



# **Colchester Borough Council Audit results report**

Year ended 31 March 2018

June 2018



Building a better  
working world



26 June 2018

Dear Governance and Audit Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Governance and Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of Colchester Borough Council for 2017/18.

We have substantially completed our audit of Colchester Borough Council (the Authority) for the year ended 31 March 2018. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3, before the statutory deadline of 31 July 2018. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Governance and Audit Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We recognise that the Authority agreed to be one of the first of our clients to be audited in this challenging year and would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Governance and Audit Committee meeting on 10 July 2018.

Yours faithfully

Kevin Suter

Associate Partner  
For and on behalf of Ernst & Young LLP  
Encl

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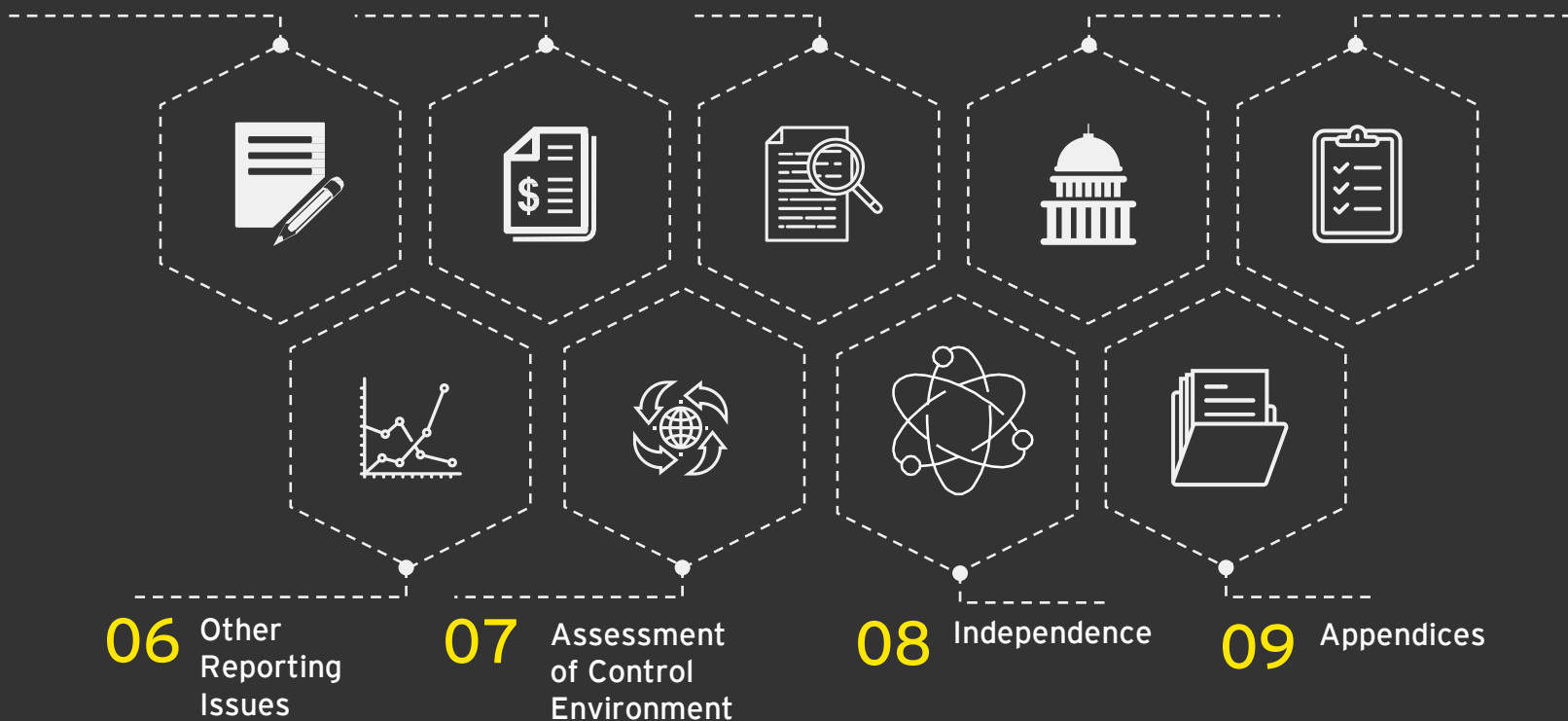
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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website ([www.PSAA.co.uk](http://www.PSAA.co.uk)).

