

Governance Committee Meeting

**Grand Jury Room, Town Hall, High Street,
Colchester, CO1 1PJ
Tuesday, 30 June 2015 at 18:00**

The **Governance Committee** considers and approves the Council's Statement of Accounts and reviews the Council's annual audit letter. The Committee also deals with the Council's governance, risk management and audit arrangements. To make recommendations to the Council on functions such as Elections and bye laws, and determine Community Governance Reviews.

Information for Members of the Public

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Governance Committee - Terms of Reference (but not limited to)

Accounts and Audit

To consider and approve the Council's Statement of Accounts and the Council's financial accounts, and review the Council's external auditor's annual audit letter.

Governance

To consider the findings of the annual review of governance including the effectiveness of the system of internal audit and approve the signing of the Annual Governance Statement.

To have an overview of the Council's control arrangements including risk management and in particular with regard to the annual audit plan and work programme, and to approve the policies contained in the Council's Ethical Governance Framework.

Other regulatory matters

To make recommendations to Council on functions such as elections, the name and status of areas and individuals, and byelaws.

To determine and approve Community Governance Reviews.

Standards in relation to Member Conduct

To consider reports from the Monitoring Officer on the effectiveness of the Members' Code of Conduct, and to advise the Council on the adoption or revision of the Code.

To receive referrals from the Monitoring Officer into allegations of misconduct and to create a Hearings Sub-Committee to hear and determine complaints about Members and Co-opted Members referred to it by the Monitoring Officer.

To conduct hearings on behalf of the Parish and Town Councils and to make recommendation to Parish and Town Councils on improving standards or actions following a finding of a failure by a Parish or Town Councillor.

To inform Council and the Chief Executive of relevant issues arising from the determination of Code of Conduct complaints.

To grant dispensations, and to hear and determine appeals against refusal to grant dispensations by the Monitoring Officer.

To make recommendations to Council regarding the appointment of Independent Persons.

COLCHESTER BOROUGH COUNCIL
Governance Committee
Tuesday, 30 June 2015 at 18:00

Member:

Councillor Cyril Liddy
Councillor Jo Hayes
Councillor Christopher Arnold
Councillor John Elliot
Councillor Julia Havis
Councillor Peter Higgins
Councillor Ben Locker
Councillor Fiona Maclean

Chairman
Deputy Chairman

Substitutes:

All members of the Council who are not Cabinet members or members of this Panel.

AGENDA - Part A
(open to the public including the press)

Members of the public may wish to note that Agenda items 1 to 5 are normally brief.

1 Welcome and Announcements

- a) The Chairman to welcome members of the public and Councillors and to remind all speakers of the requirement for microphones to be used at all times.
- (b) At the Chairman's discretion, to announce information on:
 - action in the event of an emergency;
 - mobile phones switched to silent;
 - the audio-recording of meetings;
 - location of toilets;
 - introduction of members of the meeting.

2 Substitutions

Members may arrange for a substitute councillor to attend a meeting on their behalf, subject to prior notice being given. The attendance of substitute councillors must be recorded.

3 Urgent Items

To announce any items not on the agenda which the Chairman has agreed to consider because they are urgent, to give reasons for the urgency and to indicate where in the order of business the item will be considered.

The Chairman has agreed that the Committee should consider the attached report as a matter of urgency. The urgency arises from the need to make a recommendation which can be considered at the meeting of Full Council on 15 July 2015 to prevent the Council incurring the costs of holding a separate Special meeting.

Appointment of High Steward

See report by the Monitoring Officer

Appointment of High Steward

9 - 10

4 Declarations of Interest

The Chairman to invite Councillors to declare individually any interests they may have in the items on the agenda. Councillors should consult Meetings General Procedure Rule 7 for full guidance on the registration and declaration of interests. However Councillors may wish to note the following:-

- Where a Councillor has a disclosable pecuniary interest, other pecuniary interest or a non-pecuniary interest in any business of the authority and he/she is present at a meeting of the authority at which the business is considered, the Councillor must disclose to that meeting the existence and nature of that interest, whether or not such interest is registered on his/her register of Interests or if he/she has made a pending notification.
- If a Councillor has a disclosable pecuniary interest in a matter being considered at a meeting, he/she must not participate in any discussion or vote on the matter at the meeting. The Councillor must withdraw from the room where the meeting is being held unless he/she has received a dispensation from the Monitoring Officer.
- Where a Councillor has another pecuniary interest in a matter being considered at a meeting and where the interest is one which a member of the public with knowledge of the relevant facts would reasonably regard as so significant that it is likely to prejudice the Councillor's judgement of the public interest, the Councillor must disclose the existence and nature of the interest and withdraw from the room where the meeting is being held unless he/she has received a dispensation from the Monitoring Officer.
- Failure to comply with the arrangements regarding disclosable pecuniary interests without reasonable excuse is a criminal offence, with a penalty of up to £5,000 and disqualification from office for up to 5 years.

5 **Minutes**

To confirm as a correct record the minutes of the meeting held on 20 January 2015 and 27 May 2015.

20-01-15 11 - 18

27-05-15 19 - 20

6 **Have Your Say!**

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

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

7 **Work Programme 2015-16** 21 - 22

See report of Assistant Chief Executive

8 **Draft Annual Statement of Accounts 2014/15** 23 - 26

See report of Assistant Chief Executive

9 **Audit Plan and Annual Audit & Certification Fees** 27 - 54

See report of Assistant Chief Executive

10 **Year End Internal Audit Assurance Report 2014/15** 55 - 60

See report of Assistant Chief Executive

11 **Review of the Governance Framework and Draft Annual Governance Statement** 61 - 72

See report of Assistant Chief Executive

Exclusion of the Public (not Scrutiny or Executive)

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

Part B

(not open to the public including the press)

30 June 2015

Report of	Monitoring Officer	Author	Andrew Weavers
			☎ 282213
Title	Appointment of High Steward		
Wards affected	Not applicable		

This report requests the Committee to recommend that Sir Bob Russell be appointed as High Steward of Colchester

1. Decision Required

- 1.1 To recommend to Council that Sir Bob Russell be chosen as High Steward of the Borough of Colchester and a special meeting of the Council be convened on a date to be determined to pass an appropriate resolution.

2. Background

- 2.1 The office of High Steward was created in Colchester by means of a Royal Charter dated 9 July 1635, which was also the Charter that first gave the town a Mayor in place of two annually elected Bailiffs.

The Charter sets out the duties of the High Steward as being:-

“to advise and direct the Mayor and Commonalty of the same Borough in the chief business touching that Borough.”

The Charter goes on to say that after the death or resignation of a High Steward:-

“...at a time fitting.....it shall be rightfully lawful for the Mayor, Aldermen, Assistants, Common Council and Free Burgesses of the Commonalty of the Borough..... to choose and prefer one other as High Steward....”

- 2.1 The office of High Steward has been vacant since 2009 following the resignation of Professor Sir Ivor Crewe who held the office from 2003.

3. Proposal

- 3.1 The Leader of the Council and the Group Leaders agreed that Sir Bob Russell be offered the post of High Steward in recognition of his many years of public service to the Borough. Sir Bob Russell has subsequently accepted.
- 3.2 Sir Bob Russell will become the 23rd High Steward of the Borough of Colchester and the Committee is requested to recommend to full Council that it agrees to confer the title at a special meeting of the Council to be convened on a date to be determined.

4. Strategic Plan References

- 4.1 The manner in which Council governs its business is an underpinning mechanism in the Council's Strategic Plan aims to set out the direction and future potential for our Borough.

8. Financial Considerations

- 8.1 The only financial considerations are in relation to the costs of convening a special council meeting and a commemorative scroll. The special meeting will be held on the same day as the special meeting convened for the conferment of new Honorary Aldermen.

9. Equality, Diversity and Human Rights Implications

- 9.1 No direct implications

10. Publicity Considerations

- 10.1 The special council meeting will be open to the public and details will be published on the Council's website.

11. Consultation, Community Safety, Health and Safety and Risk Management Implications

- 11.1 No direct implications.

GOVERNANCE COMMITTEE

20 JANUARY 2015

Present :- Councillor Liddy, Councillor Arnold, Councillor Chapman, Councillor Cope, Councillor Graham, Councillor Sheane, Councillor Sykes

Substitutions :- Councillor Frame for Councillor Offen

Also Present:- Councillor G. Oxford and Councillor Feltham

34. Minutes

RESOLVED that the minutes of the meeting on 25 November were confirmed as a correct record.

35. Have Your Say!

Councillor Oxford

Councillor Oxford attended the meeting to ask for further information regarding the theft of 29,000 gallons of fuel as stated within the Risk Management Progress report. Councillor Oxford asked how far apart each of the thefts were and whether there was an opportunity to improve the security at the site in between the two thefts.

In response to Councillor Oxford's question, Hayley McGrath, Corporate Governance Manager, stated that there had been a four month period in between the two thefts. After the first theft the lighting, access and the CCTV monitoring were improved at the site. Further work at that time would have required significant investment, and Police advice stated that this was a highly organised gang who would have moved on.

As a result of the second theft, dedicated funding was provided from the Risk Management Budget. This included constructing secure fencing around the fuel store and using strong locks that met the requirement of the insurers. As part of the process the insurance provider was invited to the site to assess the proposals. Since these additional security measures were installed over a year ago, there have been no subsequent issues.

36. Work Programme

Councillor Liddy introduced the Governance Committee Work Programme for 2014/15.

RESOLVED that the Work Programme 2014/15 for the Governance Committee be noted.

36. Certification of Claims and Returns – Annual Report 2013/14

Debbie Hanson, Audit Director, and Francesca Palmer, Audit Manager, from Ernst and Young introduced the Certification of Claims and Returns Annual Report 2013/14.

The report summarises the outcomes of the Auditor's certification work on the Council's claims and returns for 2013/14. The work relates to two claims and returns with a total value of £58m.

Francesca Palmer stated that there were three issues included within Ernst and Young's letter to the Department for Work and Pensions. The first was the Authority uprating occupational pensions by inflation annually. This approach is not provided in the guidance as claimants are responsible for informing the authority of any changes in income. If occupational pensions are not increased by inflation annually then this would lead to an underpayment of benefit and subsidy.

