribution to the Bad Debts Provision	125	0	Accounting treatment requires this to be charged to services, last year was incorrectly accounted for, this corrects that.
Interest and Investment Income	(2,401)	(1,069)	Reduction in income arising from fall in interest rates and use of investments to fund Capital Programme.
Pension Interest Costs	1,054	1,714	Increase in notional Pension Costs arising from Actuarial Review of Fund as at March 2010.
Revenue Support Grant	821	1,287	This change reflects the inclusion in 2009/10 of a number of specific grants into General Area Based Grants not included in 2008/09

### **Statement of Movement on General Fund Balance**

- 6.9 A detailed note to the Statement is provided on page 27 in support of the figures contained. This statement shows the overall position for the Authority and contains a deficit of £15.6 million which is the net additional amount required by statute and non statutory proper practices to be debited or credited to the balances for the year after adjusting for capital accounting entries such as depreciation.
- 6.10 The impact is that the General Fund Balance shows a reduction of £1.8 million compared to an anticipated £2.2 million when the 2009/10 budget was set. This reflects a £372k underspend on services. Further detail on the underspends is set out in the Corporate Director, Resources Foreword at Pages 6 and 7 of the Accounts, and were reported in detail to Resources Committee on 23<sup>rd</sup> June 2010.

The Accounts report an overall year end position of £5,833 million of general balances.

## **Statement of Total Recognised Gains and Losses (STRGL)**

6.11 This statement as set out on page 29 brings together all the gains and losses of the Authority for the year and shows the aggregate increase or decrease in its net worth. In addition to the position generated on the Income and Expenditure account it also includes any gains or losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

## **Balance Sheet**

6.12 This is set out on pages 30 and 31 and is fundamental to the understanding of the Council's financial position at the year-end. It shows the balances and reserves at the Council's disposal and its long-term indebtedness and the fixed and current assets employed in its operations together with summarised information on the fixed assets held.

6.13 There are detailed notes on various items as required by the SORP to help explain the changes and provide an explanation of significant items within the Balance Sheet. The main variations year on year are shown as part of the explanatory foreword.

## **Cash Flow Statement**

6.14 This is set out on pages 32 and 33 summarising the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. Cash is defined for the purpose of this statement as cash in hand and deposits repayable on demand less overdrafts repayable on demand.

6.15 There are detailed notes to help explain the changes and provide an explanation of significant items within the Cash Flow.

## **Notes to the Core Financial Statements**

6.16 These are set out on pages 34 to 68 and are intended to help to give clarity to the figures contained within the statements and are there to assist stakeholders in understanding the accounts of the Authority. The notes provided are as per the SORP requirements and so there is little opportunity to summarise and shorten them. Areas to highlight are:-

Note (Officer emoluments) –  
7 This shows the number of officers in receipt of remuneration of more than £50,000. The level of detail disclosed has been increased in line with SORP requirements to provide greater openness and transparency.

Note (Related party transactions) –  
9 This shows the officers and Members who have had related party transactions during 2009/10.

Note (Audit costs) –  
11 This shows the level of external audit costs which have risen slightly in 2009/10.

Notes (Provisions and Reserves) –  
28 to This details the provisions made and reserves held by the  
30 Council. The nature of the provisions/ reserves is broadly unchanged though the values have altered. A number of Earmarked Reserves have been created as approved by Council in setting 2009/10 budget (Housing Planning and Development Grant and Section 38 Grants).

(Local Government Pension Scheme) –  
Note This note sets out the position on the managed Pension Scheme  
33 as it relates to this Authority. The deficit has increased by nearly £18m over the last year to £40m at 31 March 2010. This is due mainly to £16m adjustment to the actuaries forecast of investment income as a result of the downturn in the stock market. Contribution levels have been set to recover this deficit over a 20 year period and required employers rates will be reviewed following the next triennial review of the fund scheduled for 2010.

### **Collection Fund**

- 6.17 This is set out on pages 69 to 72 and reflects the statutory requirements for billing authorities to maintain a separate Collection Fund which shows the transactions for non-domestic rates and the council tax. It also illustrates the way in which these have been distributed to preceptors and the General Fund. As stated the analysis of Council Tax and NNDR has been changed by the SORP for 2009/10 and the 2008/09 figures have been restated to provide a meaningful comparison.
- 6.18 There are detailed notes to help explain the changes and provide an explanation of significant items within the Collection Fund. The closing balance at the end of 2009/10 is £244k deficit.

### **Annual Governance Statement**

- 6.19 This, as set out on pages 73 to 86, will be considered as a separate agenda item during this meeting. The statement sets out the framework within which financial control is managed and reviewed and the main components of the system, including the arrangements for internal audit. The statement reports on any identified weaknesses and the actions undertaken to rectify these.

## **Glossary**

- 6.20 This is detailed on pages 88 to 94 and does not form part of the Audit Opinion. A Statement of Accounts inevitably contains technical language and a brief glossary has been provided to help explain some of the terms used.

## **Feedback Questionnaire**

- 6.21 This can be found on pages 94 to 96 and is included for the first time to encourage views and comments to be returned by stakeholders.

## **Audit Process and Reporting**

- 6.22 Officers have been in regular contact with the External Auditor (Audit Commission) who will formally commence his audit on 24<sup>th</sup> July. This is scheduled for completion by 30<sup>th</sup> September this year and, as such, the statement presented here is currently unaudited.
- 6.23 The Accounts will be made available for public inspection for a period of 20 working days from a date to be agreed with the External Auditor. These arrangements will be advertised in the local press.
- 6.24 The outcome of the external audit will be reported to the Audit Committee at its meeting on 28<sup>th</sup> September alongside their report on items that they believe the Committee needs to consider.

## **7 Legal Powers**

- 7.1 Regulation 7 of the Accounts and Audit Regulations 2003 requires the Council to prepare a Statement of Accounts each year in accordance with proper practices. Regulation 10 provides that the Statement has to be approved by the Council or a committee of the Council on or before 30 each year. Following the approval, the Chair presiding at the meeting shall sign and date the Statement. The function of approving the annual statement has been delegated to the Audit Committee.
- 7.2 Regulations 11-19 set out the requirements for the publication of the Accounts, the audit process, public inspection of the Accounts and related matters.
- 7.3 This report and the recommendation fulfils these statutory requirements.

## **8 Financial and Value For Money Implications**

- 8.1 The Council's financial performance, including the accuracy of its annual financial statements, alongside the maintenance of a sound level of reserves and effective monitoring of the Council's financial performance are important factors in supporting the delivery of the Council's priorities. In particular providing efficient and responsive services.

## 9 Risk Analysis

<b>Nature of risk</b>	<b>Consequences if realised</b>	<b>Likelihood of occurrence</b>	<b>Control measures</b>
Error in reported position	Qualified audit opinion  Changes in Service outturn positions and reserves	Possible as whilst there has been a robust quality assurance a number of corrections relating to fixed assets are still being finalised.	Further quality assurance and version control to track amendments.  Amendments tabled to Committee

## 10 Implications for Resources

10.1 No specific implications.

## 11 Implications for Stronger and Safer Communities

11.1 No specific implications.

## 12 Implications for Equalities

12.1 No specific implications

## 13 Author and Contact Officer

Richard Micklewright, Corporate Director Resources  
Michael Hudson, Interim Head of Accountancy  
James Hopwood, Senior Management Accountant

## 14 Consultees

CMT/OMT

## 15 Background Papers

Financial Services working papers.

**Audit Committee**

**29<sup>th</sup> June 2010**

**Report of the interim Head of Accountancy**

**International Financial Reporting Standards – Implementation Plan**

**1 Purpose of Report**

1.1 This report explains the Authority's progress in preparing for the changes introduced by the introduction of International Financial Reporting Standards (IFRS) introduction on our statement of accounts for 2010/11 and future years. At the Audit and Performance Committee 11<sup>th</sup> May 2010 Members requested sight of the Authority's plan to implement the changes to ensure Wellingborough was on target to meet the new requirements.

**2 Executive Summary**

2.1 This report includes a detailed action plan for the implementation of the changes necessary to meet the requirements of IFRS in time for the production of the 2010/11 Statement of Accounts. This highlights that significant work is required to be undertaken between now and October 2010 in order to be prepared.

**3 Appendices:**

Appendix 1 – IFRS Implementation Plan

**4 Proposed Action:**

**Members of the Audit Committee are invited to RESOLVE to:**

**4.1 Receive this report and approve the implementation plan, subject to scrutiny at the meeting, and receive an update at its next meeting (28<sup>th</sup> September 2010).**

**5 Background**

5.1 In 2010/11 local authorities will publish their first full set of IFRS-compliant accounts for that financial year. The transition requires councils to restate their opening and closing balance sheets for 2009/10, and accounting policies in line with IFRS.

5.2 Traditionally public sector accounts have been slightly different to those used in the private sector. Going forward the UK Government made a commitment that the UK public sector would move towards standardisation in practices and formats between all sectors. To this end the International Accounting Standards Board (IASB) have developed a set of accounting standards – IFRS that will apply to local authorities from April 2010. However, to ensure the 2010/11 accounts show comparative figures for 20089/10 Wellingborough needs to collect the information now. A paper to the Audit and Performance Committee (11<sup>th</sup> May 2010) set out some of the key changes and impacts for the Authority.

## **6 Discussion**

6.1 Councils will publish their first full set of IFRS-compliant accounts for the financial year of 2010/11. The major changes IFRS bring relates to the accounting for:

- Lease classification;
- Assets recognition and valuation; and
- Employee benefits (Pension and holiday pay).

