Governance and Audit Committee Meeting

Grand Jury Room, Town Hall, High Street, Colchester, CO1 1PJ
Tuesday, 25 July 2017 at 19:00

The Governance and Audit 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

Access to information and meetings

You have the right to attend all meetings of the Council, its Committees and Cabinet. You also have the right to see the agenda, which is usually published five working days before the meeting, and minutes once they are published. Dates of the meetings are available at www.colchester.gov.uk or from Democratic Services. Occasionally meetings will need to discuss issues in private. This can only happen on a limited range of issues, which are set by law. When a committee does so, you will be asked to leave the meeting.

Have Your Say!

The Council values contributions from members of the public. Under the Council's Have Your Say! policy you can ask questions or express a view to most public meetings. If you wish to speak at a meeting or wish to find out more, please refer to Your Council> Councillors and Meetings>Have Your Say at www.colchester.gov.uk

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Access

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Facilities

Toilets with lift access, if required, are located on each floor of the Town Hall. A water dispenser is available on the first floor and a vending machine selling hot and cold drinks is located on the ground floor.

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Governance and Audit 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.

General

To review of the Constitution including governance issues around formal meetings, processes and member training and to make recommendations to Council.

COLCHESTER BOROUGH COUNCIL
Governance and Audit Committee
Tuesday, 25 July 2017 at 19:00

Member:

Councillor Nick Barlow	Chairman
Councillor Dave Harris	Deputy Chairman
Councillor Peter Chillingworth	
Councillor Dominic Graham	
Councillor Fiona Maclean	
Councillor Dennis Willetts	

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.

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** 9 - 14

To confirm as a correct record the minutes of the meeting held 27 June 2017.

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 relating to the terms of reference of the Committee/Panel 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 relating to

the terms of reference of the Committee/Panel not on this agenda.

7	**Annual Statement of Accounts 2016/17** See report of Assistant Director (Policy and Corporate)	15 - 64
8	**Colchester Borough Homes Annual Report and Governance Statement** See report of Director of Resources, Colchester Borough Homes	65 - 74
9	**2016/17 Year End Review of Risk Management** Assistant Director of Policy & Corporate	75 - 102
10	**Work Programme 2017-18** See report of Assistant Director (Policy & Corporate).	103 - 106
11	**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)

GOVERNANCE AND AUDIT COMMITTEE
27 JUNE 2017

Present:- Councillor Barlow (Chair), Councillor Graham, Councillor Harris, Councillor F Maclean, Councillor Willetts

56. Minutes

Amendments to the attendance for the meeting held on 24 May 2017, which did not reflected those who were present at the meeting were announced by the Chairman.

RESOLVED that

a) the minutes of the meeting held 7 March 2017 were confirmed as a correct record.
b) Following the amendments the minutes of the meeting held on 24 May 2017 were confirmed as a correct record.

57. Annual Audit & Certification Fees

Steve Heath, Finance Manager, introduced the Annual Audit and Certification Fees report. The report requests that the Committee consider and note the indicative audit and certification fees for 2017/18. Dan Cooke, Assistant Manager, Ernst and Young was also in attendance as the new Council auditor.

Steve Heath stated that the report sets out the indicative audit and certification fees for 2017/18. These are the fees that the Council will be charged during next year for the work carried out by Ernst and Young. The report also provides the Committee with a summary of the intended work.

Dan Cooke informed the Committee that the cost of certification fees for the housing benefit subsidy claim is to be confirmed awaiting the Public Sector Audit Appointments (PSAA) to set the 2015/16 benefit certification fee on which the 2017/18 fee is based. Dan Cooke stated that the Committee would be informed when this had been confirmed which is likely to be October or November.

Councillor Barlow welcomed Dan Cooke as the new external auditor for Colchester Borough Council.

RESOLVED that the Annual Audit and Certification Fees be noted.

57. Review of Meetings and Ways of Working

Councillor Harris (by reason of being a Member of the Member Development Group) declared a non-pecuniary interest in the following item pursuant to the provision of

Meetings General Procedure Rule 7 (5)

Matthew Sterling, Assistant Director (Policy and Corporate) and Richard Clifford, Democratic Services Officer, introduced the Review of Meetings and Ways of Working report. The report concerns the work completed to date on the review of meetings and ways of working and includes recommendations for the next steps of the review.

Matthew Sterling informed the Committee that the review had been taking place over the last municipal year. The original aims of the review were to improve public participation and make meetings more accessible. As part of the review Councillors were invited to an informal meeting, three drop-in sessions were held for members of the public and an online survey was created. This report followed on from the previous update provided to the Committee in March 2017 and included a number of recommendations.