The second issue identified six cases out of a total of ten tested which incorrect had an uprating of War pensions, incorrect application of applicable amounts and incorrect percentage uprating of occupational pensions resulting in both underpayment and overpayment of benefit and therefore subsidy. The level of impact of this issue is minimal, with all cases to be reviewed to determine whether the assessment is correct. A robust assessment will be carried out this year to ensure that the correct benefit is paid and subsidy claimed.

The third element is regarding the underpayment of benefits in two cases, where electronic information was updated a week later than required. Extended testing was not required; however Ernst and Young are required to report the underpayments to the DWP in a qualification letter.

In addition to the three points, there were amendments made to the housing benefit claim which meant that Colchester Borough Council was due an extra £13,284.

As the claim is extremely complex and high value, the number of issues identified is very low compared to other authorities, with Colchester Borough Council having a good level of performance.

The following issues were raised by Councillors:

- Councillor Frame – Questioned whether the issues identified could occur again?
- Councillor Arnold – Questioned whether responses had been received from the Department of Work and Pensions?

Francesca Palmer and Debbie Hanson, provided the following responses:

- The issues may or may not appear again due to the complex nature, would not say that the system was not robust. It is very rare to find no issues as it depends on the claims that are investigated.
- The Department for Work and Pensions have responded to the issues identified by Ernst and Young. No further work is required on the uprating of income or the testing or rent rebates, but there is some further work required on the war widow pensions.

RESOLVED the Certification of Claims and Returns be noted.

37. Equality and Diversity – Annual Update Report

Andrew Harley, Equality and Safeguarding Coordinator, and Lucie Breadman, Head of Community Services, introduced the Equality and Diversity Annual Update Report. The report includes the progress made to date in the Council meeting its statutory duties and Equality and Diversity objectives including the Public Sector Equality Duty. The report also includes future aims for the Council in meeting the objectives.

Andrew Harley stated that the Council continues an active commitment to the Brown Principles as part of the Public Sector Equality Duty, this includes continuing use of the Equality Impact Assessments. EQIA's provide an invaluable framework within which impacts upon the 'protected characteristics' can be consciously and systematically evaluated and addressed.

Andrew Harley stated that the Council has had feedback regarding whether it has due regard to the aims of general duty as part of a legal challenge from a local group in respect of the decision to impose experimental road traffic orders in 2013. The outcome of the review was that Colchester Borough Council 'had regard to the interests of both disabled people and people with other protected characteristics within the meaning to the Equality Act.' A peer challenge has also taken place noting that Colchester Borough Council's work with Essex County Council has been very effective.

As part of the Equality and Diversity Annual Update report, there are a number of proposals for 2015, including the Council implementing a more sophisticated system for handling corporate complaints to facilitate the collation and analysis of data analysis of equality monitoring information, and the continuation of the use of Equality Impact Assessments.

Andrew Harley stated that Equality and Diversity is extremely important as a key area of risk, as there is potential for unlimited compensation, and significant reputational damage to the Council.

The following issues were identified by Councillors:

- Councillor Cope – Asked for clarification on non-delegable duty, and where the ultimate responsibility resides for the Council?
- Councillor Arnold – Questioned whether Equality and Diversity is included in the Risk report?
- Councillor Frame – Are there equality and diversity refresher training courses?
- Councillor Sheane – Applauded the case studies included in the report.
- Councillor Cope – How do Councillors fit in with the Equality and Diversity Strategy?

Andrew Harley, and Lucie Breadman responded to the issues raised by Councillors.

- The obligations and objectives as part of the public sector duty are incorporated into the Strategic Plan Action Plan. The responsibility depends on the details of the case, as an individual could be liable. However, it is the duty of the Council to reduce the risk as much as possible.
- In response to Councillor Arnold, the level of risk is included within the Risk Management report but under a wider umbrella of Section 6A page 60 'Failure to protect public funds and resources – ineffective probity/monitoring systems.'

- Staff are provided with Equality and Diversity training at their inductions, with Equality Impact Assessment training provided to key staff. Currently refresher training for all staff does not take place. Safeguarding training is provided online, and all equality and diversity policies are located online. There are also 'Champions' within each service area who provide updates on the latest developments in Equality and Diversity. In circumstances where there have been individual cases refresher training is available to management or HR.
- Councillors have had sessions regarding Equality and Diversity in previous years, and another is currently planned for this year. Andrew Harley encouraged as many councillors as possible to attend as it is part of member development. The General Duty applies to both Councillors and members of staff.

RESOLVED that

- a) the Governance Committee reviewed the Equality and Diversity Annual Update Report.
- b) The Governance Committee endorse the proposals set out in the report for 2015.

38. Annual Review of Business Continuity

Hayley McGrath, Corporate Governance Manager, introduced the Annual Review of Business Continuity. The report outlines the business continuity work undertaken during the period 1 October 2013 to 30 September 2014, the Business Continuity Strategy and the intended work plan for 2014/15.

Hayley McGrath stated that under the Civil Contingencies Act 2004 the Council has two duties relating to business continuity. The first is that the Council needs to be able to carry on providing its own services in the event of a disruption. The second duty is to provide advance and guidance relating to business continuity to local businesses and voluntary organisations.

The responsibility for ensuring that the Council has effective business continuity plans rests with the Chief Operating Officer and the function is delivered by the Corporate Governance Team. Business continuity issues, such as emergencies or service disruption are primarily reported to the 'First Call Officer' Group, which comprises of Senior Management and other key staff. The duty to provide advice and guidance to local businesses sits within the Corporate Governance Team.

Work undertaken from October 2013 to September 2014, included service plan reviews following the reorganisations, as well as developing further links with organisations and training. The key risks have also been reviewed, and they continue to be the loss of IT services and the buildings. In addition, the self-assessment was carried out in January 2014, this benchmarked Colchester against other Essex Local Authorities. As a result Colchester is slightly above average, but still has a number of processes required to be embedded. Hayley McGrath stated that during this period she had attended several events including Annual Parish Council Meetings and countywide training exercises.

A number of project items have occurred during the year, which included the service review of Corporate and Financial Management. This has enabled the creation of a dedicated

Emergency Planning and Business Continuity Officer post, which provided additional resilience.

A further significant project was the movement of ICT servers to Braintree District Council during the last weekend of August. As part of this move a significant amount of business continuity work was undertaken identifying the risks and potential impacts. Information had to be distributed to each service area outlining that there would be no IT access at all over the weekend of the move. In addition the Council took the opportunity to launch a new website. The project was successful with limited downtime on Monday morning, and services returning to normal by the Monday afternoon.

The Business Continuity Strategy for 2014/15 has been updated as part of its annual review. The Strategy continues to meet the needs of the organisation and no fundamental changes are required.

As part of the Work Plan for 2014/15, there are three areas of work which have been identified after the self-assessment. These include Auditing Service Plans to ensure that they are complete and fit for purpose, developing a comprehensive self-serve presence on the Hub, and mapping business continuity plans with significant partners and contractors.

The following issues were raised by Councillors:

- Councillor Graham – Questioned the confidentiality around the movement of IT servers and whether there is a disaster recovery system?
- Councillor Arnold – Asked for information regarding the back-up of IT servers.
- Councillor Frame – Exercise to test the robustness of the services that we have.
- Councillor Cope – Why were the servers moved from Colchester to Braintree and what are the risks associated?
- Councillor Chapman – How proactive is Colchester borough Council in providing advice to local businesses?

Hayley McGrath and Ann Hedges provided the following responses to issues raised the Councillors:

- Confidentiality was considered and assessed with this project. Information was provided to members of the public highlighting that all Council services would be offline for the duration of the weekend for maintenance. Communication to officers and Councillors was more open and transparent. With regard to disaster recovery, Braintree District Council and Colchester Borough Council have the same IT contractor, and are working together to develop a disaster recovery procedure. The backup systems have also been replaced.
- Moving the ICT Servers to Braintree District Council is part of an investment in IT at the Council. With regard to the Back-up, information is accessible, but servers would be required to be commissioned to access the information. Colchester Borough Council has gone as far as possible with the appropriate level of resources due to the significant cost associated with running a backup server. If Rowan House was lost all members of staff would still be able to log in to the network and continue to work.

- Exercises do occur, and have happened with partner organisations. The First Call Officer group meet every two months for training and development. Each officer is on-call for a month each year, and receives on average two to three calls a month covering a range of events from minor to more significant.
- A range of options were reviewed in advance of the server move, the reason behind the move was because of the decision to leave Angel Court which saves £280,000 per year. The options that were reviewed included locating the servers at Rowan House, as well as other authorities, but these were not feasible. Braintree District Council had just refurbished their server room and had additional space. Colchester and Braintree also share the same IT contract with Capita and use many of the same systems. A significant amount of risk management was undertaken in advance of the move. Whilst there are already existing IT business continuity plans, since the move Colchester Borough Council has been developing a more in depth plans with Braintree.
- Information must be provided if requested. Colchester Borough Council includes a link to the Essex Resilience forum on its website, and provides business continuity templates. Roadshows have also been held to provide further information, and in the past business rate invoices have been used to highlight the service that Colchester Borough Council provides.

RESOLVED that the Annual Review of Business Continuity be noted.

39. Risk Management Progress Report

Councillor Graham (in respect of working for Holmes and Hills LLP UK relating to vehicle insurance) declared their non-pecuniary interests in the following item pursuant to the provisions of Meetings General Procedure 7(5).

Hayley McGrath, Corporate Governance Manager, introduced the Risk Management Progress Report which identifies the work undertaken since last August, and the current strategic risk register. The Risk Register is reviewed every quarter by the Senior Management Team, and consists of strategic, operational and project risks that have been identified.

As part of the work undertaken during June 2014, Corporate and Financial Management underwent a Fundamental Service Review, and Risk Management is now incorporated into the Corporate Governance Team. Further developments during the year have included the revised Risk Management Strategy being approved by Cabinet and Full Council, after it was agreed at the Governance Committee in August 2014.