6.2 Benefits of the above changes will include:

- Better decision making process resulting from the availability of more accurate management information,
- Greater consistency and improve comparability across the global economy and to follow private sector best practice in the UK public sector.
- Improved & robust accounting processes, which will lead to the production of an unqualified set of accounts

6.3 The move to IFRS is mandatory and will require BCW employees of other departments to work with accountancy in identifying and collecting information about all affected areas and items within the accounts. This information gathering is critical to the success of the transition.

6.4 To assist in the preparation for IFRS officers have set up a project group to oversee the introduction. In addition, support has been commissioned from KPMG. This work has commenced and officers have completing the production of a programme of work. The plan of implementing the changes is attached in detail at Appendix 1 to this report. The key issues this identifies are:

- Need to discuss the arrangements early with our external auditors.
- Provide training on the implications of IFRS to teams wider than Finance.
- Develop a skeleton set of Accounts and identify any other issues not within the implementation plan as a result.
- Review our level of information around component accounting.
- Carry out a review of all contracts and leases, as well as the process for recording contracts and leases.
- Calculate the employee benefits accrued at 1st April 2009 and 31<sup>st</sup> March 2010.

6.5 It is proposed that regular updates on progress are reported to this Committee going forward.

## 7 Legal

7.1 The Authority is required to approve its accounts for audit by 30<sup>th</sup> June each year. This report is part of that process.

## 8 Financial and Value For Money Implications

8.1 The main financial implications of this transition are

- (a) Cost of external support.
- (b) Training cost for staff members.
- (c) Extra work could potential lead to over time payments if tasks cannot be completed within normal working hours.
- (d) Future training cost on new IFRS standards.

8.2 These costs have been included within the 2010/11 budget for Accountancy and will be monitored through that service.

## 9 Risk Analysis

<b>Nature of risk</b>	<b>Consequences if realised</b>	<b>Likelihood of occurrence</b>	<b>Control measures</b>
Qualified opinion on the accounts.	Qualified set of Accounts. Damage to reputation Incomparable set of accounts	Low	Early engagement of external audit and quality assurance to SORP.
Failure to produce IFRS compliant statement of accounts.	Qualified set of Accounts. Damage to reputation Incomparable set of accounts	Low KPMG commissioned to do an impact assessment.	Action IFRS transition plan. Set up project team to implement monitor & control plan.

## 10 Implications for Resources

10.1 Accountancy will have to work with other members of staff within the council to collect all relevant IFRS information and help with the impact assessment and transition. There is a cost associated with the employing of extra help to lead transition.

10.2 IT and other systems and procedures may need to be changed to support implementation.

10.3 Staff members with allocated tasks will have to accommodate extra work during normal working hours.

10.4 Training will need to be provided for staff and this may involve time away from work stations as well as money.

11 **Implications for Stronger and Safer Communities**

11.1 None

12 **Implications for Equalities**

12.1 None

13 **Author and Contact Officer**

Michael Hudson – Interim Head of Accountancy

14 **Consultees**

Richard Micklewright – Corporate Director, Resources

15 **Background Papers**

CIPFA SORP 2009/10 Guidance

How local authorities can prepare for the introduction of IFRS in 2010/2011

## Appendix 1



INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

# Borough Council of Wellingborough IFRS implementation plan

14 May 2010

ADVISORY

# Implementation plan – Corporate accounting

In this report we have set out the steps the Council should undertake in order to produce IFRS compliant accounts in 2010/11. The plan includes setting up project management arrangements; evaluating the impact of applicable standards in terms of accounting & reporting; systems and processes; training; and carrying out the initial conversion. The timing and lead officer responsible for delivering each step have been agreed with the Corporate Director of Resources and the Financial Services team:

Step	Suggested key actions	Timing	Lead Officer
1. <b>Implement project management arrangements</b>	<ul style="list-style-type: none"> <li>Establish a project team.</li> <li>Identify key staff.</li> <li>Agree work streams, key milestones and arrangements for reporting to those charged with governance.</li> <li>Assess resources required for conversion project and allocate tasks and delivery deadlines to lead individuals.</li> <li>Schedule regular project team progress meetings until project completion.</li> </ul>	30 April 2010	MH
		30 April 2010	MH
		14 May 2010	IFRS Project Team
		14 May 2010	IFRS Project Team
		14 May 2010	IFRS Project Team
2. <b>Reporting to the Audit &amp; Performance Committee</b>	<ul style="list-style-type: none"> <li>Communicate results of impact assessment to Audit &amp; Performance Committee members.</li> <li>Update Audit &amp; Performance Committee members with the findings from the project at each subsequent meeting until end of conversion project.</li> </ul>	11 May 2010	MH
		Ongoing starting in May 2010	MH
3. <b>Liaise with external auditors</b>	<ul style="list-style-type: none"> <li>Arrange a kick-off meeting to discuss project approach and views on materiality with external auditors.</li> <li>Schedule regular progress meetings going forward to update on progress and discuss issues arising.</li> <li>Agree date for audit of restated opening balance sheet.</li> </ul>	30 May 2010	MH
		Ongoing	Finance Team
		30 June 2010	MH
4. <b>Training</b>	<ul style="list-style-type: none"> <li>Provide relevant IFRS training to Financial Services, Property, IT, Operational Management Team, Executive Management Team, Audit &amp; Performance Committee, Resources Committee and other staff as necessary                             <ul style="list-style-type: none"> <li>The training will initially be focused on staff responsible for information that has a financial consequence.</li> <li>The training will then impact on other roles as determined by the IFRS Project Team, on the basis of the impact that IFRS will have on other roles. (This will specifically focus on issues non-finance staff need to consider when for example developing entering new contracts, leases etc).</li> </ul> </li> </ul>	June 2010 onwards	IFRS Project Team
		September 2010 onwards	IFRS Project Team
5. <b>IAS 1 - Presentation of financial statements</b> <b>IFRS 1 – First time adoption of IFRS</b>	<ul style="list-style-type: none"> <li>Review and update wording of accounting policies for adjustments between the SORP and the Code.</li> <li>Review disclosure requirements per the Code.</li> <li>Identify additional information required for disclosures.</li> <li>Prepare a summary of the changes in accounting policies for presentation to the Audit &amp; Performance Committee.</li> </ul>	30 June 2010	JH
		30 June 2010	JH
		16 July 2010	JH
		16 July 2010	JH/MH

# Implementation plan – Corporate accounting

Step	Suggested key actions	Timing	Lead Officer
6.	<p><b>IAS 1 - Presentation of financial statements</b></p> <p><b>IFRS 1 – First time adoption of IFRS</b></p> <ul style="list-style-type: none"> <li>Review the chart of accounts to ensure that the language changes take place on all relevant lines.</li> <li>Develop a complete skeleton Statement of Accounts under IFRS.</li> <li>Review the format of the management accounts to ensure that changes to the chart of accounts are effectively implemented.</li> <li>Start collecting the required information for preparation of the restated 1 April 2009 balance sheet.</li> <li>Start updating systems and processes to ensure relevant data will be captured to be able to prepare accounts under the Code for the year ended 2009/10.</li> </ul>	<p>30 July 2010</p> <p>30 July 2010</p> <p>30 September 2010</p> <p>May – September 2010</p> <p>September/October 2010</p>	<p>IS</p> <p>IS</p> <p>JH</p> <p>As per later sections of this plan.</p> <p>As per later sections of this plan.</p>
7.	<p><b>IAS 7 – Cash Flow Statements</b></p> <ul style="list-style-type: none"> <li>Analyse short-term investments to identify any cash equivalents for presentation in the balance sheet.</li> </ul>	30 June 2010	JH
8.	<p><b>IAS 20 – Accounting for government grants and disclosure of government assistance</b></p> <ul style="list-style-type: none"> <li>Review the accounting treatment required per the Code in relation to government and non-government grants and contributions.</li> </ul>	10 September 2010	JH
9.	<p><b>IAS 40 – Investment property</b></p> <ul style="list-style-type: none"> <li>Review the definition of an investment property to determine whether any assets currently recognised as operational assets should be accounted for as investment properties.</li> </ul>	14 May 2010	RM/MH
10.	<p><b>IFRS 5 – Non-current assets held for resale and discontinued operations</b></p> <ul style="list-style-type: none"> <li>Review surplus assets held for disposal against Code requirements.</li> <li>Where assets previously classed as operational assets meet the criteria of assets held for sale, calculate the impairment loss on a write down to fair value.</li> </ul>	<p>10 September 2010</p> <p>10 September 2010</p>	<p>RK/WT</p> <p>WT</p>
11.	<p><b>IFRS 8 – Operating segments</b></p> <ul style="list-style-type: none"> <li>Prepare a segment reporting analysis and reconcile to the BVACOP analysis.</li> </ul>	03 September 2010	JH