The Statement of responsibilities serves as the formal terms of engagement between 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 "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Governance and Audit Committee and management of Colchester Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Governance and Audit Committee, and management of Colchester Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Governance and Audit Committee and management of Colchester Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.





01

## Executive Summary



## Executive Summary

### Scope update

In our audit planning report presented at the 6 March 2018 Governance and Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

- ▶ Changes in materiality: We updated our planning materiality assessment using the draft consolidated results and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £2.7m (Audit Planning Report – £2.8m). This results in updated performance materiality, at 75% of overall materiality, of £2.0m, and an updated threshold for reporting misstatements of £0.136m.

### Status of the audit

We have substantially completed our audit of Colchester Borough Council's financial statements for the year ended 31 March 2018 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 3:

- ▶ Completion of procedures of non-material disclosures
- ▶ Completion of cash flow consistency checks
- ▶ Completion of minor grant claim work
- ▶ Completion of journals testing
- ▶ A few outstanding third party confirmations for investments and loans
- ▶ Final review procedures
- ▶ Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission
- ▶ Receipt and review of a revised set of statements incorporating audit adjustments
- ▶ Receipt of the signed management representation letter (see Appendix B)

We expect to issue the audit certificate at the same time as the audit opinion.



## Executive Summary

### Audit differences

There are no unadjusted audit differences arising from our audit.

We identified one audit difference with an aggregated impact of £3.359 million in the Authority's Pension Scheme Liability. Management have agreed to adjust this audit difference which has no impact on the net worth of the Authority. Details can be found in Section 4 Audit Differences.

Until our work is complete, further amendments may arise. We will update the Committee should any further adjustments arise from our remaining work.

### Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Colchester Borough Council's financial statements. This report sets out our observations and conclusions, including our views, if any, on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We did not identify any new key areas of focus since the Audit Planning Report.

We ask you to review these and any other matters in this report to ensure:

- ▶ There are no other considerations or matters that could have an impact on these issues
- ▶ You agree with the resolution of the issue
- ▶ There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Governance and Audit Committee.

### Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.



## Executive Summary

### Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we did not identify any significant risks in this regard.

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

### Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. However as the Council is below the anticipated testing threshold set by the NAO we do not expect to have any issues to report.

We have no other matters to report.

### Independence

Please refer to Section 8 for our update on Independence.



02

## Areas of Audit Focus





## Areas of Audit Focus

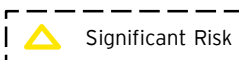
### Significant risk

#### Risk of Fraud in Revenue and Expenditure Recognition

##### What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

One area susceptible to manipulation is the capitalisation of revenue expenditure on Property, Plant and Equipment given the extent of the Council's Capital programme.



##### What judgements are we focused on?

We focused on:

- ▶ Understanding the controls put in place by management relevant to this significant risk.
- ▶ Considering whether or not purchase invoices were being inappropriately classified as capital.
- ▶ Whether management were inappropriately processing journals that transferred amounts from revenue to capital.

##### What did we do?

- ▶ Documented our understanding of the controls relevant to this significant risk and confirmed they have been appropriately designed.
- ▶ Reviewed and discussed with management any accounting estimates and policies on revenue or expenditure recognition for evidence of bias;
- ▶ Obtained breakdown of capital additions in the year and reviewed the descriptions to identify any items that could be revenue in nature.
- ▶ Designed journal procedures to identify and review adjustment manual journals that moved amounts from revenue codes to capital codes.

##### What are our conclusions?

Our testing did not identify any material misstatements from revenue and expenditure recognition. We judged all capital additions to be appropriately supported.

Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Authority's financial position.



## Areas of Audit Focus

### Significant risk

#### Risk of Management Override

##### What is the risk?

As identified in ISA 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 would otherwise appear to be operating effectively.

We identify and respond to this fraud risk on every audit engagement.



Significant Risk

##### What judgements are we focused on?

We focused on the following:

- ▶ Understanding the risks of fraud and the controls put in place to address those risks by management and how the Governance and Audit Committee oversees management's processes over fraud.
- ▶ Considering the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determining an appropriate strategy to address those identified risks of fraud.
- ▶ Performing mandatory procedures in respect of journal entries, estimates and significant unusual transactions.

##### What did we do?

- ▶ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- ▶ Reviewed accounting estimates for evidence of management bias;
- ▶ Evaluated the business rationale for significant unusual transactions; and
- ▶ Reviewed capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.

##### What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business.



## Areas of Audit Focus

### Other areas of audit focus

#### Property, Plant and Equipment Valuation

##### What is the risk?

Property, Plant and Equipment (PPE) represents a material item on the Council's balance sheet. PPE is initially measured at cost and then revalued to fair value (determined by the amount that would be paid for the asset in its existing use) on a 5 year rolling basis. This is carried out by an expert valuer and is based on a number of complex assumptions. Annually assets are assessed to identify whether there is any indication of impairment.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.

##### What judgements are we focused on?

We focused on the following:

- ▶ The adequacy of the scope of the work performed by the value including their professional capabilities
- ▶ The reasonableness of the underlying assumptions used by the Authority's expert valuer

##### What did we do?

- ▶ Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- ▶ Sample tested key asset information used by the valuers in performing their valuation.
- ▶ Considered revaluations in year, the basis of valuation of significant assets and any significant changes in use to ensure they remain appropriate if circumstances changed.
- ▶ Reviewed assets not subject to full valuation in 2017/18 to confirm that the remaining asset base is not materially misstated.

##### What are our conclusions?

Our testing did not identify any material misstatements from property, plant and equipment valuation.

Overall our audit work did not identify any material issues or concerns with the scope of work or underlying assumptions used by the Authority's valuer.

Our consideration of the annual cycle of valuations did not identify any issues with the implemented plan or with the movement on assets not revalued in year.



## Areas of Audit Focus

### Other areas of audit focus

#### Pension Valuation and Disclosures

##### What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body.

The Council's current pension fund deficit is a highly material and sensitive item and the Code requires that this liability be disclosed on the Council's Balance Sheet.

The information disclosed is based on the IAS19 report issued to the Council by the actuaries to the Essex Pension Fund.

As part of their actuarial review, councils are being asked to make additional payments to the pensions scheme to fund deficits.

##### What judgements are we focused on?

We focused on the following:

- ▶ The reasonableness of the underlying assumptions used by the Authority's expert - Barnett Waddingham.
- ▶ Ensuring the information supplied to the actuary in relation to Colchester Borough Council was complete and accurate
- ▶ Ensuring the accounting entries and disclosures made in the financial statements were consistent with the report from Barnett Waddingham.

##### What did we do?

- ▶ Liaised with the auditors of the administering authority (Essex County Council), to obtain assurances over the information supplied to the actuary in relation to Colchester Borough Council.
- ▶ Assessed the work of the Pension Fund actuary including the estimations and judgements they have used by relying on the work of PWC - Consulting Actuaries commissioned by National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team.
- ▶ Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

##### What are our conclusions?

We have reviewed the assessment of the pension fund actuary by PWC and EY pensions and have undertaken the work required with no issues identified.

We have identified one issue with the estimation of total pension fund assets used by the actuary. Due to the timing of their estimation for total fund assets there was a material difference with the year-end Pension Fund value. This resulted in the year-end report from Barnett Waddingham being re-run and an adjustment to the asset figure of £3.359 million has been made.

Details can be found in Section 4 Audit Differences.