The Council's insurance was renewed on 1 August 2014, with all the rates remaining the same other than the motor vehicle premium which increased. Whilst Colchester Borough Council has seen a reduction in the number of incidents, the cost for each claim has increased. Colchester has set up a working group to monitor and manage the motor fleet, and to further reduce the number of claims.

Hayley McGrath stated that during 2013, there were two thefts of fuel from the Shrub End depot. There was a four month gap between the two thefts, and a full recovery of the fuel

cost was made through the insurance policy, without further increase in the cost. Since the two thefts there have been no further losses.

Included as appendices within the report is the Strategic Risk Register and the Risk Matrix, which highlight that the three highest risk remain the same since the last report and focus on the continual risk associated with government funding.

The following issues were identified by Councillors:

- Councillor Arnold – Could the provision of CCTV at the site be improved given advances in technology? Asked for further information about the work that has been done to reduce the number of incidents.
- Councillor Frame – Questioned the high risk associated with risk 4d ‘the ‘potential impact of future central government decisions to reduce public funding, including that of our partners’.
- Councillor Sheane – What is the total insurance premium?
- Councillor Graham – Clarification on the rate of increase of the premium? Also asked for an update of driver training?
- Councillor Frame – Has CBC looked at the possibility of self-insuring?

Hayley McGrath and Ann Hedges provided the following responses to the issues identified:

- The current infrastructure provides recorded 24 hour CCTV coverage; the cost of networking the camera to the CCTV control area would be more expensive than the gain of implementing it. With regard to the number of motor vehicle incidents, there had been a dramatic increase in the number of claims over the last few years, which tended to be low speed and low impact. This is due to the difficulty of manoeuvring very large waste vehicles, particularly whilst reversing. As part of the attempt to reduce these numbers every driver has been issued with a manual outlining the policies, and rules and regulations of driving. The Fleet Advisory Group consisting of managers, drivers, Risk and Insurance, HR and Health and Safety Officers monitor the management of drivers. Recycling and Waste team leaders meet quarterly, and the information provided at the meeting includes an anonymised chart of the number of accidents per driver. Accidents are taken on a case by case basis; drivers have to be extremely skilled to reverse waste vehicles and will be defended by Colchester Borough Council when necessary, however disciplinary action can also occur.
- The level of Government grant has continued to reduce; it now makes up approximately £2m, of a £40m controllable budget. The Government grant is reducing and therefore the risk isn’t as high, and the numbers in the report will be reversed as the probability is higher than the impact.
- With regard to the external premium, this is approximately £750,000-£800,000 per year. The majority of policies are insured with Zurich Municipal. The Fleet policy alone totals £150,000-£200,000 per year.
- The increase in motor vehicle insurance rose from £1500 to £1800 per vehicle. The increase in the cost of claims is as a result of the use of third party vehicle insurers using claims management companies. Colchester Borough Council has attempted to manage this process with its own insurance company providing a cheaper claims

management using specific garages and courtesy cars. The extent of the claims is also increasing, further increasing the cost. With regard to training, there has been a focus on particular areas and drivers when necessary.

- Colchester Borough Council has the ability to self-insure, and to self-deduct. As part of the tender process for future insurance cover, this issue is looked at each time. For this particular year for renewals, the current scheme provided the most appropriate level of cover. Consideration is being given for excess on third party claims.

RESOLVED that the Risk Management Progress report be noted.

GOVERNANCE COMMITTEE

27 MAY 2015

Present :- Councillor Liddy, Councillor Arnold, Councillor Elliot, Councillor Havis, Councillor Hayes, Councillor P. Higgins, Councillor Locker, Councillor Maclean

1. Appointment of Chairman

RESOLVED that Councillor Liddy be appointed Chairman for the ensuing Municipal Year.

2. Appointment of Deputy Chairman

RESOLVED that Councillor Hayes be appointed Deputy Chairman for the ensuing Municipal Year.

30 June 2015

Report of	Assistant Chief Executive	Author	Jonathan Baker
Title	Work Programme 2015-16		☎ 282207
Wards affected	Not applicable		

This report sets out the current Work Programme 2015-2016 for the Governance Committee.

1. Decisions Required

- 1.1 The Committee is asked to note the contents Committee's Work Programme for 2015-16.

2. Alternative options

- 2.1 This function forms part of the Committee's Terms of Reference and, as such, no alternative options are presented.

3. Introduction

- 3.1 The Governance Committee deals with the approval of the Council's Statement of Accounts, audit, other miscellaneous regulatory matters and standards.
- 3.2 The Committee's work programme will evolve as the Municipal Year progresses and items of business are commenced and concluded. At each meeting the opportunity is taken for the work programme to be reviewed and, if necessary, amended according to current circumstances.

4. Strategic Plan References

- 4.1 Governance is integral to the delivery of the Strategic Plan's vision themes of a vibrant, prosperous, thriving and welcoming Borough.
- 4.2 The Council recognises that effective local government relies on establishing and maintaining the public's confidence, and that setting high standards of self governance provides a clear and demonstrable lead. Effective governance underpins the implementation and application of all aspects of the Council's work.

5. Standard References

- 5.1 There are no particular references to publicity or consultation considerations; or financial; equality, diversity and human rights; community safety; health and safety or risk management implications.

WORK PROGRAMME 2015-16

Meeting date / Agenda items
30 June 2015 <ol style="list-style-type: none"> 1. Audit Plan and Annual Audit & Certification Fees (Ernst and Young) 2. 2014/15 Annual Governance Statement and Framework (Corporate Governance Manager) 3. Year End Internal Audit Assurance Report 2014/15 (Audit and Governance) 4. Draft Annual Statement of Accounts 2014/15 (Finance Manager)
28 July 2015 <ol style="list-style-type: none"> 1. 2014/15 Annual Governance Statement and Audit Report CBH (David Lincoln CBH)
25 August 2015 <ol style="list-style-type: none"> 1. Polling District and Place Review 2. 2015/16 Risk Management Strategy
8th September <ol style="list-style-type: none"> 1. Audited Annual Statement of Accounts (Finance Manager) 2. Annual Results Report (ISA+260) (Ernst and Young)
13 October 2015 <ol style="list-style-type: none"> 1. Publication of the Audited Statement of Accounts (Finance Manager) 2. Local Government Ombudsman Annual Review (Monitoring Officer) 3. Review of the Council's Ethical Governance Policies (Monitoring Officer) 4. Review of the Members' Code of Conduct and the Council's "Arrangements" (Monitoring Officer) 5. Gifts and Hospitality – Review of Guidance for Councillors and Policy for Officers (Monitoring Officer) 6. Review of Local Code of Corporate Governance (Monitoring Officer)
24 November 2015 <ol style="list-style-type: none"> 1. Annual Audit Letter (Ernst and Young) 2. 2015-16 Interim Annual Governance Statement (Corporate Governance Manager) 3. 2015-16 Interim Internal Audit Monitor (Corporate Governance Manager)
19 January 2016 <ol style="list-style-type: none"> 1. Certification of Claims and Returns – Annual Report 2014/15 (Ernst and Young) 2. Annual Review of Business Continuity (Corporate Governance Manager) 3. Risk Management Progress Report (Corporate Governance Manager) 4. Equality and Diversity Annual Update Report

30 June 2015

Report of	Assistant Chief Executive	Author	Steve Heath ☎ 282389
Title	Draft Annual Statement of Accounts 2014/15		
Wards affected	Not applicable		

This report sets out the arrangements for the audit and approval of the Draft Statement of Accounts for 2014/2015

1. Decisions Required

- 1.1 To consider this report relating to the pre-audit Statement of Accounts for 2014/15.
- 1.2 To consider the proposal for a separate internal briefing session for the Committee, and the deadline for approval of the audited accounts of 30 September 2014.

2. Statement of Accounts 2014/15

- 2.1 In June 2014 The DCLG began a consultation process on a number of matters relating to the audit of local public bodies. The consultation includes the following proposals:
 - To bring forward the deadline for the draft accounts to be certified by the Responsible Financial Officer from 30 June to 31 May.
 - To bring forward the deadline for approving and publishing the audited accounts from 30 September to 31 July.
- 2.2 Both changes are proposed to be effective from the accounts for 2017/18. This period of notice was intended to give authorities time to make the necessary changes in their processes, but it was hoped that they will move to the new timetable as soon as they can. Accordingly, officers decided to work towards achieving the proposed deadline for the 2014/15 accounts.
- 2.3 The draft accounts for 2014/15 have now been compiled, and they were certified by the Responsible Financial Officer on 2 June 2015, in advance of the statutory deadline of 30 June. It is suggested good practice to publish the draft Statement of Accounts on the Council's website, in line with the Government's policy of increased transparency. This took place on 5 June, and the accounts can be accessed via the link below:

<http://www.colchester.gov.uk/article/11907/Statement-of-Accounts---Colchester-Borough-Council>
- 2.4 The Statement of Accounts for 2014/15 has been prepared using the International Financial Reporting Standards (IFRS) based Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and the Service Reporting Code of Practice 2014/15. The key areas of the Statement of Accounts, including the main financial statements are explained in the annex to this report.

- 2.5 The final accounts audit is due to commence on 13 July, and the External Auditor will report to the meeting of this Committee on 8 September. The report will detail the findings of the final accounts audit, address any matters arising out of the audit and comment on the proposed audit opinion on the accounts. The Responsible Financial Officer must re-certify the presentation of the annual accounts before Member approval is given.
- 2.6 As has been the case in prior years, it is proposed that an internal briefing session for Members is arranged to take place prior to the 8 September Committee where Members will be asked to approve the certified accounts. This session will seek to explain the purpose of the main statements, and provide a broader understanding of the contents of the accounts and the Auditors' report. This, in turn, should enable Members approving the accounts to be satisfied that the presentation appears appropriate, and that the accounts are consistent with other financial information provided. Members are requested to advise of any particular areas of concern prior to this date so they can be addressed within the session.
- 2.7 The Council needs to have secured Member approval and published the accounts with the audit opinion and certificate by the statutory deadline of 30 September 2015. The published statement, including the Auditors' opinion, will then be reported to the meeting of the Committee on 13 October 2015.
- 3. Strategic Plan References**
- 3.1 The objectives and priorities of the Strategic Plan informed all stages of the budget process for 2014/15.
- 4. Publicity Considerations**
- 4.1 The accounts are open for public inspection from Monday 22 June to Monday 20 July to meet our legal duties. These dates were advertised in the local press on Friday 29 May. They are also shown on the Council's website.
- 4.2 Staff will be available to provide information and respond to questions during this period. The local press also usually take the opportunity to view the accounts and information will be provided as appropriate.
- 5. Financial Implications**
- 5.1 The approval of the Statement of Accounts meets a statutory requirement for financial reporting and is an important part of the process to demonstrate accountability in the use of public funds.
- 5.2 The Scrutiny Panel received periodic financial reports during the course of the financial year. The pre-audit revenue and capital outturn results for the financial year 2014/15 were considered by the Scrutiny Panel on 16 June 2015.
- 6. Other Standard References**
- 6.1 Having considered consultation, equality, diversity and human rights, community safety, health and safety and risk management implications, there are none that are significant to the matters in this report.