# Implementation plan – Corporate accounting

Step	Suggested key actions	Timing	Lead Officer
12. <b>Restate 2008/09 accounts &amp; prepare restatement working papers</b>	<ul style="list-style-type: none"> <li>Agree the format of working papers required by audit to support restatement. Confirm audit fees for audit of opening balance sheet.</li> <li>Prepare &amp; submit restated 1 April 2009 opening balance sheet</li> <li>Prepare a working paper showing the UK GAAP audited figures in the left column, the IFRS numbers in the right column and the movements between the two in a middle column.</li> <li>Each movement in the middle column should be supported by a further working paper and cross referenced to supporting documentation.</li> </ul>	2 July 2010 September/October 2010	MH/JH As per relevant section of the plan
13. <b>Audit of opening balances</b>	<ul style="list-style-type: none"> <li>External auditors to audit restated 1 April 2009 opening balance sheet.</li> <li>External auditors to audit restated 2009/10 comparatives by 30 October 2010.</li> <li>Obtain Audit &amp; Performance Committee approval for restated 2008/09 IFRS accounts.</li> </ul>	30 October 2010	MH (from Council perspective)
14. <b>Prepare and restate 2009/10 accounts</b>	<ul style="list-style-type: none"> <li>Compile 2010/11 and later budgets on IFRS basis, building on restatement and updated guidance.</li> <li>Prepare 2009/10 accounts under 2009 SORP.</li> <li>Prepare 2009/10 Whole of Government Accounts pack.</li> <li>Restate 2009/10 accounts under IFRS incorporating results of the actions identified in the other work streams.</li> <li>Prepare a reconciliation schedule of all the re-classification adjustments between the 2009 SORP and the IFRS-based Code.</li> </ul>	27 August 2010 30 June 2010 30 August 2010 30 October 2010 30 October 2010	MH MH MH MH MH
15. <b>Prepare 2010/11 accounts compliant with the Code</b>	<ul style="list-style-type: none"> <li>Conduct post implementation review.</li> <li>Incorporate learning points from 2009/10 into the closedown plan for 2010/11</li> <li>Prepare 2010/11 accounts under IFRS-based Code (with 2009/10 comparatives)</li> </ul>	October 2010 November 2010 January 2011 onwards	RM/MH MH/JH MH

# Borough Council of Wellingborough

## Implementation plan – Capital accounting

Step	Suggested key actions	Timing	Lead Officer
1. <b>Reviewing/setting policies</b>	<ul style="list-style-type: none"> <li>Review current arrangements/policies towards the 'commercial assets' – operational or non-operational.</li> <li>Determine approach to revaluation and document the approach (ensure componentisation requirements are considered).</li> <li>Review valuation basis of assets and ensure these are consistent with the Code.</li> <li>Consider the degree to which componentisation will be required for relevant assets.</li> <li>Discuss above approaches/policies with the external auditors.</li> </ul>	14 May 2010 31 May 2010  31 May 2010 31 May 2010 18 June 2010	RM/MH RV/RK  WT RV/WT/RK MH
2. <b>Accounting for capitalisation</b>	<ul style="list-style-type: none"> <li>Review Code requirements in detail and provide updated guidance to budget holders on which costs can be capitalised under the Code (guidance will need to consider capitalisation already taken place on 10/11).</li> <li>Review the capital programme to determine any significant enhancement and replacement schemes which may be eligible for capitalisation.</li> <li>Identify assets to be revalued on the basis of the approach to revaluation and considering the requirement for componentisation.</li> <li>Formulate policies and procedures for component accounting.</li> <li>Engage with valuer to undertake required valuations.</li> </ul>	31 May 2010  31 May 2010  11 June 2010 11 June 2010 30 June 2010	RK/WT  RK/WT  RV/RK/WT RV/RK RV
3. <b>Fixed asset register</b>	<ul style="list-style-type: none"> <li>Ensure that the asset register is able to comply with the requirement for component accounting or consider other options.</li> </ul>	20 August 2010	WT
4. <b>Restatement</b>	For property, plant and equipment, investment properties, impairments, non current assets held for sale, the Council need to: <ul style="list-style-type: none"> <li>Restate opening IFRS Balance Sheet as at 01 April 2009</li> <li>Restate comparative figures for 2009/10</li> </ul>	September/October 2010	WT/RK

# Implementation plan – Contracts and leases

Step	Suggested key actions	Timing	Lead Officer	
1.	<b>Identification of contracts, leases and service concession arrangements</b>	<ul style="list-style-type: none"> <li>Establish work undertaken on identifying all leases and progress work where this is not complete.</li> <li>Identify key contracts by reviewing the Connect Law deed list.</li> <li>Agree methodology for the review of contracts and leases, including materiality levels, with external auditors</li> <li>Review contracts to determine whether they include embedded leases.</li> <li>Review of contracts for potential arrangements that may need to be accounted for differently under IFRS (including service concession arrangements).</li> <li>Review the contracts register held by finance</li> <li>Collate a register of all material contracts arrangements.</li> <li>Undertake 'brainstorm' session with key senior officers to identify key contracts and building usage that may not have been identified from above.</li> <li>Obtain a listing of all current lease contracts, in the format shown in Appendix 1, for:                             <ul style="list-style-type: none"> <li>Where the Council is lessor; and</li> <li>Where the Council is lessee.</li> </ul> </li> </ul>	14 May 2010 28 May 2010 18 June 2010 30 June 2010 30 June 2010 30 June 2010 30 June 2010 30 June 2010 30 June 2010 30 June 2010 30 June 2010 30 June 2010 30 June 2010	RK CP MH CP/RK CP/RK MH/RK CP/RK CP IS/RK IS/RK
2.	<b>Assessment of contracts, leases and service concession arrangements against IAS 17, SIC 15, SIC 27, IFRIC 4, IFRIC 12</b>	<ul style="list-style-type: none"> <li>Review all leases identified to determine if they should be accounted for as an operating lease or finance lease.</li> <li>For all leases judged to be finance leases under IFRS, calculate the asset and liability to be recognised in the opening balance sheet.</li> <li>Complete review of material contracts to determine whether they contain embedded derivatives.</li> <li>For those contracts judged to contain embedded derivatives complete summary accounting working papers to indicate fair value and recognition within the accounts.</li> <li>Establish procedures to ensure that all contracts that are signed in the future are reviewed by an appropriate staff member to note if the contract contains embedded derivatives.</li> </ul>	31 July 2010 31 July 2010 30 June 2010 31 July 2010 31 August 2010	IS IS CP/RK IS CP/RK
3.	<b>Calculation of accounting entries</b>	<ul style="list-style-type: none"> <li>Review annual lease payments and apportion them between finance charge and reduction of the liability.</li> <li>Calculate the depreciation charge for the assets acquired under lease arrangements.</li> <li>For all leases judged to be finance leases under IFRS, prepare accounting working papers to indicate profile, revised treatment of the annual payments and the double entry for capitalisation.</li> </ul>	31 August 2010 31 August 2010 31 August 2010	IS IS IS
4.	<b>Restatement</b>	For both where the Council is the lessee and lessor: <ul style="list-style-type: none"> <li>Restate opening IFRS Balance Sheet as at 01 April 2009</li> <li>Restate comparative figures for 2009/10 (lease taken out prior to 1 April 2009)</li> <li>Restate comparative figures for 2009/10 (lease taken out during 2009/10)</li> </ul>	September/October 2010   	IS/RK   
5.	<b>Arrangements going forward</b>	<ul style="list-style-type: none"> <li>Establish process to keep contracts register up to date.</li> <li>Review and assess all new contracts entered into after 1 April 2010.</li> </ul>	31 August 2010 30 November 2010	RM/MK/RL IS

# Implementation plan – Employee benefits

Step	Suggested key actions	Timing	Lead Officer
1.	<b>Preparation for the calculation of outstanding leave accrual – opening and closing figures for 2009/10</b> <ul style="list-style-type: none"> <li>Prepare spreadsheet for calculation of Employee benefits accrual as at 01 April 2009.</li> <li>Prepare spreadsheet for calculation of Employee benefits accrual as at 31 March 2010.</li> <li>Prepare appropriate guidance for line managers.</li> <li>Send guidance and spreadsheets for completion by line managers.</li> </ul>	11 June 2010 11 June 2010 11 June 2010 25 June 2010	JH JH BL/RK BL
2.	<b>Calculation of outstanding leave accrual – opening and closing figures for 2009/10</b> <ul style="list-style-type: none"> <li>Evaluate the results of the outstanding annual leave, flexi-time and time in lieu data capture</li> <li>Calculate the accrual required in the restated 1 April 2009 opening balance sheet</li> <li>Calculate the provision required as at 31 March 2010.</li> <li>Monitor whether the statutory guidance issued to neutralise the impact on the General Fund becomes law.</li> <li>Update the chart of accounts to include “Benefit Entitlement Accrual/Prepayment”.</li> </ul>	06 August 2010 13 August 2010 13 August 2010 Ongoing 17 September 2010	BL/JH JH JH RK/RK JH
3.	<b>Identification of other employee benefits</b> <ul style="list-style-type: none"> <li>Identify other employee benefits.</li> <li>Identify correct accounting treatment.</li> <li>Discuss approach on these other employee benefits with external auditor.</li> </ul>	14 May 2010 11 June 2010 18 June 2010	BL/RK RK MH
4.	<b>Restatement</b> <ul style="list-style-type: none"> <li>Restate the opening IFRS balance sheet as at 1 April 2009.</li> <li>Restate the comparative figures for 2009/10.</li> </ul>	September/October 2010	JH/RK
5.	<b>Arrangements going forward</b> <ul style="list-style-type: none"> <li>If applicable, put arrangements in place to capture annual leave entitlement at year-end on an annual basis.</li> <li>Assess any liabilities in respect of employment contracts terminated during the year as part of the annual closedown process.</li> </ul>	31 October 2010 31 October 2010	BL BL/JH