## 03 Audit Report



# Audit Report

## Draft audit report

### Our opinion on the financial statements

#### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF COLCHESTER BOROUGH COUNCIL

##### Opinion

We have audited the financial statements of Colchester Borough Council for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Movement in Reserves Statement,
- Authority and Group Comprehensive Income and Expenditure Statement,
- Authority and Group Balance Sheet,
- Authority and Group Cash Flow Statement,
- the related notes 1 to 42 to the Authority Accounts, including the Authority Expenditure and Funding Analysis, and notes G1 to G14 to the Group Accounts,
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and related notes H1 to H12; and
- Collection Fund and the related notes C1 to C5.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of Colchester Borough Council and Group as at 31 March 2018 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

##### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the authority and group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you **where**:

- the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

##### Other information

The other information comprises the information included in the Statement of Accounts 2017/18, other than the financial statements and our auditor's report thereon. The Chief Financial Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

##### Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the C&AG in August 2017, we are satisfied that, in all significant respects, Colchester Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

##### Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or



# Audit Report

## Draft audit report

### Our opinion on the financial statements

- We make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

#### Responsibility of the Chief Financial Officer

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities set out on page 19, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

#### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

#### Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether the Colchester Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The C&AG determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Colchester Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Colchester Borough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

#### Certificate

We certify that we have completed the audit of the accounts of Colchester Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

#### Use of our report

This report is made solely to the members of Colchester Borough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

*Kevin Suter (Key Audit Partner)*  
*Ernst & Young LLP (Local Auditor)*  
*Luton*  
*10 July 2018*

The maintenance and integrity of the Colchester Borough Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.





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## Audit Differences





## Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

### Summary of adjusted differences

We highlight the following misstatements greater than £2.0m which have been corrected by management that were identified during the course of our audit.

The work performed by the auditors of the pension fund administering authority (Essex County Council) identified a material difference between the total pension fund assets used in the actuary year-end report and the pension fund draft statement of accounts. This is due to the required timing of the estimation methodology applied by the actuary to enable timely IAS 19 reporting. The difference resulted in the following balance sheet adjustments:

- ▶ £3.359 million understatement of Pension Scheme Liability
- ▶ £3.359 million overstatement of Unusable Reserves (Pensions Reserve)

The adjustment also impacted areas such as the Movement in Reserves Statement, pension disclosures and group account, but there is no impact on the General Fund or other usable reserves of the Authority.

We have also identified a minor number of small disclosure errors which the Authority has amended.

We will also update the Committee if there are any further issues arising from our incomplete audit procedures.



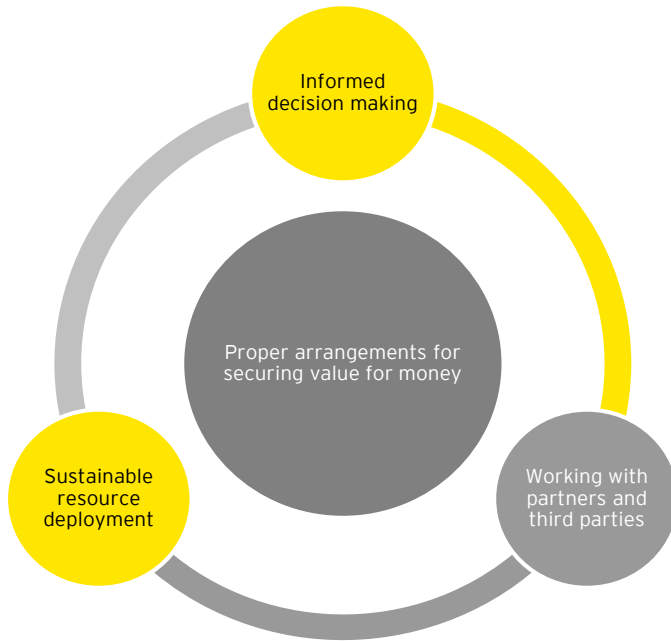
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## Value for Money Risks





# Value for Money



## Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2017/18 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

## Overall conclusion

We did not identify any significant risks around these criteria. We therefore expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.