Background Papers

None

Key Areas of the Statement of Accounts

Movement in Reserves Statement

This statement is a summary of the movements in the year on the different reserves held by the Council. The reserves are analysed into 'usable reserves' and 'unusable reserves'.

Usable reserves are those that can be applied to fund expenditure or reduce local taxation. Unusable reserves include a number of adjustments that reflect the difference between the requirements of proper accounting practices and the statutory arrangements for the setting of Council Tax and Housing Rents.

Comprehensive Income and Expenditure Account

This statement consolidates all the gains and losses experienced by the Council during the financial year as a result of incurring expenditure on its major functions, and generating income from the Collection Fund and from Central Government. The total of this account shows the increase/decrease in the net worth of the Council, which agrees to the movement on the Total Net Assets shown on the Balance Sheet.

Balance Sheet

This statement summarises the Council's financial position at the year end. It shows assets and liabilities that the Council holds or has accrued with other parties. These are matched by the reserves available to the Council, which fall into two categories – usable and unusable.

Cash Flow Statement

This statement summarises the cash flows that have taken place into and out of the Council's bank accounts over the financial year. It separates the flows that have occurred as a result of the Council's operations, those flows arising from investing activities and those flows attributable to financing decisions made by the Council.

Housing Revenue Account Income and Expenditure Statement

This statement reflects the requirement to account separately for income and expenditure relating to the assets held by the Council for the purposes of housing. It shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. The increase or decrease on the HRA balance on the basis on which rents are raised, is shown in the Movement on the Housing Revenue Account Statement.

Collection Fund Accounts

These accounts show the amounts involved in the collection and distribution of Council Tax and Non-Domestic Rates. The year end balances are distributed across the Balance Sheets of the Billing authority, Government and Precepting authorities in accordance with the IFRS Code.

Group Accounts

These accounts bring together the financial position of the Council and its interest in Colchester Borough Homes Limited and Colchester Community Stadium Limited.

30 June 2015

Report of	Assistant Chief Executive	Author	Steve Heath ☎ 282389
Title	Audit Plan and Annual Audit & Certification Fees		
Wards affected	Not applicable		

The accompanying reports from Ernst & young sets out their Audit Plan for the financial year ending 31 March 2015, and Audit and Certification Fees for 2015/16

1. Action required

- 1.1 To consider and note the contents of the Audit Plan for year ending 31 March 2015.
- 1.2 To consider and note the indicative audit and certification fees for 2015/16.

2. Reason for scrutiny

- 2.1 The Accounts and Audit Regulations require the Council to review the proposed audit approach and scope for the 2015 audit.
- 2.2 To ensure that the audit is aligned with the Committee's service expectations.

3. Supporting information

- 3.1 The Audit Plan for year ending 31 March 2015 summarises the Auditor's assessment of the key risks facing the Council's financial statements, and outlines the planned audit strategy in response to those risks.
- 3.2 The Audit and Certification fees letter confirms the work that the auditors propose to undertake for the 2015/16 financial year.

4. Strategic Plan references

- 4.1 The objectives and priorities of the Strategic Plan informed all stages of the budget process for 2014/15.

5. Other Standard References

- 5.1 Having considered financial implications, publicity, equality, diversity and human rights, health and safety, community safety and risk management implications, there are none that are significant to the matters in this report.

Attached Documents:

Audit Plan for year ending 31 March 2015
Annual Audit and Certification Fees 2015/16

Colchester Borough Council

Year ending 31 March 2015

Audit Plan

16 June 2015

Ernst & Young LLP



Building a better
working world

Governance Committee
Colchester Borough Council
Rowan House
33 Sheepen Road
Colchester
CO3 3WG

16 June 2015

Dear Committee Members


Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Governance Committee with a basis to review our proposed audit approach and scope for the 2014/15 audit in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, Standing Guidance, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this plan with you on 30 June 2015 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully



Debbie Hanson
For and behalf of Ernst & Young LLP
Enc

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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Audit Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Overview

Context for the audit

This Audit Plan covers the work that we plan to perform to provide you with:

- ▶ Our audit opinion on whether the financial statements of Colchester Borough Council] give a true and fair view of the financial position as at 31 March 2015 and of the income and expenditure for the year then ended;
- ▶ A statutory conclusion on the Council's arrangements to secure economy, efficiency and effectiveness;

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements;
- ▶ Developments in financial reporting and auditing standards;
- ▶ The quality of systems and processes;
- ▶ Changes in the business and regulatory environment; and
- ▶ Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council. Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

In parts three and four of this plan we provide more detail on the above areas and we outline our plans to address them. Our proposed audit process and strategy are summarised below and set out in more detail in section five. We will provide an update to the Governance Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September 2015.

Our process and strategy

Financial statement audit

We consider materiality in terms of the possible impact of an error or omission on the financial statements and set an overall planning materiality level. We then set a tolerable error to reduce the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality to an appropriately low level. We also assess each disclosure and consider qualitative issues affecting materiality as well as quantitative issues.

Our intention is to carry out a fully substantive audit in 2014/15 as we believe this to be the most efficient audit approach.

Key changes to our team

Francesca Palmer has taken over as Audit Manager from Gary Belcher for the 2014/15 audit.

Arrangements for securing economy, efficiency and effectiveness

Our approach to the value for money (VFM) conclusion for Colchester Borough Council for 2014/15 is based on criteria specified by the Audit Commission relating to whether there are proper arrangements in place within the Council for:

- ▶ Securing financial resilience
- ▶ Challenging how the Council secures economy, efficiency and effectiveness.

We adopt an integrated audit approach, so our work on the financial statement audit feeds into our consideration of the arrangements in place for securing economy, efficiency and effectiveness.

Further detail is included in section four of this Audit Plan.

2. The Local Audit and Accountability Act 2014

The Local Audit and Accountability Act 2014 (the 2014 Act) closes the Audit Commission and repeals the Audit Commission Act 1998.

The 2014 Act requires the Comptroller and Auditor General to prepare a Code of Audit Practice. This must be laid before Parliament and approved before 1 April 2015.

Although this new Code will apply from 1 April 2015, transitional provisions within the 2014 Act provide for the Audit Commission's 2010 Code to continue to apply to audit work in respect of the 2014/15 financial year. This plan is therefore prepared on the basis of the continued application of the 2010 Code of Audit Practice throughout the 2014/15 audit.

3. Financial statement risks

We outline below our assessment of the financial statement risks facing the Council, identified through our knowledge of the Council's operations and discussion with those charged with governance and officers.

At our meeting, we will seek to validate these with you.

Significant risks (including fraud risks)	Our audit approach
Risk of management override	
<p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p> <p>For local authorities the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override. We will undertake specific testing to address this risk.</p> <p>Following the localisation of business rates in 2013 the Council is now responsible for paying rating appeals. This not only includes claims from 1 April 2013 but also claims that relate to earlier periods. As appeals are made to the valuation office the Council may find it difficult to obtain sufficient information to establish an appropriate estimate. Although 2014/15 is the second year for which the Council has assumed this liability and has therefore had to calculate an associated provision, a cut off applied at the 31 March 2015 for the submission of any backdated appeals, along with some settlements during 2014/15 which were significantly in excess of the amount the Council provided for, means that there remains a significant risk around this estimate.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; ▶ Reviewing accounting estimates for evidence of management bias; ▶ Evaluating the business rationale for significant unusual transactions; and ▶ Reviewing capital expenditure on property, plant and equipment to ensure it meets the relevant capital accounting requirements to be capitalised ▶ We will review the Council's provision for business rate appeals to ensure that it has been calculated on a reasonable basis in line with IAS37. As part of this we will ensure that the provision is supported by appropriate evidence and the level of estimation uncertainty is adequately disclosed in the accounts. We will also consider the adequacy of the previous year's provision by reference to any appeals settled in the year.
Other financial statement risks	
Group accounting standards	
<p>The 2014/15 CIPFA Code of Practice introduces new accounting practices in relation to:</p> <ul style="list-style-type: none"> ▶ The specification of new control criteria under IFRS 10 (consolidated financial statements); ▶ New classification requirements for joint arrangements under IFRS 11 (joint arrangements); and ▶ The requirements of the new disclosures standard IFRS 12 (disclosures of interests in other entities). <p>The Council will therefore need to assess its group relationships in line with the new standards and as a result any associated group boundary changes may need to be reflected in the accounts.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Evaluating management's controls to ensure all group assessment considerations have been made; and ▶ Reviewing the reasonableness of the group assessment against the requirements of the Code and International Financial Reporting Standards (IFRS).

Respective responsibilities in relation to fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether

caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ▶ Identifying fraud risks during the planning stages;
- ▶ Enquiry of management about risks of fraud and the controls to address those risks;
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud;
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud;
- ▶ Determining an appropriate strategy to address any identified risks of fraud; and
- ▶ Performing mandatory procedures regardless of specifically identified fraud risks.

We will consider the results of the National Fraud Initiative and may refer to it in our reporting to you.

4. Economy, efficiency and effectiveness

Our approach to the value for money (VFM) conclusion for Colchester Borough Council for 2014/15 is based on criteria specified by the Audit Commission relating to whether there are proper arrangements in place at the Council for securing:

1. Financial resilience, and
2. Economy, efficiency and effectiveness in the use of resources.

The Audit Commission VFM guidance for 2014/15 requires that auditors consider and assess the significant risks of giving a wrong conclusion and carry out as much work as is appropriate to enable them to give a safe conclusion on arrangements to secure VFM.