# Borough Council of Wellingborough

## Implementation plan – Group accounts

Step	Suggested key actions	Timing	Lead Officer
1.	<b>Assessment of need to prepare group accounts</b> <ul style="list-style-type: none"> <li>Review Partnership register to ensure it is up to date and all partnerships have been captured.</li> <li>For each potential group entity, complete an assessment to determine if it is within the Council's group boundary.</li> <li>Evaluate the results of the assessments to determine whether group accounts should be prepared.</li> </ul>	30 June 2010 15 July 2010 15 July 2010	CP CP/IS IS
2.	<b>Preparation of group accounts</b> <ul style="list-style-type: none"> <li>If necessary, implement processes to collate the information required to prepare group accounts.</li> <li>If applicable, establish arrangements for group reporting.</li> </ul>	31 July 2010	IS
3.	<b>Restatement</b> <ul style="list-style-type: none"> <li>Restate comparative figures for 2009/10.</li> </ul>	September/October 2010	IS
4.	<b>Arrangements going forward</b> <ul style="list-style-type: none"> <li>Reassess the group boundary and the need to prepare group accounts on an annual basis to ensure that all new partnership arrangements that are entered into are considered,</li> </ul>	31 October 2010	CP/MH

# Borough Council of Wellingborough

## Implementation plan

In completing this implementation plan we held discussions with the following officers at the Council:

- Richard Micklewright
- Bridget Lawrence
- Chris Pitman
- Robert Vaughan
- Mike Hudson
- Rob Wilton
- James Hopwood
- Ismail Saccoh
- Wendy Thundercliffe

Key:

- RM – Richard Micklewright
- CP – Chris Pitman
- BL – Bridget Lawrence
- RV – Robert Vaughan
- MH – Mike Hudson (Interim)
- JH – James Hopwood
- IS – Ismail Saccoh
- WT – Wendy Thundercliffe
- RK – Rashpal Khangura (KPMG secondment)
- AC – Audit Commission

# Example of Lease Assessment Schedule

Reference number: XXX	Original Capital Cost : £XXX+ VAT, financed over X years with XX quarterly rentals of £XXX+ VAT from XX/XX/XXX	
Lessor: XXX	Interest rate applicable at drawdown : XXX%	Lessor's Residual Value : £XXX
Goods: XXX	Present Value of committed rentals : £XXX (XXX% of OCC)	

**IAS 17 paragraph 10 states: Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:-**

IAS17 10(a)	the lease transfers ownership of the asset to the lessee by the end of the lease term	
IAS17 10(b)	the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than fair value at the date the option becomes exercisable that, at the inception of the lease, it is reasonably certain that the option will be exercised	
IAS17 10 (c)	the lease term is for the major part of the economic life of the asset, even if title is not transferred	
IAS17 10(d)	at the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset	
IAS17 10(e)	the leased assets are of a specialised nature such that only the lessee can use them without major modifications being made	

**IAS 17 paragraph 11 states indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease are:**

IAS17 11(a)	If the lessee is entitled to cancel the lease, the Lessor's losses associated with the cancellation are borne by the lessee	
IAS17 11(b)	gains or losses from fluctuations in the fair value of the residual fall to the lessee (for example, in the form of a rebate equaling most of the sales proceeds at the end of the lease)	
IAS17 11(c)	the lessee has the ability to continue to lease for a secondary period at a rent that is substantially lower than market rent	

**Report of Corporate Director, Resources (Section 151 Officer)**

**Annual Governance Statement**

**1 Purpose of Report**

- 1.1 This report explains the requirements for the Council to produce an Annual Governance Statement (AGS) and invites the Committee to consider the Council's AGS for 2009/10.

**2 Executive Summary**

- 2.1 Appendix 1 sets out in detail how the Council in 2009/10 ensured it had sound and robust governance arrangements to conducted its business in accordance with the law and proper standards, that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.
- 2.2 Overall 2009/10 has again seen a continuous improvement in the Council's governance, with significant strides made to introduce new systems and procedures to strengthen controls, such as the introduction of improved service plans and performance reporting. This report highlights a number of areas for further improvement and an action plan to address these in 2010/11 is attached at Appendix 2.

**3 Appendices**

Appendix 1: Annual Governance Statement.

Appendix 2: Outline Annual Governance Statement 2009/10 Action Plan to be implemented in 2010/11

**4 Proposed Actions:**

**Members of the Audit Committee are invited to RESOLVE to:**

- 4.1 **Receive and consider the Council's Annual Governance Statement, as set out in Appendix 1 to this report, and to recommend its adoption, subject to any comments the Committee may wish to make.**
- 4.2 **The Chair of the Audit Committee sign and date the Annual Governance Statement to acknowledge the Committee's resolution to adopt the Statement.**
- 4.3 **Receive an update on progress to action areas identified for improvement at its next meeting on 28<sup>th</sup> September 2010.**

## 5 Background

- 5.1 The Council has a responsibility to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.
- 5.2 In discharging these overall obligations, the Council is responsible for putting in place appropriate arrangements for the governance of its affairs and for ensuring that there is a sound system of internal control that facilitates the effective exercise of its functions and includes arrangements for the management of risk. The overall system of controls across the Council contributes to the effective corporate governance of the organisation.
- 5.3 Governance reporting has been a requirement within local government since 2003 under the Accounts and Audit Regulations. CIPFA/SOLACE produced a joint publication on Corporate Governance in Local Government and which underpinned this process. A revised version was published in 2007- the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. The requirement for Councils to produce an annual Statement on Internal Control (SIC) remains but is satisfied by the publication of an Annual Governance Statement (AGS) against which they will be judged.
- 5.4 The framework outlines six core principles of good governance focusing on the systems and processes for the direction and control of the organisation and its activities through which it accounts to, engages with and leads the community. It is proposed that to reflect the importance of financial management BCW add a further principle surrounding our financial management. The six core principles referred to in the framework, plus our own local seventh principle, are:
  1. Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.
  2. Councillors and officers working together to achieve a common purpose with clearly defined functions and roles.
  3. Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
  4. Taking informed and transparent decisions, which are subject to scrutiny and managing risk.
  5. Developing the capacity and capability of councillors and officers to be effective.
  6. Engaging with local people and other stakeholders to ensure robust public accountability.
  7. Managing our finances well.

## 6 Discussion

- 6.1 The attached AGS (Appendix 1) is a summary of the systems of internal control across the Council and provides an opinion of the standards achieved. The key issues arising from the review are:

### Areas of significant improvement:

- The Council published its '2020 Vision' describing its ambitions for the physical infrastructure of Wellingborough and what will be achieved over the next ten years.
- New Service Plan formats were introduced with improved links to Performance Appraisals and the budget setting process.
- The Constitution and Member's roles were strengthened, with improvements in the Councillor's Learning and Development programme.
- Further improvements were made in how we communicate with residents and staff.
- The Council's Risk Management Strategy, Policy and Procedures have been improved.
- Officers and Members have worked with peers to address the actions arising from the Improvement Programme.
- The Audit Commission recognised in their November CAA that "*The most noticeable improvement has been in performance management. The Council now has a performance management system and has identified a small number of key indicators that it will assess progress on.*"
- All Statutory post holders are members of the Senior Management Team with the Section 151 Officer now a member of the Corporate Management Team.
- The budget process has introduced a more rigorous challenge to the setting of service allocations, with £1.3m of savings being identified for delivery in 2010/11.

### Areas for further improvement:

- Continuing to convince partners of the Council's commitment to the 2020 Vision and its ability to deliver.
- Securing funding for the 2020 Vision in the current economic climate.
- In light of the changes forecast to the level of public sector funding the Council will need to revisit its priorities and be clear on how it meets local demands with competing pressures on its finances.

- Learning the lessons from the revised service planning process and continue to strengthen the links between performance and finances.
- Revisiting the Council's values and embed them in the organisation through the creation of a values based competency framework for employees.
- Working towards achieving Member Charter status by 31<sup>st</sup> March 2011
- Implementing a Workforce Planning & Development strategy
- Providing equality and diversity training for all members and employees.
- Implementing the new Risk Management procedures, including training for all managers in the use of the Risk Management register and how to update it. Ensuring risk management is a regular item on all levels of management team meetings, with at least a quarterly update taken to the Corporate Management Team and half yearly to Members.
- Agreeing a new Medium Term Financial Strategy must be issued to inform the setting of the 2011/12 to 2013/14 Medium Term Financial Plan.
- Strengthening Financial procedures and controls in line with best practice. Including capital procedures, with strong links to the Council's new project management arrangements.
- Updating the Council's Procurement strategy, related procedures and controls.
- Production of an Annual report.

6.2 There is an outline action plan of matters arising, as set out at Appendix 2, which underpins the areas identified for further improvement which will be addressed during 2010/11 and it is recommended progress on this is reported to this Committee.

## **7 Legal Powers**

7.1 The Council is required under Regulation 4(2) of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) (England) Regulation 2006 to produce an Annual Governance Statement to be included in the annual statement of accounts and which must be signed by the Leader of the Council and the Chief Executive. There are no other specific legal implications to this report.

## **8 Financial and Value For Money Implications**

- 8.1 The Council's governance arrangements are vital to support the delivery of the Council's priorities. In particular providing efficient and responsive services.

## **9 Risk Analysis**

<b>Nature of risk</b>	<b>Consequences if realised</b>	<b>Likelihood of occurrence</b>	<b>Control measures</b>
Inappropriate decisions taken	Failure to deliver P.R.I.D.E  Challenge to decisions  Qualified audit opinion	Low due to governance arrangements in place.	Implementation of ongoing improvements in 2010/11.

## **10 Implications for Resources**

- 10.1 No specific implications.

## **11 Implications for Stronger and Safer Communities**

- 11.1 No specific implications.