## 06 Other reporting issues





# Other reporting issues

### Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2017/18 with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2017/18 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

### Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office. The Council is below the specified £500m threshold, and therefore we are not required to undertake detailed procedures on your consolidation return.

We are yet to conclude our work in this area. We will report any matters arising to the Governance and Audit Committee.

### Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

# Other reporting issues

### Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits

We have no matters to report.

### Assessment of new Accounting Standards

- IFRS 9 Financial Instruments: The 2018/19 Code introduces IFRS 9 on financial instruments. As per note 3 in the statement of accounts the Authority assessment is that the impact will be immaterial. The Council will need to keep this standard under continued focus during 2018/19 because:
  - The standard may impact balances with the Authority's subsidiaries
  - Statutory overrides may be introduced by Central Government
- IFRS 15 Revenue from Contracts with Customers: Similarly the 2018/19 Code of Practice on Local Authority Accounting for the United Kingdom determines how IFRS 15 Revenue from Customers with Contracts will be adopted by local government bodies. As per note 3 in the statement of accounts your view is that IFRS 15 will not have a material impact on this Authority's single entity financial statements as the vast majority of the income streams are taxation or grant based.



07

## Assessment of Control Environment



# Assessment of Control Environment

## Financial controls

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.





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## Independence

## Confirmation



We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated March 2018.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Governance and Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Governance and Audit Committee on 10 July 2018.

We undertook non-audit work outside the PSAA Code requirements during the current financial year in completing the 2016/17 review of the Pooling of Housing Capital receipts return. We anticipate performing the 2017/18 work in October 2018.

# Independence



## Relationships, services and related threats and safeguards



The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

### Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2018 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the services listed in the table below has been provided on a contingent fee basis.

We note that 2017/18 is the final year as our appointment as auditor due to changes in the PSAA contract. As at the date of this report, there are no future services beyond 2017/18 which have been contracted and no written proposal to provide non-audit services has been submitted.

# Independence

## Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements.

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£	£	£	£
Total Audit Fee - Code work (note 1)	64,047	62,582	62,582	64,066
Total non-audit services - Housing Benefit Subsidy (note 2)	tbc	13,640	13,640	15,450
<b>Total Audit</b>	<b>tbc</b>	<b>76,222</b>	<b>76,222</b>	<b>79,516</b>
Other non-audit services not covered above (review of the Pooling of Housing Capital receipts return) (note 3)	tbc	4,750	-	4,750
<b>Total Fees</b>	<b>tbc</b>	<b>80,972</b>	<b>76,222</b>	<b>84,266</b>

### Note 1:

The final fee for 2017/18 includes a proposed further variation of £1,465 from the scale fee as a result of:

- ▶ £676: changes in the net cost of service headings and resulting prior year comparator adjustments;
- ▶ £278: additional audit procedures for the adjustment to IAS19 ; and
- ▶ £511: additional follow up queries with the valuer for corroboration of valuation assumptions applied.

These variations remain subject to agreement with management and the PSAA.

### Note 2:

The final fee for the Housing Benefit Subsidy certification will be confirmed upon completion by the 30 November deadline. We will report the final fee in our annual grant certification report.

### Note 3:

This is the estimated fee for the 2017/18 Pooling of Housing Capital receipts return work.









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## Appendices

## Appendix A





# Required communications with the Governance and Audit Committee

There are certain communications that we must provide to the Governance and Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Governance and Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	6 March 2018 - Audit planning report
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	6 March 2018 - Audit planning report
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	10 July 2018 - Audit results report







## Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	No conditions or events were identified, either individually or together to raise any doubt about Colchester Borough Council's ability to continue for the 12 months from the date of our report
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Material misstatements corrected by management</li> </ul>	10 July 2018 - Audit results report
Subsequent events	<ul style="list-style-type: none"> <li>▶ Enquiry of the Governance and Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	10 July 2018 - Audit results report
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the Governance and Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ul style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ul> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ Any other matters related to fraud, relevant to Governance and Audit Committee responsibility.</li> </ul>	<p>10 July 2018 - Audit results report</p> <p>Enquiries were made during the audit, and there are no issues to report to you.</p>

## Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the Authority</li> </ul>	<p>10 July 2018 - Audit results report</p> <p>No issues to report</p>
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>6 March 2018 - Audit planning report</p> <p>10 July 2018 - Audit results report</p>
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>▶ Enquiry of the Governance and Audit 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 and Audit Committee may be aware of</li> </ul>	<p>We have made inquiries of management, the Monitoring Officer and those charged with governance.</p> <p>We have not identified any material instances or non-compliance with laws and regulations.</p>
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit.</li> </ul>	We have not identified any significant deficiencies in internal controls.

## Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Group Audits	<ul style="list-style-type: none"> <li>▶ An overview of the type of work to be performed on the financial information of the components</li> <li>▶ 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</li> <li>▶ 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</li> <li>▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted</li> <li>▶ 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.</li> </ul>	6 March 2018 - Audit planning report 10 July 2018 - Audit results report
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>▶ Written representations we are requesting from management and/or those charged with governance</li> </ul>	10 July 2018 - Audit results report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	10 July 2018 - Audit results report  No issues to report.
Auditors report	<ul style="list-style-type: none"> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	10 July 2018 - Audit results report  No circumstances.
Fee Reporting	<ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit planning report is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>	6 March 2018 - Audit Planning Report 10 July 2018 - Audit results report
Certification work	<ul style="list-style-type: none"> <li>▶ Summary of certification work</li> </ul>	Certification Report - expected December 2018

# Management representation letter

## Management Rep Letter

[To be prepared on the entity's letterhead]

[Date]

Ernst & Young  
400 Capability Green  
Luton  
LU1 3LU

This letter of representations is provided in connection with your audit of the consolidated and council financial statements of *Colchester Borough Council* ("the Group and Council") for the year ended 31 March 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and council financial statements give a true and fair view of the Group and Council financial position of Colchester Borough Council as of 31 March 2018 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the Group and Council, CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18

We understand that the purpose of your audit of our consolidated and council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

### A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Group and Council the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18
2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and council financial statements. We believe the consolidated and council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and are free of material misstatements, including omissions. We have approved the consolidated and council financial statements.

3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.
4. As members of management of the Group and Council, we believe that the Group and Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 for the Group and the Council that are free from material misstatement, whether due to fraud or error.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

### B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the consolidated and Council financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Group or Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
  - involving financial statements;
  - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated or Council's financial statements;
  - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group or Council's activities, its ability to continue to operate, or to avoid material penalties;
  - involving management, or employees who have significant roles in internal controls, or others; or
  - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.



# Management representation letter

## Management Rep Letter

### C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the consolidated and council financial statements.
3. We have made available to you all minutes of the meetings of the Council, Cabinet and Governance and Audit Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 10 July 2018.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the consolidated and council financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

### D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and council financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 39 to the consolidated and council financial statements all guarantees that we have given

to third parties.

4. No other claims in connection with litigation have been or are expected to be received.

### E. Subsequent Events

1. Other than that described in Note 8 to the consolidated and council financial statements, there have been no events subsequent to year end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

### F. Group audits

1. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst council, subsidiary undertakings and associated undertakings.

### G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Annual Governance Statement and the Narrative Report.
2. We confirm that the content contained within the other information is consistent with the financial statements.

### H. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of non-current assets and investment properties and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

### I. Accounting Estimates

#### Valuation of Pension Asset/Liabilities and Property, Plant and Equipment Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We confirm that the significant assumptions used in making the valuation of Pension Asset/Liabilities and Property, Plant and Equipment appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.

# Management representation letter

## Management Rep Letter

3. We confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimates are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

4. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and council financial statements due to subsequent events.

### J. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

*Yours faithfully,*

\_\_\_\_\_  
(Strategic Finance Manager – Section 151 Officer)

\_\_\_\_\_  
(Chairman of the Governance and Audit Committee)

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ED None

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