Our assessment of what is a significant risk is a matter of professional judgement, and is based on consideration of both quantitative and qualitative aspects of the subject matter in question.

For those significant risks identified by our risk assessment that are relevant to our VFM conclusion, where these risks will not be addressed by our financial statements audit work or work undertaken by the Council, Audit Commission or other review agency, we consider the need to undertake local VFM work.

We have undertaken a high-level risk assessment at this stage of our planning and have not identified any significant risks. We have however identified the following area that we will focus on as part of our assessment.

Area of focus	Impacts arrangements for securing:	Our audit approach
<p>To date the Council has responded well to the financial pressure resulting from the continuing economic downturn.</p> <p>However, the Comprehensive Spending Review will continue to impact on the Council's budget and MTFS during current and forthcoming financial years.</p>	Financial resilience	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ The adequacy of the Council's budget setting process. ▶ The robustness of any assumptions. ▶ The effective use of scenario planning to assist the budget setting process. ▶ The effectiveness of in year monitoring against the budget. ▶ The Council's approach to prioritising resources whilst maintaining services, including a focus on partnership arrangements and asset utilisation.

We will keep our risk assessment under review throughout our audit and communicate to the Governance Committee any revisions to the specific risks identified here and any additional local risk-based work we may need to undertake as a result.

5. Our audit process and strategy

5.1 Objective and scope of our audit

Under the Audit Commission's Code of Audit Practice (the 'Code') our principal objectives are to review and report on, the Council's:

- ▶ Financial statements
- ▶ Arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue a two-part audit report covering both of these objectives.

i Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We will also review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require.

ii Arrangements for securing economy, efficiency and effectiveness

The Code sets out our responsibility to satisfy ourselves that the Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In arriving at our conclusion, we will rely as far as possible on the reported results of the work of other statutory inspectorates on corporate or service performance.

In examining the Council's corporate performance management and financial management arrangements, we consider the following criteria and areas of focus specified by the Audit Commission:

- ▶ Arrangements for securing financial resilience – whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- ▶ Arrangements for securing economy, efficiency and effectiveness – whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

5.2 Audit process overview

Our intention is to carry out a fully substantive audit in 2014/15 as we believe this to be the most efficient audit approach. Although we are not intending to rely on individual system controls in 2014/15, the overarching control arrangements form part of our assessment of your overall control environment and will form part of the evidence for your Annual Governance Statement. We will review the work completed by internal audit as part of this element of our work.

Processes

We are not planning to rely on testing of key controls and will take a fully substantive approach to the audit as we believe this is the most efficient approach.

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

Internal audit

As in prior years, we will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where we raise issues that could have an impact on the Councils year-end financial statements

Use of experts

In producing the financial statements, management will place reliance on the work undertaken by a small number of management's experts, including

- ▶ A professional valuer in relation to the valuation of property plant and equipment and investment property;
- ▶ An actuary in relation to the Council's liability to the local government pension scheme administered by Essex County Council; and
- ▶ A professional valuer in relation to the provision for NDR appeals.

We anticipate being able to undertake sufficient procedures such that we will be able to place reliance on the work undertaken by management's experts.

We also anticipate relying on the work of the experts commissioned by the Audit Commission in respect of land and property values, and the work undertaken by the pension scheme actuary appointed by Essex County Council.

We will utilise specialist EY resource, as necessary, to help us to form a view on judgments made in the financial statements. Our plan currently includes the involvement of specialists in pensions.

Reliance on the work of subsidiary auditors

Colchester Borough Homes (CBH) is considered to be a significant component of Colchester Borough Council Group accounts. Subject to appropriate access to records, we are planning to directly test expenditure incurred by CBH. We have determined that this will be a more efficient approach than instructing and undertaking a review of the audit work done by CBH's auditors.

Mandatory procedures required by auditing standards

As well as the financial statement risks outlined in section three, we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- ▶ Addressing the risk of fraud and error;
- ▶ Significant disclosures included in the financial statements;
- ▶ Entity-wide controls;
- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and

- ▶ Auditor independence.

Procedures required by the Code

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement
- ▶ Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO; and
- ▶ Reviewing and examining, where appropriate, evidence relevant to the Council's corporate performance management and financial management arrangements, and its reporting on these arrangements.

5.3 Materiality

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition. We have determined that overall materiality for the financial statements of the Council is £2,887k based on 2% of gross revenue expenditure.

We will communicate uncorrected audit misstatements greater than £144k to you.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

5.4 Fees

The Audit Commission has published a scale fee for all authorities. This is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice 2010. The indicative fee scale for the audit of Colchester Borough Council is £80,443. Further information is provided in Appendix A.

5.5 Your audit team

The engagement team is led by Debbie Hanson, who has significant experience on Colchester Borough Council. Debbie is supported by Francesca Palmer who is responsible for the day-to-day direction of audit work and is the key point of contact for the Council's finance team.

5.6 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the VFM work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the Governance Committee's cycle in 2014/15. These dates are determined to ensure our alignment with the Audit Commission's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Governance Committee and we will discuss them with the Committee Chair as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Council and external stakeholders, including members of the public.

Audit phase	Timetable	Governance Committee timetable	Deliverables
High level planning	April 2014	June 2014	Audit Fee letter
Risk assessment and setting of scopes	March 2015	June 2015	Audit Plan
Testing routine processes and controls	March 2015	June 2015	
Year-end audit	July – August 2015		
Completion of audit	September 2015	September 2015	Report to those charged with governance via the Audit Results Report Audit report (including our opinion on the financial statements and overall value for money conclusion). Audit completion certificate Reporting to the NAO on the Whole of Government Accounts return.
Conclusion of reporting	October 2015	November 2015	Annual Audit Letter

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

6. Independence

6.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that we are independent; ▶ Details of any inconsistencies between APB Ethical Standards, the Audit Commission's Standing Guidance and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ▶ An opportunity to discuss auditor independence issues.

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future contracted services, and details of any written proposal to provide non-audit services;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period are disclosed, analysed in appropriate categories.

6.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Council.

At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services, and we will comply with the policies that the Council has approved and that are in compliance with the Audit Commission's Standing Guidance.

At the time of writing, we have no undertaken any non-audit services in 2014/15

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to the Council. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 4.

Self-review threats

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no other self-review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions based on that work. There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

Overall Assessment

Overall we consider that the adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Debbie Hanson, the audit engagement Director and the audit engagement team have not been compromised.

6.3 Other required communications

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended 27 June 2014 and can be found here:

<http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2014>

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned fee 2014/15 £	Out-turn 2013/14 £	Published fee 2013/14 £	Explanation
Opinion Audit and VFM Conclusion	80,443	80,443	79,543	The increase of £900 from the 2013/14 published fee reflects the additional audit procedures required to gain sufficient audit assurance around business rate income and expenditure within the Collection Fund, following the removal of the requirement for audit certification of the business rates return
Total Audit Fee – Code work	80,443	80,443	79,543	
Certification of claims and returns ¹	19,690	17,517	17,517	

All fees exclude VAT.

The agreed fee presented above is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ The Audit Commission making no significant changes to the use of resources criteria on which our conclusion will be based;
- ▶ Our accounts opinion and use of resources conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

¹ Our fee for the certification of grant claims is based on the indicative scale fee set by the Audit Commission.

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the Governance Committee. These are detailed here:

Required communication	Reference
Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.	▶ Audit Plan
Significant findings from the audit <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	▶ Report to those charged with governance
Misstatements <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	▶ Report to those charged with governance
Fraud <ul style="list-style-type: none"> ▶ Enquiries of the Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	▶ Report to those charged with governance
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	▶ Report to those charged with governance
External confirmations <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	▶ Report to those charged with governance
Consideration of laws and regulations <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Governance Committee may be aware of 	▶ Report to those charged with governance

Required communication	Reference
Independence Communication of all significant facts and matters that bear on EY's objectivity and independence Communication of key elements of the audit engagement director's consideration of independence and objectivity such as: <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance
Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<ul style="list-style-type: none"> ▶ Report to those charged with governance
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Report to those charged with governance
Fee Information <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance ▶ Annual Audit Letter if considered necessary
Group audits <ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements 	Audit Plan
Certification work <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	<ul style="list-style-type: none"> ▶ Annual Report to those charged with governance summarising grant certification, ▶ Annual Audit Letter if considered necessary

Appendix C Detailed scopes

Our objective is to form an opinion on the group's consolidated financial statements under International Standards on Auditing (UK and Ireland).

We set audit scopes for each reporting unit which together enable us to form an opinion on the group accounts. We take into account the size, risk profile, changes in the business environment and other factors when assessing the level of work to be performed at each reporting unit.

- ▶ Full scope: locations deemed significant based on size and those with significant risk factors are subject to a full scope audit, covering all significant accounts and processes using materiality levels assigned by the EY audit team for the purposes of the consolidated audit. Procedures are full-scope in nature, but may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements (as materiality thresholds support to the consolidated audit).
- ▶ Specific scope: locations where only specific procedures are performed by the local audit team, based upon procedures, accounts or assertions identified by the EY audit team.
- ▶ Limited Scope: limited scope procedures primarily consist of enquiries of management and analytical review. On-site or desk top reviews may be performed, according to our assessment of risk.

The preliminary audit scopes we have adopted to enable us to report on the group accounts are set out below. Our audit approach is risk-based, and therefore the data below on coverage of turnover and profit before tax is provided for your information only.

Group audit scope	Number of locations	% of Gross Income	% of Net Expenditure
Full	0	0%	0%
Specific (Colchester Borough Homes)	1	0.04%	9.97%
On site limited	0	0%	0%
Off site limited (desktop) (Colchester Community Stadium Limited)	1	0.24%	0.03%

Changes from last year are:

- We are planning to undertake direct testing of income and expenditure on Colchester Borough Homes as this is considered to be a more efficient audit approach than instructing and reviewing the work of their auditor. There is no change to the approach to Colchester Community Stadium.