## **12 Implications for Equalities**

- 12.1 No specific implications

## **13 Author and Contact Officer**

Michael Hudson, Interim Head of Accountancy

## **14 Consultees**

CMT/OMT

## **15 Background Papers**

Annual Governance Statement 2008/09.

## Annual Governance Statement

### What is governance?

Governance is about how your local authority ensures it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. Thus we need to ensure that in everything we do we are providing:

- 1 Effective leadership for and with the community (residents, business and visitors), ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for;
- 2 Delivering high quality local services that meets the needs of the community;
- 3 Prioritising that delivery and those needs of the community to protect local people whilst balancing that with ensuring the best use of the finite money available; and
- 4 Building a strong sense of community to encourage the people of Wellingborough to play a full and constructive part in the lives and development of their communities.

The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

### How does Wellingborough Council strive for excellent governance?

Wellingborough Council has approved and adopted a local code of corporate governance, which is consistent with the principles of the Chartered Institute of Public Finance & Accountancy (CIPFA) / the Society Of Local Authority Chief Executives (SOLACE) Framework - *Delivering Good Governance in Local Government*.

This statement summarises the key ways that Wellingborough Council has complied with the code and also meets the requirements of the most up to date Accounts and Audit Regulations in relation to the publication of a statement on internal control.

## **How does Wellingborough measure good governance?**

The Council manages its arrangements through various systems and processes, and culture and values, by which the Authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Authority to monitor the achievement of its vision and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The review of effectiveness is informed by the work of the Heads of Service within the Authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit, and also by comments made by the external auditors and other review agencies and inspectorates.

To monitor and check progress therefore we assess ourselves against seven core principles, the first six being those set out in the joint national guidance for local authorities per the Chartered Institute of Public Finance and Accountancy (CIPFA) / the Society Of Local Authority Chief Executives (SOLACE):

- 1 Do we have a clear and effective vision that focuses on improving the key outcomes for our community (residents, business and visitors)?
- 2 Do our members and officers work together effectively to achieve that vision and those improved outcomes?
- 3 Do we have values that promote high standards of conduct and behaviour, and do we uphold these?
- 4 Do we take informed and transparent decisions that are subject to effective scrutiny and manage risk?
- 5 Do we have the capacity and capability at member and officers levels to be effective in delivering our vision and services?
- 6 Do we engage with local people and other stakeholders to ensure robust public accountability?

- 7 Do we manage our finances well? (*This is not a core principle set out by CIPFA, however it is considered so key to the Council's future development and governance that we have taken the decision to comment on this area separately outside of the second core CIPFA/SOLACE framework principle.*)

## **So, how are we doing?**

The key ways in which Wellingborough secures good governance are set out below against each of the core principles we measure ourselves against. This includes updates on what we said we would do in last year's Annual Governance Statement (2008/09). At the end of this section we have identified further areas for improvement in 2010/11.

### **1 Do we have a clear and effective vision that focuses on improving the key outcomes for our community (residents, business and visitors)?**

- The Council set out in 2008/09 following extensive consultation its vision - 'Making Wellingborough a place to be proud of'. Our Corporate Plan embraces and sets out through P.R.I.D.E. the underlying concepts of continuous improvement and delivery of priority developments that were identified by the people and communities of Wellingborough to address their big issues:
  - **P**romoting high quality growth
  - **R**educing crime and anti-social behaviour
  - **I**mproving life chances for young people
  - **D**eveloping efficient and responsive services
  - **E**nhancing the environment.
- The Council's vision is aligned with our partners, in particular the sustainable communities strategies for Northamptonshire developed through the County wide Local Strategic Partnership.
- In conjunction with our partners, the Council has also developed and published a '2020 vision' describing our ambitions for the physical infrastructure of Wellingborough and what will be achieved through planned growth over the next ten years.

Ensuring Wellingborough retains its distinctiveness and heritage. In 2009/10 an Area Action Plan was agreed, following consultation, and the Council published its vision, for the town centre. As the Audit Commission pointed out in their Comprehensive Performance Assessment of Wellingborough in November 2009, “the vision sets priorities, and has adjusted priorities” to meet the competing demands on its finances.

- However, we recognise the issues raised by the Audit Commission in their CPA findings, particularly that these plans are still getting off the ground and whilst it is perhaps too early to see developments materialising, we have put in place good infrastructure and financial arrangements to commence the works, such as acquiring land on High Street for the first phase of developments; and employing external project management skills.
- An area of ongoing development is the revision of the Council’s Service (Improvement) Planning process that sets out the key tasks and targets to be delivered to meet the overall P.R.I.D.E. vision. Following a review of the process in 2009/10 a number of improvements were introduced, including: a revised format of service plans, Performance Development Reviews (PDRs / appraisals); a performance monitoring system and a Medium Term Financial Plan. All of these help create the ‘golden thread’ that translates the vision into action on the ground. Although, 2009/10 was the first year of this new approach and continual improvement is recognised, overall in 2009/10, in part due to this revised focus, 68.6% of national and local outcome measures improved compared to 68% in 2008/09.

## ***2 Do our members and officers work together effectively to achieve that vision and those improved outcomes?***

- The roles and responsibilities of the Council, Chairmen and Committees are set out in our constitution. Putting these into practice is supported by the Members Code of Conduct and the Protocol for Member/Officer Relations, the various codes of practice and policies referred to in the local code of governance, and training and development for members and officers. These codes/policies, the Constitution and scrutiny roles were regularly appraised in 2009/10 to ensure they continue to be fit for purpose to deliver our vision. As a result, during 2009/10, some aspects of the two policy committee roles and responsibilities were reviewed and updated, the overview and scrutiny function strengthened through the enlargement of the Audit and Performance Committee and changed arrangements for the call-in process. A Member Working Party was set up by the Resources Committee to consider and progress member development and support issues which flowed from a Member/Officer seminar held in April 2009. Various recommendations were made and approved in early 2010. In April 2010, the Resources

Committee recommended to Council updates for our constitution, the adoption of revised Member Role Descriptions and the introduction of a new Audit Committee to oversee financial strategy.

- The Chief Executive meets regularly with the Leader and Deputy Leader to discuss performance and other matters of interest. The Leader of the Council is responsible for carrying out the Chief Executive's annual appraisal. This follows the P.R.I.D.E objectives and this in turn is then cascaded down to employees. In addition, in February and March 2010 all service plans were reported to Members for scrutiny to ensure the plans accorded with Members vision.
- Each Committee is supported by a lead officer, and during 2009/10 senior officers have met with Lead Members to assess action on the Council's improvement plan following the Audit Commission's 2008 'weak' Comprehensive Performance Assessment (CPA) of the Council. Included within this has been the development of a Learning and Development programme for Members. In March 2010 the Council resolved to sign up to the East Midland Councillor Development Charter with a view to attaining Charter status by 31<sup>st</sup> March 2011.
- In 2009/10 the Council, in response to the 2008 'weak' CPA, has strengthened its senior officer structure to improve capacity in the areas of strategic financial management and performance management. This saw a new Section 151 Officer (Corporate Director, Resources) join the Council in September 2009 as a member of the Corporate Management Team. The other statutory officer roles: Head of Paid Service (fulfilled by the Chief Executive); and the Monitoring Officer (fulfilled by the Head of Partnerships, Policy and Property), have been filled throughout 2009/10 by the same officers as 2008/09.
- The Council introduced a new budgetary approach in 2009/10 'Zero Based Budgeting' to challenge the value for money and performance of all services. Both Members and Officers were actively engaged throughout this process in both challenging and making decisions as to the future shape of the Council.
- The Member Services team provides capacity for members, ensuring reports are distributed on time and any briefings requested are actioned. The Member Services team also provides opportunities for Members in respect of continuing professional development, and is developing awareness and achievement of the Member Charter.
- A protocol also exists to help facilitate the effective engagement of the ward support teams with Members. This includes the provision of a standard reporting mechanism to capture ward issues identified through the year and to track actions taken to deal with them.

- We review each year our appointments to partnerships and outside bodies and organisations. We have a system of 'lead members' to improve engagement with partnerships and outside organisations and bodies For each significant partnership there is clarity as to: the partnership's purpose; the role of each partner; the role of partnership board members; line management responsibility for staff supporting the partnership; arrangements for funding and financial management; the handling of disputes and bringing the partnership to an end.

### **3 Do we have values that promote high standards of conduct and behaviour, and do we uphold these?**

- The Council has reassessed its values in 2009/10 and articulated them in its Corporate Plan 2010-13 as being:
  - Leading by example.
  - Setting high standards.
  - Open & honest.
  - Focusing on Performance.

A competency framework is being introduced which complements and supports the Council's values. This will be linked to a performance based employee development system which will focus on job-related skills.

- Through the member's and employee's code of conduct, and the regular meetings between the Leader, Deputy Leader and Chief Executive and leading Members and the Corporate Management team, the leadership work together to create and live the desired organisational climate.
- One of the key themes of our Improvement and Development Plan is 'engagement' and this extends to employees as well as the community and other key stakeholders. During 2009/10 we have published a regular internal newsletter called 'In Touch', monthly 'management briefings' and ran a number of Senior Management 'road shows' to examine key issues in more depth. In addition, our intranet has been updated and this includes minutes of management team meetings as well as the Chief Executive's weekly blog.