Matthew Sterling provided the Committee with a summary of the recommendations that were included within the report. Matthew Sterling suggested that the Governance and Audit Committee may wish to consider what criteria should be used to assess whether the sixth month trial of meetings had been successful.

Councillor Barlow thanked the former Chair of the Governance and Audit Committee, Councillor Pearson, for his work on the Review of Meetings and Ways of Working. Councillor Barlow also thanked the work of officers in arranging the review and attending the drop-in sessions.

Councillor Barlow proceeded through the recommendations provided within the report. The Committee agreed with the recommendations regarding provision of equipment for Councillors and trialling digital agendas. Councillor Willetts questioned whether a contingency plan was in place if a device fails or runs out of power during a meeting, and whether if devices did fail a Committee meeting would need to be adjourned. Matthew Sterling informed Committee members that a contingency plan would be devised during the trial of digital agendas. Safeguards could include the provision of small portable charger packs for devices. Committee members were also informed that the digital agenda application, MyCMIS, did not require an active Wi-fi connection as agendas are automatically downloaded.

The Committee agreed the recommendation to Council that all meetings be audio streamed. Councillor Maclean questioned whether statistics on the number of listeners would be available. In response Richard Clifford confirmed that statistics for the number of listeners were available and could be reported to the Committee if requested.

Committee members agreed with the introduction of report templates and agenda templates, and agreed the recommendation to Council to allow for the public speaker to speak for an additional minute in order to ask a supplementary question. Councillor Graham questioned whether there were deadlines for responses to those questions that cannot be answered at the meeting. Richard Clifford informed the Committee that it is common practice that a response is provided as soon as possible and that a report was provided to Cabinet that report on the progress of responses to members of public.

The proposal to trial the Governance and Audit Committee start time at 7pm was agreed by the Committee. Committee members discussed different methods of measuring the success of later start time. This included noting the attendance by members of the public and Councillors at the Committee meeting, as well as conducting a survey with Committee

members. It was also suggested that later start times may require shorter speeches from Councillors and greater work programme management to ensure meetings do not last too long.

Councillor Lilley

Councillor Lilley attended the meeting to speak about the issue of improving the members' room. Councillor Lilley stated that he could not agree to the Council spending money on upgrading the members' room when there are residents in Colchester who are struggling financially.

Councillor Lilley did suggest that Councillor mailboxes in the Town Hall could be removed or relocated to political group rooms. However, it would not be the right time to invest in furniture or painting the members room. Councillor Lilley also highlighted that there may be scope for ceasing the delivery service with the move to using digital agendas.

Committee Discussion

The Committee discussed the members' room improvements as costed within the report. Whilst there was acknowledgement that having a space for members to meet and discuss agendas informally would be beneficial, the cost of the improvements were deemed too high, particularly in the current financial climate. It was suggested that there could be improvements without the significant cost, such as removal of Councillor Mailboxes and installation of charging points. The Committee agreed that the issue be referred to the Group Leaders for further consideration by the political groups.

The Committee discussed the methods of increasing social media activity and agreed with the proposals included in the report. With regard to member training, Committee members were supportive of the aim to increase the level of training for Councillors, and also raised questions about whether sanctions should be considered for those Councillors who don't attend training events and what other local authorities do.

RESOLVED;

a) that the Committee note that Officers will continue to loan IT equipment to Councillors who do not currently have a suitable device to enable the digital agenda trial to proceed.
b) To *RECOMMEND* to Council that all meetings be audio streamed and to facilitate this the Council enter into a contract with Audiominutes
c) That the contents of the report templates and agenda templates be implemented across all Committees.
d) To *RECOMMEND* to Council that the Meetings General Procedure Rules be amended to allow a public speaker to speak for an additional minute in order to ask a supplementary question or make a further comment during Have Your Say! Arrangements.
e) That the Governance and Audit Committee review implications of later start times following a six month trial.
f) That Group Leaders further consider options for improving the members' room.
g) That a more proactive approach be taken to the promotion of Council meetings via Social Media
h) To *RECOMMEND* to the Member Development Group that it consider the issue of mandatory training for Councillors and report to Cabinet by December 2017.

58. Draft Annual Statement of Accounts 2016/17

Steve Heath, Financial Manager, introduced the Draft Statement of Accounts 2016/17 reports. The report requests that the Committee considers the report relating to the pre-audit Statement of Accounts for 2016/17 and consider the proposal for a separate internal briefing session for the Committee prior to the scheduled meeting for approval of the audited accounts on 25 July 2017.