ISA 600 (UK and Ireland) requires that we provide you with an overview of the nature of our planned involvement in the work to be performed by the component auditors of significant locations/reporting units. Our involvement can be summarised as follows:

Location name	Other comments
Colchester Borough Homes - Specific testing	We will carry out direct testing of the Income and expenditure recorded in the accounts of Colchester Borough Homes to provide assurance over the transactions recorded in the group accounts. We will also review the final audited statements of CBH and the auditors board report.
Colchester Community Stadium Limited – Limited scope location	We will review the final audited financial statements of CCSL, and the auditor's board report when performing our tests of consolidation and analytical review of amounts feeding into the group statements.

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Sean Plummer
Finance Manager (S151 officer)
Colchester Borough Council
Rowan House
33 Sheepen Road
Colchester
CO3 3WG

21 April 2015

Ref: Colchester BC/Fee letter 15-16

Direct line: 01582 643008

Email: dhanson@uk.ey.com

Dear Sean

Annual Audit and Certification Fees 2015/16

We are writing to confirm the audit and certification work that we propose to undertake for the 2015/16 financial year at Colchester Borough Council.

Our 2015/16 audit is the first that we will undertake following the closure of the Audit Commission on 31 March 2015. Our contract will now be overseen by Public Sector Audit Appointments Ltd (PSAA), an independent company set up by the Local Government Association, until it ends in 2017 (or 2020 if extended by the Department of Communities and Local Government).

The responsibility for publishing the statutory Code of Audit Practice, under which we will conduct our audit work, has transferred to the National Audit Office.

Indicative audit fee

The fee reflects the risk-based approach to audit planning set out in the National Audit Office's Code of Audit Practice for the audit of local public bodies, applying from 2015/16 audits.

The audit fee covers the:

- Audit of the financial statements
- Value for money conclusion
- Whole of Government accounts.

For the 2015/16 financial year the Audit Commission has set the scale fee for each audited body prior to its closure. The scale fee is based on the fee initially set in the Audit Commission's 2012 procurement exercise, reduced by 25% following the further tendering of contracts in March 2014. It is not liable to increase during the remainder of our contract without a change in the scope of our audit responsibilities.

The 2015/16 scale fee is based on certain assumptions, including:

- The overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year;

- We are able to place reliance on the work of internal audit to the maximum extent possible under auditing standards;
- The financial statements will be available to us in line with the agreed timetable;
- Working papers and records provided to us in support of the financial statements are of a good quality and are provided in line with our agreed timetable; and
- Prompt responses are provided to our draft reports.

Meeting these assumptions will help ensure the delivery of our audit at the indicative audit fee which is set out in the table below.

For Colchester Borough Council this fee is set at the scale fee level as the overall level of audit risk is not significantly different from that of the prior year.

As we have not yet completed our audit for 2014/15, our audit planning process for 2015/16 will continue as the year progresses. Fees will be reviewed and updated as necessary, within the parameters of our contract.

Certification fee

The Audit Commission has set an indicative certification fee for housing benefit subsidy claim certification work for each audited benefits authority. The indicative fee is based on actual 2013/14 benefit certification fees and incorporating a 25 per cent reduction.

The indicative certification fee is based on the expectation that an audited body is able to provide the auditor with complete and materially accurate housing benefit subsidy claim with supporting working papers, within agreed timeframes.

The indicative certification fee for 2015/16 relates to work on the housing benefit subsidy claim for the year ended 31 March 2016. We have set the certification fee at the indicative fee level. We will update our risk assessment after we complete 2014/15 benefit certification work, and to reflect any further changes in the certification arrangements.

Summary of fees

	Indicative fee 2015/16 £	Planned fee 2014/15 £	Actual fee 2013/14 £
Total Code audit fee	60,332	80,443	80,443
Certification of housing benefit subsidy claim	12,557	19,691	16,743

Any additional work that we may agree to undertake (outside of the Code of Audit Practice) will be separately negotiated and agreed with you in advance.

Billing

The indicative audit fee will be billed in 4 quarterly instalments of £18,222.25.

Audit plan

Our plan will be issued in March 2016. This will communicate any significant financial statement risks identified, planned audit procedures to respond to those risks and any changes in fee. It will also set out the significant risks identified in relation to the value for money conclusion. Should we need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with the Director of Finance and, if necessary, prepare a report outlining the reasons for the fee change for discussion with the Audit Committee.

Audit team

The key members of the audit team for the 2015/16 financial year are:

Debbie Hanson
Director

dhanson@uk.ey.com

Tel: 01582 643008

Francesca Palmer
Assistant Manager

fpalmer@uk.ey.com

Tel: 07876 217697

We are committed to providing you with a high quality service. If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, please contact me. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London, SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute.

Yours faithfully



Debbie Hanson
Director
Ernst & Young LLP
United Kingdom

30 June 2015

Report of	Assistant Chief Executive	Author	Hayley McGrath 508902
Title	Year End Internal Audit Assurance Report 2014/15		
Wards affected	Not applicable		

This report summarises the performance of internal audit, and details the audits undertaken, between 1 October 2014 and 31 March 2015.

1. Decision Required

1.1 To review and comment on:

- Internal audit activity for the period 01 October 2014 – 31 March 2015.
- Performance of internal audit by reference to national best practice benchmarks.

2. Reason for Decision

- 2.1 The Accounts and Audit Regulations 2006 require that ‘a relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices’.
- 2.2 Internal audit is a key element of the Council’s corporate governance framework. Robust implementation of audit recommendations gives assurance to members and management that services are operating effectively, efficiently and economically and in accordance with legislative requirements and professional standards.

3. Key Messages

- An effective internal audit service was provided during the 2014/15 financial year.
- The assurance ratings for the Corporate Debt and Fuel Usage audits have increased from ‘limited’ to ‘substantial’.
- 54 priority 2 and 14 priority 3 recommendations have been made. All recommendations have been accepted by management.
- There continues to be good progress made in implementing and verifying outstanding recommendations.

4. Supporting Information

- 4.1 Using a risk-based approach, Internal Audit generates reports for all audits, with recommendations to improve the effectiveness of the internal control framework and maximise potential for service improvement across the Council. The audit plan consists of a mix of regularity, systems and probity audits. All audits now generate an assurance level and these are set out in appendix 1.
- 4.2 This report has been designed to show:
- Summary information concerning audits finalised in the period receiving a ‘Full’ or ‘Substantial’ assurance rating and more detailed information on those audits receiving a ‘Limited’ or ‘No’ assurance rating.
 - The effectiveness of the Internal Audit provider in delivering the service

5. Internal Audit Performance

5.1 Summary of Audits Finalised During the Period

During the period 01 October 2014 to 31 March 2015, a total of 24 audits have been finalised. There was no previous audit against which a change of level could be assessed in five of the audits. The assurance rating, for the remaining audits, improved in 11% of the audits carried out and remained the same in 89%. There were no audits where the level of assurance had declined.

Audit	Assurance Level	Change in Level	Priority of Recommendations			
			1	2	3	Agreed
902 – Procurement including Purchasing Cards	Substantial	►	0	4	0	4
906 – Homelessness / Housing Needs Register	Substantial	►	0	3	0	3
907 – Highwoods Country Park	Substantial	N/A	0	2	0	2
908 – Corporate Debt	Substantial	▲	0	1	0	1
910 – Disabled Facility Grants	Substantial	N/A	0	3	0	3
912 - NNDR	Substantial	►	0	0	2	2
913 – Housing Benefits and Local Tax Support Scheme	Substantial	►	0	4	0	4
915 - Helpline	Substantial	N/A	0	5	1	6
916 - Payroll	Substantial	►	0	1	1	2
917 - Creditors	Substantial	►	0	1	0	1
918 – Risk Management	Substantial	►	0	1	0	1
919 – Treasury Management	Substantial	►	0	2	0	2
921 – Budgetary Control	Substantial	►	0	2	0	2
922 – Housing Rents	Substantial	►	0	1	3	4
924 – Debtors	Full	►	0	0	0	0
925 – Fuel Usage	Substantial	▲	0	2	1	3
926 – General Ledger	Substantial	►	0	2	1	3
927 – Managing the Risk of Fraud	Substantial	►	0	2	1	3
928 - Museums	Substantial	►	0	4	0	4
929 – Parking Services Partnership	Substantial	►	0	4	0	4
931 – IT Network Infrastructure Health Check	Substantial	N/A	0	5	0	5
932 – IT Telecoms and VOIP	Substantial	N/A	0	2	4	6
933 – Cash Up – Leisure World	Substantial	►	0	2	0	2
934 – Cash Up – Castle Museum	Substantial	►	0	1	0	1

5.3 Use of Audit Resources:

	Days	%
Audit days delivered April – September 2014	134	35%
Audit days delivered October 2014 – March 2015	210	55%
Audit days remaining	40	10%
	384	100%

The 40 audit days remaining relate to the audits of Contract Management and Income. Completion of the audits has been delayed at our request and work is now underway as requested.

6. Status of all recommendations as at 31 March 2015:

- 6.1 Following the completion of each audit, a report is issued to management, incorporating recommendations for improvement in controls and management's response to those recommendations.
- 6.2 The table below provides a breakdown of the outstanding recommendations as at the 30 September 2014.

	Outstanding Recommendations That Are:			
Date	Implemented & Verified	Awaiting Verification	Not Due	Overdue
31/03/15	82	139	2	0

- 6.3 Progress in following up recommendations has continued throughout the period with revised lists of recommendations provided to Heads of Service to enable them to confirm that they have been implemented and for Internal Audit to verify.
- 6.4 Priority continues to given to those awarded a higher priority rating and/or those that have been outstanding the longest, and work continues with management to arrange for them to be verified and cleared down.
- 6.5 Of the 139 audits that are awaiting verification 23 of them relate to managed audits and in accordance with the agreed protocol will be followed up at the time of the next annual audit. There are also 63 that relate to IT.
- 6.6 The Council is reviewing all the recommendations at the moment and will meet with Internal Audit to discuss whether they have been superseded / still relevant as system and process updates are made.