- We have both a member code of conduct and an officer code of conduct. Compliance is supported by member/officer induction, training and development, and appropriate complaints, grievance and disciplinary procedures. Other policies on areas such as Procurement and Fraud and Corruption also contain guidelines on ethical behaviour. In addition, officers are told at their induction and reminded periodically of their obligations in respect of combating fraud and corruption and offers of hospitality etc... Internal Audit carry out regular spot checks to assess compliance.
- We also have an e-learning system for officers which we are hoping to roll out to Members who prefer this way of learning.
- A new Personal Development Review process (or appraisal) was rolled out across the entire organisation in 2009/10. Through this and other mechanisms, such as one to one and team meetings, employees were reminded of the objectives of the Authority, and in 2011/12 the behaviours expected.
- Member and officer training in 2009/10 included development on standards, meeting protocol, as well as planning and development.
- The Council has a whistle-blowing policy which is available both on the intranet and internet. Explicit reference to this is made in corporate inductions and other employee communications.
- The Council has a well established Standards Committee, set up to advise and support the Council on ethics and standards issues, as well as to oversee member's conduct and carry out any local assessment of allegations of failure to comply with the Code of Conduct for Members. The Committee has an independent Chair and some independent members. Members have received externally delivered training in standards issues. In 2009/10 there was one investigation, initiated into a Member's conduct. This will conclude in 2010/11.

#### **4 Do we take informed and transparent decisions that are subject to effective scrutiny and manage risk?**

- The Council strengthened its overview and scrutiny arrangements in 2008/09, with two further committees in recognition of the increasing role and workload of scrutiny. So 2009/10 has been the first full year of their operation. The new Audit and Performance Committee has focused on delivering improvements in financial and performance management to address significant weaknesses in the 2008 CPA. This has included strengthening overview of Internal Audit recommendation and actions, as well as the development of a new Risk Strategy. The Resources Committee has received five budget monitoring report and played a key role in delivering an under spent outturn.
- From June 2010, the Audit and Performance Committee will be further split with a separate Audit Committee being formed to deal with all financial matters, including setting the annual Internal Audit Plan and approving the Statement of Accounts and the Annual Governance statement, as well as monitoring improvements.
- The Council's Constitution sets out clear mechanisms for documenting evidence for key decisions and recording the criteria, rationale and considerations on which decisions are based. This also includes a Scheme of Delegation, approved by Council.
- The Council has a standard template for reports to Committee and Council. This ensures consistency in the presentation of information to Members. All reports to Committee set out the legal and financial implications, plus also risks and equalities, of all decisions. These implications are informed by professional legal and financial advice. The Council has developed and maintains open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based.
- Report authors attend committee and other meetings at which their reports are being discussed so that Members questions and requests for clarification can be dealt with at the time decisions are being made. In addition, we provide our Members with briefing notes on a variety of issues to help inform their decision making.

- The Council's Risk Management Strategy and Policy were updated and approved by the Resources Committee in March 2010. A revised set of procedures have been introduced, with a Corporate Risk Management Group of officers established to oversee risk management. This group reports periodically to the Corporate Management Team and the Audit and Performance Committee. Risks are highlighted in Service Plans with regular monitoring and updates.

**5 Do we have the capacity and capability at member and officers levels to be effective in delivering our vision and services?**

- The Council has, through work with external peers in 2009/10, improved its process for member development which has identified a programme of development for the next 12 months to work towards the Member Charter accreditation. This extra help to improve also included, setting up a Challenge Board and getting help and advice from other councils.
- The Audit Commission recognised in their November CAA that *“The most noticeable improvement has been in performance management. The Council now has a performance management system and has identified a small number of key indicators that it will assess progress on. It is reviewing the suitability of some of the indicators, although there remain weaknesses in some targets and some gaps especially around partnerships. Councillors and staff have been trained on performance management, and the system is showing signs of early success. 68 per cent of indicators tracked improved last year – considerably better than previous years.”*
- In terms of financial capacity, Wellingborough has over £5m in General Reserves. The concern raised by the Audit Commission from its review of the Council in its CAA published in November 2009 was that “The Council will continue to rely on reserves to pay for services for the next four years.” If this were the case in that period the Council would fall below the minimum reserves recommended by its Section 151 Officer within 3 years. Therefore the Council has embarked on a challenging and ambitious programme to manage of it use its resources over the next four years. Members took the decision to approve just over £1m of savings that were identified through ZBB in 2009/10 to be actioned in 2010/11. A further £3.2 million is still needed in the next 3 years (this assumes no increase in government grant as being the best scenario).

- All statutory post holders are members of the Council's senior Management Team. In response to the Audit Commission's 'weak' CPA of the Council in July 2008, a new Section 151 Officer was recruited in September 2009 to provide additional capacity to improve financial controls and management. In addition, following an external appraisal of financial capability the Council has brought in an Interim Head of Accountancy to strengthen controls in the Finance function.
- The Council has an induction process for Members and employees and there are opportunities to develop and update skills and knowledge via training and briefings in specific areas of activity. The corporate Learning and Development Programme is now managed centrally through the introduction of the Learning and Development Officer, and is driven by the PDR process. The L&D Officer is also driving a new Workforce Planning and Development Strategy. In addition, the Authority recognises people's different learning styles and has introduced different ways of learning e.g. via Learning Pool and Thursday morning briefings/drop in sessions.
- The Leader, Deputy Leader and Committee Chairs have been on the I&DeA Leadership programme.
- The Council signed up to the Northamptonshire Concordat on Modern Apprenticeships, and makes regular use where ever possible of the Modern Apprentice and the National Graduate Development Programme (NGDP) schemes.

**6 *Do we engage with local people and other stakeholders to ensure robust public accountability?***

- The Council publishes a regular newsletter, 'The Link', and a 'Know your Councillor' (incorporating a Council A-Z) publication to all its households and businesses. The Link sets out progress towards delivering the vision for the area, as well as other key local developments and events. The Council has arrangements in place to translate The Link into different languages on request and routinely transfer it to a suitable format for customers with visual impairment. Telephone translation services are also available should the need arise.
- The Council has also recently updated and enhanced its website.
- The Council has a published compliments, comments and complaints procedure, details of which can be found on the corporate website and at the reception desks in the Council's offices.

- Members hold ward surgeries, which are complemented by the Ward Support process. In addition, we have drawn on the success of our neighbourhood management work in particular wards and developed a Borough wide ward level consultation mechanism supported by small groups of Officers (known as ward support teams) allocated to liaise with the Members for each ward. Each Ward Member is given a budget to help deal with issues within their Ward and this has been increased for 2009/10 in line with feedback received at the annual Ward Support seminar.
- Following on from previous years' recommendations we have reviewed the effectiveness of the LSP, the key delivery vehicle for the Wellingborough Sustainable Community Strategy (SCS). Accordingly we have intervened in our community leadership role and assumed the chair of the LSP steering group. Since doing so, we have put in place arrangements to improve accountability of the thematic groups to the LSP steering group for Wellingborough SCS outcomes and scrutiny of the LSP by the Council on behalf of local communities.
- 42.4 per cent of local people are satisfied with how the Council runs local services. This is the third highest in Northamptonshire, but below the regional and national average. The Council is currently developing a Community Engagement strategy to address this and other improvements.
- Meetings have been held in public for many years and openness has always been maintained. The press are also in attendance at these meetings. Members of the public have the right to address meetings subject to notice being given.
- The Human Resources service meets informally on a regular basis with Trade Unions and other employee representatives. Regular Joint Consultative Council meetings are held between Trade Unions and Senior Officers to discuss issues and changes in policies and procedures affecting the Council's employees.

## **7 Do we manage our finances well?**

- The financial management of the authority is structured through Financial Regulations and financial Standing Orders, which are subject to regular review and approval. There is also a framework of regular management information, including monthly budget monitoring, and a system of delegation and accountability to support these. Such procedures seek to ensure that transactions are authorised and that material errors or irregularities are either prevented or would be detected within a timely period. These are currently being reviewed and changes are expected to bring in further improvements in 2010/11.
- In March 2010 the Council approved a new Medium Term Financial Plan for 2010/11 to 2013/14. This identified £1.1m of savings to be delivered in 2010/11 and a further £3.2m over the next 3 years. As part of this process the Council has begun to challenge how and whether its services are providing value for money (vfm). In 2009/10 cost comparators formed part of the challenge every service went through in decisions made over where savings would be made. Going forward this work will be strengthened and should become align with the Performance and Service Planning frameworks. This will be brought together under a new Medium Term Financial Strategy in early Autumn 2010.
- 2009/10 saw the first year of the Council running a new financial ledger (Agresso). This is managed jointly with Kettering BC. Whilst the production of the Statement of Accounts was produced on time and received an unqualified opinion, our external auditors identified a significant number of recommendations for improvement. We have already started to address these, introducing a new and more detailed closedown timetable; increasing the skills and capacity of the Finance Function and ensuring our assets are regularly valued. More work is being carried out early in 2010/11 to maximise the use of Agresso and strengthen controls to ensure financial reporting is carried out promptly. In addition, the Financial Regulations will be reviewed to ensure they continue to be fit for purpose.

- The overall opinion on the internal control environment based on ConsortiumAudit's assessment of the key management arrangements and the internal controls, per the Annual Internal Audit Report concludes that overall an ACCEPTABLE level of assurance can be provided. A number of improvements were raised and these are being actioned in 2010/11 and reported to the Audit Committee and Senior Management team.
- Monitoring of Capital spending has been limited in 2009/10 with only one budget monitoring exercise. As a result of a need to appraise fully the current and future position of its programme, the Council took the decision in November 2009 to 'freeze' its capital programme. This review is part way through completion, and whilst a limited number of schemes have been released under an improved assessment process that has a closer link to deliver of P.R.I.D.E., it is recognised that further strengthening of controls is required in 2010/11. This will be linked closely to improvements made in Project Management arrangements that were approved by Members in March 2010.
- The Council is a member of the Northamptonshire Area Procurement Service (NAPS) and seeks to maximise its use of resources through economies of scale in its purchasing wherever possible. Greater use of purchasing information via Agresso has been made in 2009/10 and further improvements are expected in 2010/11, and the Procurement Strategy will be updated.