7. Performance of Internal Audit 2014/15 to date – Key Performance Indicators (KPIs):

KPI	Target	Actual
Efficiency:		
Percentage of annual plan completed (to at least draft report stage)	100%	100%
Average days between exit meeting and issue of draft report	10 max	4
Average days between receipt of management response and issue of final report	10 max	1
Quality:		
Meets CIPFA Code of Practice – per Audit Commission	Positive	Positive
Results of Client Satisfaction Questionnaires (Score out of 10)	7.8	8.3
Percentage of all recommendations agreed	96%	100%

- 7.1 The key performance indicators show that the internal audit provider is successfully meeting or exceeding the standards set.
- 7.2 The Client Satisfaction Questionnaires show a high level of satisfaction with the Internal Audit service.

8. Colchester Borough Homes Limited

- 8.1 Colchester Borough Homes Limited has its own agreed audit plan which is administered by Mazars Public Sector Internal Audit Limited, who are also the Council's auditors. The coverage of the plan, and the scope of the audits, is decided by Colchester Borough Homes Limited and in general the audits do not affect the systems operated by the Council.
- 8.2 However, there are a few audits that, whilst they are carried out for either Colchester Borough Homes Limited or the Council, have a direct relevance and impact on the other organisation and in these circumstances it is appropriate that the results of the audit are reported to both organisations. These are known as joint audits.
- 8.3 The Housing Rents audit has been completed, it retained a substantial assurance rating with one priority two recommendation and three priority three recommendations.

9. Proposals

To review and comment upon the Council's progress and performance relating to:

- Internal Audit activity during the second half of 2014/15
- Performance of Internal Audit by reference to national best practice benchmarks

10. Strategic Plan Implications

The audit plan has been set with due regard to the identified key strategic risks to the Council and the objectives of the strategic plan to be vibrant, prosperous, thriving and welcoming. Therefore, the audit work ensures the effectiveness of the processes required to achieve the strategic objectives.

11. Risk Management Implications

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

12. Other Standard References

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

Key to Assurance Levels

Assurance Gradings

Internal Audit classifies internal audit assurance over four categories, defined as follows:

Assurance Level	Evaluation and Testing Conclusion
Full	There is a sound system of internal control designed to achieve the client's objectives. The control processes tested are being consistently applied.
Substantial	While there is a basically sound system of internal control, there are weaknesses, which put some of the client's objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the client's objectives at risk.
Limited	Weaknesses in the system of internal controls are such as to put the client's objectives at risk. The level of non-compliance puts the client's objectives at risk.
No	Control processes are generally weak leaving the processes/systems open to significant error or abuse. Significant non-compliance with basic control processes leaves the processes/systems open to error or abuse.

Recommendation Gradings

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

Priority Level	Staff Consulted
1	Major issue for the attention of senior management and the Governance Committee.
2	Important issues to be addressed by management in their areas of responsibility
3	Minor issues resolved on site with local management.

Governance Committee

Item
11

30 June 2015

Report of	Assistant Chief Executive	Author	Hayley McGrath 508902
Title	Review of the Governance Framework and Draft Annual Governance Statement		
Wards affected	Not applicable		

This report concerns the Annual Governance Statement for 2014/15

1. Decisions Required

- 1.1 To consider and note the review of the Council's compliance with the six principles of good governance including the review of effectiveness of the internal control arrangements.
- 1.2 To approve the Annual Governance Statement for 2014/15.

2. Reasons for Decision(s)

- 2.1 Regulation 4(1) of the Accounts and Audit Regulations 2011 states that :
'The relevant body is responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk.'
- 2.2 The regulation goes on to place a requirement on the Council to conduct a review of the effectiveness of its system of internal control at least once a year and to report the findings to this committee. Following the review the committee must approve an Annual Governance Statement (AGS), prepared in accordance with proper practices in relation to internal control.
- 2.3 The review of the system of internal control assesses the Council's compliance with the six principals of good corporate governance (CIPFA / SOLACE guidance – Delivering Good Governance in Local Government) and the effectiveness of the policies and procedures that make up the Council's governance framework. The process also produces a management action plan to address any identified weaknesses.
- 2.4 CIPFA's proper practice requires the Chief Executive and the Leader of the Council to sign the AGS. They must be satisfied that the document is supported by reliable evidence and accurately reflects the authority's governance and control arrangements.

3. Alternative Options

- 3.1 None.

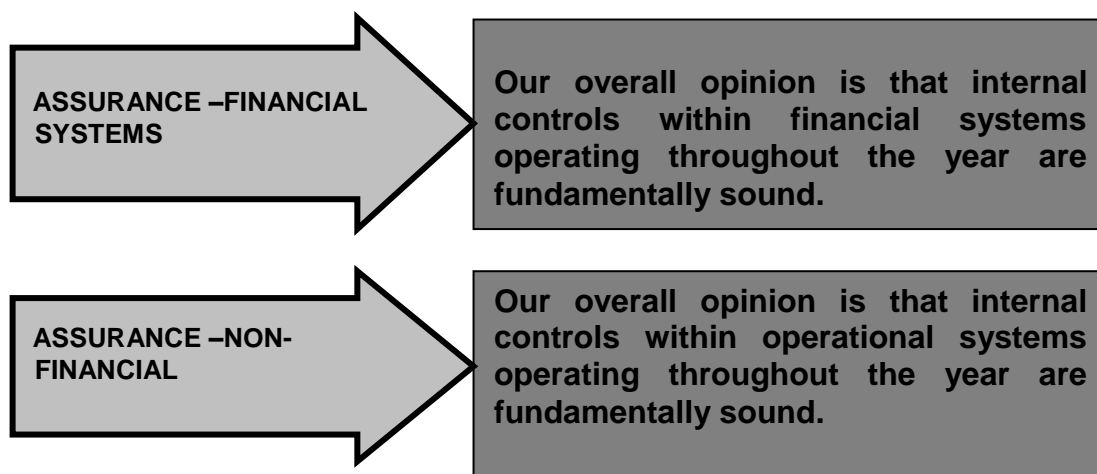
4. Supporting Information

- 4.1 Colchester Borough Council has adopted a Local Code of Corporate Governance based on the 2007 CIPFA and SOLACE guidance document – Delivering Good Governance in Local Government (updated 2012). The purpose of the AGS is to review compliance with the six principles of good governance outlined in the guidance and contained in Colchester's Local Code of Corporate Governance.
- 4.2 The six principles of Corporate Governance are:
- **Focusing on the purpose** of the authority and on outcomes for the community and creating and implementing a vision for the local area
 - **Members and officers working together** to achieve a common purpose with clearly defined functions and roles.
 - **Promoting values** for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
 - **Taking informed and transparent decisions** which are subject to effective scrutiny and managing risk.
 - **Developing the capacity** and capability of members and officers to be effective.
 - **Engaging with local people** and other stakeholders to ensure robust accountability.
- 4.3 As part of the governance review it is a requirement that the Council reviews the effectiveness of internal control and this is primarily evidenced by the Head of Internal Audit Report produced by the Council's Internal Audit provider, Mazars. A copy of the report is available as a background paper. The key statement from this report is detailed below:-

2014/15 Year Opinion

Internal Control

From the Internal Audit work undertaken in compliance with the PSIAS (Public Sector Internal Audit Standards) in 2014/15 it is our opinion that we can provide **Substantial Assurance** that the system of internal control in place at Colchester Borough Council for the year ended 31st March 2015 accords with proper practice, except for the significant control environment issues as documented in the detailed report. The assurance can be further broken down between financial and non-financial systems, as follows:



- 4.4 The overall summary from the report states:
'We have noted an overall improvement in Colchester Borough Council's control environment during the audit year. During the 2014/15 year, some 32 (97%) of internal audit projects were rated 'full/substantial assurance' compared with 31 (86%) in the prior year. We have also noted an improvement in the number of internal audit projects rated 'limited assurance' down from 11% to 3%. There were no 'nil assurance' audits this year.
- We have noted areas of improvement throughout the Council, including better control over key financial systems. We are pleased to report that we have issued no 'nil or limited assurance' opinions in 2014/15 relating to the key financial systems.*
- 4.5 In addition, the further steps taken in producing the AGS have been as follows:-
- The creation of a working group consisting of the Monitoring Officer, the Policy and Projects Officer and the Risk and Resilience Manager. This group was responsible for gathering and reviewing evidence in support of the AGS and reporting to the Chief Operating Officer.
 - A full review of the Council's code of corporate governance including detailed assessment of evidence supporting each principle.
 - Assurance assessments relating to key areas of governance and control have been completed by senior management.
 - Consideration of risk management issues.
 - Detailed follow up of issues with relevant managers to provide evidence of controls in place.
 - Review of the action plan from the Statement of Internal Control for 2013/14.
 - Review of the implementation of recommendations made by Internal Audit.
 - Review of issues raised in External Audit reports, principally the Annual Audit Letter.
 - Assessment that the financial arrangements comply with the governance requirements of the CIPFA statement on the Role of the Chief Financial Officer in Local Government (2010).
- 4.6 The AGS for 2014/2015 is attached at appendix 1. The format of the statement takes into account both the mandatory pro-forma contained within CIPFA's proper practice guidance, together with subsequent examples of best practice.
- 4.7 The AGS includes a table showing significant internal control issues and planned actions to address these. A more detailed action plan is set out within this report at Appendix 2. The AGS should be an ongoing assessment and therefore a review of the progress against the recommendations will be reported to the Committee later on in the financial year.
- 4.8 As stated earlier the Governance Committee is required to approve the AGS, which will then be signed and included within the Statement of Accounts.
- 5. Proposals**
- 5.1 That the committee consider the review of governance and internal control arrangements and approve the Annual Governance Statement for 2014/15.

6. Strategic Plan Implications

- 6.1 The achievement of the strategic plan requires a sound system of governance to ensure the effective delivery of services. Therefore improving on existing governance arrangements will help to ensure that the strategic plan objectives can be achieved.

7. Risk Management Implications

- 7.1 Risk Management is a fundamental part of the Governance process and a failure to implement the action plan may have an effect on the ability of the Council to control its risks. Therefore the actions should be incorporated into the risk management process.

8. Other Standard References

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

Background Papers

Head of Internal Audit report for the year ended 31 March 2015 by Mazars.