### **How will we continue to strengthen our governance?**

The Council made significant progress on the issues raised in the 2008/09 statement and audit and inspection reports, continuing to develop further good practice during 2009/10. The 2009/10 process has identified some key issues that the Council feels necessary to highlight in this statement, that are consistent with the external inspection received by the council, on which it must progress in 2010/11. They are:

- Continuing to convince partners of the Council's commitment to the 2020 Vision and its ability to deliver.
- Securing funding for the 2020 Vision in the current economic climate.

- In light of the changes forecast to the level of public sector funding the Council will need to revisit its priorities and be clear on how it meets local demands with competing pressures on its finances.
- Learning the lessons from the revised service planning process and continue to strengthen the links between performance and finances.
- Revisiting the Council's values and embed them in the organisation through the creation of a values based competency framework for employees.
- Working towards achieving Member Charter status by 31<sup>st</sup> March 2011
- Implementing a Workforce Planning & Development strategy
- Providing equality and diversity training for all members and employees.
- Implementing the new Risk Management procedures, including training for all managers in the use of the Risk Management register and how to update it. Ensuring risk management is a regular item on all levels of management team meetings, with at least a quarterly update taken to the Corporate Management Team and half yearly to Members.
- Agreeing a new Medium Term Financial Strategy must be issued to inform the setting of the 2011/12 to 2013/14 Medium Term Financial Plan.
- Strengthening Financial procedures and controls in line with best practice. Including capital procedures, with strong links to the Council's new project management arrangements.
- Updating the Council's Procurement strategy, related procedures and controls.
- Production of an Annual report.

The council will continue to develop and improve its governance arrangements during 2010/11, addressing the issues raised above and other minor matters. These will be monitored by the Council's senior management team, the Audit Committee and our auditors (internal and external). To facilitate this monitoring by the Audit Committee and Senior Management Team in 2010/11 an action plan is attached.

**Approval of this Statement**

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

**Signed:** .....  
Leader of the Council

**Signed:** .....  
Chair of the Audit Committee

**Signed:** .....  
Chief Executive

## Outline Annual Governance Statement 2009/10 Action Plan to be implemented in 2010/11

Recommendation	How	Who	By When	Complete (yes / No)
1. Continue to convince partners of the Council's commitment to the 2020 Vision and its ability to deliver.				
2. Secure funding for the 2020 Vision in the current economic climate.				
3. Revisit the Council's priorities and be clear on how it meets local demands with competing pressures on its finances.				
4. Learn the lessons from the revised service planning process and continue to strengthen the links between performance and finances.				
5. Revisit the Council's values and embed them in the organisation through the creation of a values based competency framework for employees.				
6. Implement a Workforce Planning & Development strategy.				

Recommendation	How	Who	By When	Complete (yes / No)
7. Provide equality and diversity training for all members and employees.				
8. Implement the new Risk Management procedures, including training for all managers in the use of the Risk Management register and how to update it. Ensuring risk management is a regular item on all levels of management team meetings, with at least a quarterly update taken to the Corporate Management Team and half yearly to Members.				
9. Agree a new Medium Term Financial Strategy must be issued to inform the setting of the 2011/12 to 2013/14 Medium Term Financial Plan.				
10. Strengthen financial procedures and controls in line with best practice. Including capital procedures, with strong links to the Council's new project management arrangements.				
11. Update the Council's Procurement strategy, related procedures and controls.				

<b>Recommendation</b>	<b>How</b>	<b>Who</b>	<b>By When</b>	<b>Complete (yes / No)</b>
12. <i>Produce and publish an Annual report.</i>				

**Audit Committee**

**29<sup>th</sup> June 2010**

**Report of the interim Head of Accountancy**

**External Audit – Opinion Plan 2009/10**

**1 Purpose of Report**

- 1.1 This report introduces the plan of work proposed by the Borough Council of Wellingborough's external auditors (the Audit Commission) in undertaking the audit of the Council's 2009/10 Statement of Accounts.

**2 Executive Summary**

- 2.1 This report includes the details of external audit's plan to complete the audit of the Council's Statement of Accounts for 2009/10 by the statutory deadline of 30<sup>th</sup> September 2010. It sets out the key risks that could affect the audit and the timeline with expectations of the Authority to enable completion by 30<sup>th</sup> September for an indicative fee of £81,110.

**3 Appendices**

Appendix 1 – Audit Commission Audit Opinion Plan 2009/10

**4 Proposed Action:**

- 4.1 Members of the Audit Committee are invited to receive and note this report and the Audit Commission's Plan for audit of the Council's 2009/10 Statement of Accounts.**

**5 Background**

- 5.1 Statute requires that every local authority has an external auditor appointed by the Audit Commission. For 2009/10 Wellingborough has newly appointed auditors, the Audit Commission, who replace KPMG LLP who undertook the 2008/09 external audit. The responsibilities of the Audit Commission are set out in the appended plan. In preparing for the audit our external auditors have drawn up an outline plan of work, timetable and indicative fee. This report introduces that to Members of this Committee for information

**6 Discussion**

- 6.1 The attached plan sets out:
- An indicative fee of £81,110. This is subject to key assumptions, such as the level of assurance to be gained from the work of Internal Audit. The basis for the fee is set out in more detail at Appendix 1 to the Commission's Plan.

- The key risks foreseen by the Audit Commission to date along with their proposed responses and testing strategy are set out in the Commission's Plan at pages 7 and 8.
- The Commission have set out a plan to report to those charged with governance, in Wellingborough's case this is the Audit Committee, by 28<sup>th</sup> September to enable the issuing of an opinion before the statutory deadline of 30<sup>th</sup> September. This identifies key dates for Finance staff to provide the Commission with information.
- The audit team that will be undertaking the work is set out at page 10 of the plan. At page 11, paragraphs 27 and 28 set out the commitment to provide a high quality service and how the Authority can raise any concerns if they arise.

## 7 Legal

- 7.1 The Authority is required to approve its accounts for audit by 30<sup>th</sup> June each year. This report is part of that process.

## 8 Financial and Value For Money Implications

- 8.1 The main financial implications of this report have already been included in the Council's annual budget for Accountancy and will be monitored through that service.

## 9 Risk Analysis

Nature of risk	Consequences if realised	Likelihood of occurrence	Control measures
Additional Costs	Over spent budget	Possible	Additional testing coverage by Internal Audit.  New Quality Assurance arrangements over working papers
Delayed opinion	Damage to reputation	Possible	As above, plus regular update meetings with External Audit and Performance Targets for Finance Staff to respond to any queries raised by the Audit Commission within one day.

10 **Implications for Resources**

10.1 Accountancy have scheduled the programme of work within its current capacity based on the factors set out within the appended Audit Opinion Plan.

11 **Implications for Stronger and Safer Communities**

11.1 None

12 **Implications for Equalities**

12.1 None

13 **Author and Contact Officer**

Michael Hudson – Interim Head of Accountancy

14 **Consultees**

Richard Micklewright – Corporate Director, Resources

15 **Background Papers**

2008/09 Audit recommendations

## Appendix 1

# Audit Opinion Plan

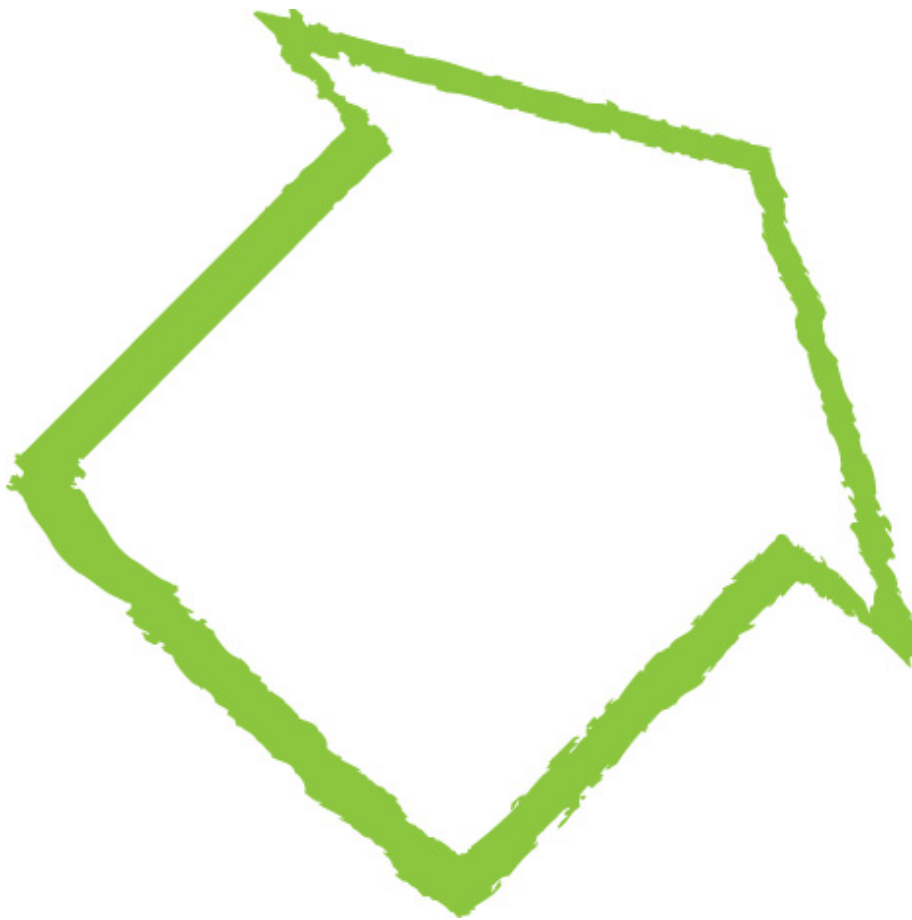
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Borough Council of Wellingborough

Audit 2009/10

June 2010



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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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# Introduction

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- 1 This plan sets out the audit work that we propose to undertake for the audit of financial statements 2009/10. The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:
  - audit work specified by the Audit Commission for 2009/10;
  - current national risks relevant to your local circumstances; and
  - your local risks.

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# Responsibilities

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- 2 The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.
- 3 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our audit work is undertaken in the context of these responsibilities.
- 4 We comply with the statutory requirements governing our audit work, in particular:
  - the Audit Commission Act 1998; and
  - the Code of Audit Practice.

# Fee for the audit of financial statements

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- 5 The indicative fee in my letter of 2 June 2009 for the audit of the financial statements is £81,110.
- 6 In setting the fee, I assumed that:
  - the level of risk in relation to the audit of accounts is consistent with that for 2007/08;(before the issues with fixed assets in 2008/9 were identified by KPMG); and
  - Internal Audit undertakes appropriate work on all material systems and we are able to rely on this.
- 7 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, I will discuss this in the first instance with the Corporate Director Resources and will issue supplements to the plan to record any revisions to the risk and the impact on the fee.
- 8 Since I sent you the initial fee letter we have needed to undertake added work on considering the need for the accounts of the Castle Theatre to be consolidated with those of the Council. It is also necessary to undertake additional work on fixed assets.
- 9 As work is still ongoing on these areas it is difficult for me to quantify the extra fees relating to this work at this stage.
- 10 Appendix 1 contains more information on the basis for the fee.

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## Specific actions the Borough Council of Wellingborough could take to reduce its audit fees

- 11 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. My team will work with staff to identify any specific actions that the Council could take and to provide continuing audit support.

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# Auditor's report on the financial statements

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- 12 I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 13 I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Council as at 31 March 2010.

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## Identifying opinion audit risks

- 14 As part of the audit risk identification process, I need to understand fully the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. I do this by:
- identifying the business risks facing the Council, including assessing your own risk management arrangements;
  - considering the financial performance of the Council;
  - assessing internal control - including reviewing the control environment, the IT control environment and Internal Audit; and
  - assessing the risk of material misstatement arising from the activities and controls within the Council information systems.

# Identification of specific risks

15 I have considered the additional risks that are appropriate to the current opinion audit and have set these out below.

**Table 1**      **Specific risks**  
Specific opinion risks identified

Risk area	Audit response
<p>Fixed assets - the opinion for 2008/9 was delayed due to uncertainties surrounding the fixed asset valuation.</p> <p>Testing to date shows that the fixed asset register is not updated throughout the year nor used to control assets. It is not possible therefore to rely on compliance testing of the system to support the opinion, and substantive testing will be required instead.</p> <p>A preliminary review of the asset register raised a number of queries which are being considered by your officers.</p>	<p>Substantive testing of fixed assets and related figures disclosed in the statement of accounts will be undertaken</p>
<p>The economic downturn continues to affect land and property values.</p>	<p>A review of your changes in asset values using valuation trends provided to us by the Audit Commission valuer.</p>
<p>New accounting requirements for collection fund debtors and creditors.</p>	<p>Detailed review of accounting entries.</p>
<p>New disclosure requirements for senior officer staff costs.</p>	<p>Detailed review of disclosure note.</p>
<p>The Council made an interest free loan to the Castle Theatre in 2009/10. This may have resulted in the Council having an 'interest' in the theatre, and therefore a requirement to consolidate its accounts within those of the Council.</p> <p>In addition from 1/4/2010 the three out of five of the theatre board members are Council members.</p>	<p>A review of officers working papers to show that consolidation is not required was undertaken, and the proposed accounting treatment agreed.</p>

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# Testing strategy

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- 16 Based on the risks identified above a testing strategy will be produced which will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year end.
- 17 Testing can be carried out both before and after the draft financial statements are produced (pre- and post-statement testing).
- 18 Wherever possible, some substantive testing will be completed earlier in the year before the financial statements are available for audit. The following areas are where substantive testing could be carried out early:
  - Review of accounting policies.
  - Bank reconciliation.
  - Investments – ownership.
  - Year-end feeder system reconciliations.
  - Existence and ownership of fixed assets.

Where other early testing is identified as being possible, my team will discuss this with officers.

- 19 Wherever possible, we seek to rely on the work of Internal Audit to help meet our responsibilities. For 2009/10, we have been able to use the results of its work on the following financial systems:
  - General ledger.
  - Creditors.
  - Debtors.
  - Cash receipting.
  - Payroll.
  - NNDR.
  - Council tax.
  - Housing benefits.

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# Key milestones and deadlines

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- 20 The Council is required to prepare the financial statements by 30 June 2010. I am required to complete my audit and issue my opinion by 30 September 2010. Table 2 shows the key stages of producing and auditing the financial statements.
- 21 I will agree with you a schedule of working papers required to support the entries in the financial statements.
- 22 Every week, my team will meet with the key contact and review the status of all queries. If necessary they will meet at a different frequency depending on the need and the number of issues arising.

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**Table 2**      **Proposed timetable**

<b>Task</b>	<b>Deadline</b>
Control and early substantive testing	June 2010
Receipt of accounts	21 June 2010
Forwarding audit working papers to the auditor	1 July 2010
Start of detailed testing	26 July 2010
Progress meetings	Weekly
Present report to those charged with governance at the Audit Committee	28 September 2010
Issue opinion	By 30 September 2010

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# The audit team

23 The table below shows the key members of the audit team for the 2009/10 audit.

**Table 3**      **Audit team**

Name	Contact details	Responsibilities
Neil Bellamy District Auditor	n-bellamy@audit-commission.gov.uk 0844 798 4057	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Yola Geen Audit Manager	y-geen@audit-commission.gov.uk 0844 798 4092 07879 602233	Manages and coordinates the different elements of the audit work. Key point of contact for the Corporate Director Resources.
Laura Miller Team Leader	laura-miller@audit-commission.gov.uk 07870 208084	Supervises the day-to-day audit work. Key point of contact for the Interim Head of Accountancy.

## Independence and objectivity

- 24 I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which auditing and ethical standards require me to communicate to you.
- 25 I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in Appendix 2.

## Meetings

- 26 The audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Appendix 3 sets out our proposals.

## The audit team

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### Quality of service

- 27 I am committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how the audit team can improve our service, please contact me in the first instance. Alternatively, you may wish to contact the East Midlands Head of Operations.
- 28 If I am unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet 'Something to Complain About' which is available from the Commission's website or on request.
- 

### Planned outputs

- 29 I will discuss and agree reports with the appropriate officers before I issue them to the Audit Committee.
- 

**Table 4**      **Planned outputs**

<b>Planned output</b>	<b>Indicative date</b>
Opinion audit plan	May 2010
Annual governance report	13 September 2010
Auditor's report giving an opinion on the financial statements	30 September 2010
Final accounts memorandum	30 November 2010

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# Appendix 1 – Basis for fee

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- 1 The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.
- 2 The risk assessment process starts with identifying the significant financial and operational risks applying to the Council with reference to:
  - our cumulative knowledge of the Council;
  - planning guidance issued by the Audit Commission;
  - the specific results of previous and ongoing audit work;
  - interviews with Council officers; and
  - liaison with Internal Audit.

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## Assumptions

- 3 In setting the fee, I have assumed that:
  - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2008/09, but with the addition of matters set out in Table 1;
  - you will inform us of significant developments impacting on the audit;
  - Internal Audit meets the appropriate professional standards;
  - Internal Audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit
  - officers will provide good quality working papers and records to support the financial statements by 28 June 2010;
  - requested information will be provided within agreed timescales;
  - prompt responses will be provided to draft reports; and
  - additional work will not be required to address questions or objections raised by local government electors.
- 4 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee.

# Appendix 2 – Independence and objectivity

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- 1 Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 2 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 3 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:
  - discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
  - confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised
- 4 The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the [Audit Committee]. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.
- 5 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

- 6 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.
- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being 'additional work' and charged for separately from the normal audit fee.
  - Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
  - The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years.
  - The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.
- 7 The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

# Appendix 3 – Working together

## Meetings

- 1 The audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers.
- 2 Our proposal for the meetings is as follows.

**Table 5 Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Corporate Director Resources	AM	Monthly	General updates plus: March - audit plan August - accounts progress September - annual governance report
Accountancy Manager	AM and/or Team Leader (TL)	Quarterly	Update on audit issues
Audit Committee	DA and AM, with TL as appropriate	As determined by the Committee	Formal reporting of: Audit Plan Annual governance report Other issues as appropriate

## Sustainability

- 3 The Audit Commission is committed to promoting sustainability in our working practices and we will actively consider opportunities to reduce our impact on the environment. This will include:
  - reducing paper flow by encouraging you to submit documentation and working papers electronically;
  - use of video and telephone conferencing for meetings as appropriate; and
  - reducing travel.

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# 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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