DRAFT
COLCHESTER BOROUGH COUNCIL
ANNUAL GOVERNANCE STATEMENT
FOR THE YEAR ENDED 31 MARCH 2015

APPENDIX 1

Scope of responsibility

Colchester Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Colchester Borough 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.

In discharging this overall responsibility, Colchester Borough Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk. The Council is also responsible for ensuring that any companies owned by the Council, and any jointly operated services, also have proper arrangements in place for the governance of their affairs.

Colchester Borough Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is on the Council website at www.colchester.gov.uk or can be obtained from Colchester Borough Council, Rowan House, 33 Sheepen Road, Colchester, CO3 3WG.

This statement explains how Colchester Borough Council has complied with the code and also meets the requirements of regulation 4 of the Accounts and Audit Regulations 2011 in relation to the publication of a statement on internal control.

DELIVERING GOOD GOVERNANCE IN LOCAL GOVERNMENT:

The purpose of the governance framework

The governance framework comprises the systems, processes, culture and values by which the authority is directed and controlled. Which in turn directs the activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Colchester Borough Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Colchester Borough Council for the year ended 31 March 2015 and up to the date of approval of the annual accounts.

Elements of the Framework

The framework consists of comprehensive processes that each ensure that the Authority complies with the principals of good governance. These include:

- **The Strategic Plan** – which identifies and communicates the authority's vision of its purpose and intended outcomes for citizens and service users. This is supported by an action plan that is updated annually.
- **The Strategic Risk Register** – which reflects the objectives of the strategic plan and identifies the implications for the Council's governance arrangements.
- **The Constitution** - This is the fundamental basis of the authority's governance arrangements and includes:
 - Defining and documenting the roles and responsibilities of the executive, nonexecutive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication.
 - Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes / manuals, which clearly define how decisions are taken.
 - The Policy Framework which includes the documents relating to Corporate Governance including:
 - The Local Code of Corporate Governance.
 - A risk management strategy detailing processes and controls required to manage risks.
 - The Anti-Fraud and Corruption Policy
 - The Ethical Framework which includes documents relating to standards of conduct and good practice which include:
 - A code of conduct which defines the standards of behaviour for all members.
 - Planning procedures Code of Practice
 - Protocol on Members/officer Relations
 - Media Protocol
 - Operational Protocol relating to Administration Arrangements
 - Monitoring Officer Protocol
 - Chief Finance Officer Protocol
 - Resources Protocol
 - A whistle blowing policy for receiving and investigating complaints from the public and staff.
 - Gifts and Hospitality Guidance
- **The Chief Finance Officer Protocol** sets out the responsibilities to conform with the governance requirements of the CIPFA statement on the Role of the Chief Financial Officer in Local Government (2010)
- **The operation of a Governance Committee** which undertakes the core functions of an audit committee, as identified in CIPFA's document 'Audit Committees – Practical Guidance for Local Authorities'.
- **The operation of a Scrutiny Panel** to ensure that the actions of the Cabinet accord with the policies and budget of the Council, monitor the financial performance of the Council, link spending proposals to the Council's policy priorities and review progress and to review decisions of the Cabinet via the call-in procedure.
- **A performance management system** for all officers that identifies key objectives and development needs.
- **A members training programme.**

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- **A communications strategy** which establishes clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.
- **A partnership strategy** that ensures that the quality of the Council's partnerships are improved and that all partnerships, both current and proposed, add value.
- **Treasury management practices and policies**

The Strategic Finance Manager has continued to hold the post of the Section 151 Officer for Colchester Borough Council during the year. The arrangements in place ensured that Colchester Borough Council's financial management arrangements conformed with the governance requirements of the CIPFA statement on the Role of the Chief Financial Officer in Local Government (2010).

DELIVERING GOOD GOVERNANCE IN LOCAL GOVERNMENT:

Review of effectiveness

Colchester Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the Internal Audit annual report, and also by comments made by the external auditors and other review agencies and inspectorates including the Benefits Fraud Inspectorate, Equal Opportunities Commission, Lexcel, Investors In People, the Vehicle Inspectorate, DEFRA, East England Tourist Board, the Office of Surveillance Commissioners and the Local Government Ombudsman.

As well as the annual review, the governance and control frameworks are maintained and reviewed by a series of comprehensive processes throughout the year. These include:

- **A robust Internal Audit function** where the planned work is based on identified key systems and risk areas
- **An embedded reporting system** for both internal and external audit issues that ensures that senior managers and members are fully briefed on key issues, which includes regular reporting to the Finance and Audit Scrutiny Panel.
- **A comprehensive risk management process** that ensures the key risks across the authority, both operational and strategic, are captured and reported to senior officers and members.
- **The reports of the Chief Financial Officer** to members and the senior management team including financial assessments of key projects and decisions.
- **Reporting of key performance issues** to the Strategic Overview and Scrutiny Panel.
- **A comprehensive budget monitoring process** that is reported monthly to senior managers.
- **A partnership register** that records the details of all of the partnerships that the Council is involved in.

The significant control issues found during the course of the review are highlighted in the table at the end of the statement.

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Effectiveness of Other Organisations

The Council owns two companies, Colchester Borough Homes (CBH) which was created in 2003 and Colchester Community Stadium Limited (CCSL) that was created in 2007. As these are limited companies there is no requirement for them to produce Governance Statements in this format. However it is recognised by the Council that it is essential for these companies to operate effective governance procedures to ensure appropriate and cost effective service provision and protection of Council assets.

Whilst CBH is an 'arms length' company it is still necessary for the Council to ensure that it operates effectively to ensure that it provides an effective and economical service to housing tenants and that the Council's asset, the housing stock, is adequately protected. CBH have produced their own Annual Governance Statement that has been shared with the Council. There were no significant control weakness identified during the year that are required to be included in this statement.

A review of the management arrangements for CCSL was carried out as part of the preparation of this statement. Whilst CCSL is an 'arms length' company it is still necessary for the Council to ensure that it operates effectively to ensure that it can make the necessary loan repayments to the Council and that the Council's asset, the stadium, is adequately protected. There were no significant control weakness identified during the year that are required to be included in this statement

The Council is the lead partner in a joint museum service with Ipswich Borough Council. Due to the nature of the arrangement, the joint museum service is required to produce its own annual return which includes an assessment of internal control. Therefore it is not intended to include any details relating to this service within this statement.

The North Essex Parking Partnership was created on 1 April 2011 with Colchester Borough Council as the lead partner. The partnership is required to produce its own annual return which includes an assessment of internal control. Therefore it is not intended to include any details relating to the service within this statement.

The Council has a comprehensive partnership strategy and maintains a detailed register of the partnerships that it participates in. The strategy defines what a partnership is and details the governance arrangements that should be in place for all partnerships, both present and new. It also provides a mechanism for improving the effectiveness of the partnerships.

Internal Audit Opinion

From the work undertaken in 2014/15, Internal Audit has provided satisfactory assurance that the system of internal control that has been in place at the Council for the year ended 31 March 2015 accords with proper practice. This is excepting any details of significant internal control issues as documented hereafter. It is also the opinion of Internal Audit that the Council's corporate governance framework complies with the best practice guidance on corporate governance issued by CIPFA/SOLACE.

Significant Governance Issues

The review of the effectiveness of the governance and internal control arrangements has identified some areas where actions are required to ensure that the authority continues to provide appropriate and cost effective services. The issues and action plans are shown in the table below. These will be monitored and reviewed via the Internal Audit reporting process.

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No.	Issue	Action
1.	Health & Safety A comprehensive review of the Council's Health & Safety framework was undertaken during the year. This highlighted some areas for focus and improvement to ensure that the Council maintains the highest possible standards in relation to the safety and wellbeing of its staff and visitors.	A comprehensive action plan has been drawn up to ensure that there is an ongoing programme to develop the relevant areas.
2.	Management of Supplier Relationships It was recognised during the review that the management of supplier relationships can be reactive, leading to impacts on the Council's business resources, especially in the event of unexpected incidents or unforeseen changes in requirements.	Processes to ensure proactive management of service delivery need to be embedded in the organisation. This includes providing training and guidance to officers that manage significant contracts as well as ensuring that contract documentation specifies the Council's expectations.
3.	Resilience Whilst work has been undertaken as part of the fundamental service reviews to create resilience in the organisation, it is recognised that there are still areas where reliance is placed on individual expert officers.	The resilience objectives of the FSR's need to continue to be embedded to ensure that the relevant posts are identified and processes are put in place to mitigate against the loss of key individual officers.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework, by the Governance Committee, and we propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed:

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Leader of the Council

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& Chief Executive

on behalf of Colchester Borough Council

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Colchester Borough Council
Annual Governance Statement – Action Plan for 2015/16

Significant Internal Control Issues – Relating to 2014/15 Financial Year

No.	Issue	Action	Due Date	Responsible Officer	How this Issue was Identified
1.	Health & Safety A comprehensive review of the Council's Health & Safety framework was undertaken during the year. This highlighted some areas for focus and improvement to ensure that the Council maintains the highest possible standards in relation to the safety and wellbeing of its staff and visitors.	A comprehensive action plan has been drawn up to ensure that there is an ongoing programme to develop the relevant areas.	31 December 2015	Executive Director	Governance review of service.
2.	Management of Supplier Relationships It was recognised during the review that the management of supplier relationships can be reactive, leading to impacts on the Council's business resources, especially in the event of unexpected incidents or unforeseen changes in requirements.	Processes to ensure proactive management of service delivery need to be embedded in the organisation. This includes providing training and guidance to officers that manage significant contracts as well as ensuring that contract documentation specifies the Council's expectations.	31 March 2016. However training has already been arranged for managers of key contracts, in July 2015.	Head of Commercial Services	Annual Governance Review Process
3.	Resilience Whilst work has been undertaken as part of the fundamental service reviews to create resilience in the organisation, it is recognised that there are still areas where reliance is placed on individual expert officers.	The resilience objectives of the FSR's need to continue to be embedded to ensure that the relevant posts are identified and processes are put in place to mitigate against the loss of key individual officers.	31 March 2016	Chief operating Officer	Annual Governance Review Process