Steve Heath stated that the report provides an overview of the process of approving the Statement of Accounts for 2016/17. The Council are working towards the tighter deadline of 31 July in advance of the date becoming statutory during the next municipal year.

Steve Heath confirmed that the draft Statement of Accounts had been placed on the Council's website on 31 May, and that a link to the document was included within the report for Committee members and members of the public. The formal inspection period began on 5 June and will finish during July. Steve Heath also informed Committee members that the format of the accounts has been changed, with the 2016/17 Code of Practice on Local Authority Accounting requiring authorities to report based on the way in which they operate and manage services and introduces the Expenditure and Funding Analysis. This provides for a clear link between the final outturn, which was reported to the Scrutiny Panel on 13 June and the audited financial statements.

Steve Heath also highlighted to the Committee the intention to hold an internal briefing session on the Statement of Accounts for those who will be attending the Committee meeting to approve the Statement of Accounts. The briefing session is scheduled for 20 July and all Councillors are welcome to attend. Steve Heath requested that if Committee members have any specific questions to highlight them in advance.

Councillor Barlow requested that those Councillors who will be attending the next Governance and Audit Committee attend the Statement of Accounts briefing.

RESOLVED that;

a) the committee considered the report relating to the pre-audit Statement of Accounts for 2016/17
b) the Committee agree to the proposal for a separate internal briefing session for the Committee prior to the scheduled meeting for approval of the audited accounts on 25 July 2017.

59. Year End Internal Audit Assurance Report 2016/17

Hayley McGrath, Corporate Governance Manager, introduced the Year End Internal Audit Assurance Report. The report requests that the Committee review and comment on internal audit activity for the period 1 October 2016 – 31 March 2017 and the performance of internal audit by reference to national best practice benchmarks.

Hayley McGrath informed the Committee that an effective review by the Council's internal auditors, Mazars, has taken place. Audits on the IT Civica application and Business Continuity Planning have changed from Substantial to Limited, and the audit on Creditors has reduced from Full to Substantial. Hayley McGrath provided additional information on the recommendations made as a result of the audits, which have all been agreed by management. Hayley McGrath informed the Committee that a total of 48 audit days will be carried over to the next financial year.

Hayley McGrath also stated that there are a number of audits which are carried out by Colchester Borough Homes or the Council which impact on the other organisation. The reports of these audits are reported to both organisations and referred to as joint audits.

Councillor Barlow requested further information about the Creditors audit which reduced from Full to Substantial. In response Hayley McGrath stated that a Full audit rating is difficult to achieve, and the reduction to Substantial is a result of one recommendation being issued at level 2.

Councillor Willetts questioned whether the Council fully tests the backup and recovery systems rather than just desktop exercises. Hayley McGrath stated that each system is specific, checks on the backup and recovery systems are done on a regular basis. The housing system is fully tested, with systems being brought offline and recovered. With regard to the Civica system, this is a legacy system that is going to be replaced in the near future. Work is being undertaken with ICT to ensure that transferring to the new system is in line with the recommendations issued as part of the business continuity audit.

RESOLVED that the Committee reviewed and commented on the internal audit activity for the period 01 October 2016 and 31 March 2017 and the performance of internal audit by reference to national best practice benchmarks.

60. Review of the Governance Framework and Draft Annual Governance Statement

Hayley McGrath, Corporate Governance Manager, introduced the review of the Governance Framework and Draft Annual Governance Statement. The report requests the Committee consider and note the review of the Council's compliance with the seven principles of good governance (CIFPA Internal Framework: Good Governance in the Public Sector 2014) including the review of effectiveness of the internal control arrangements. The report so requests that the Annual Governance Statement 2016/17 be approved.

Hayley McGrath confirmed that there was an obligation to review the Annual Governance Statement annually as part of the Accounts and Audit Regulations 2015. The internal audit process forms a significant part of this, and the overall audit opinion of substantial assurance is included within the report.

Hayley McGrath also informed the Committee that as part of the Governance reviews, meetings are held with senior managers and key officers to establish whether there are any issues and to ensure compliance with the seven principles of corporate governance. Hayley McGrath confirmed that there were no governance issues during the year, but there were a number of areas where the controls could be improved as a result of issues identified through the internal audit.

The Governance and Audit Committee will receive an update on the Annual Governance statement and progress on the action plan, which addresses the requirement for improved controls, later in the municipal year.

Councillor Willetts requested clarification on the increase in number of audit projects with a limited assurance level. Hayley McGrath stated that all issues identified are theoretical risks of systems failing and that there had been no indication of any of the risks coming to fruition. The number of limited assurance levels increasing is due in part to managers

raising concerns and asking for assistance in improving processes.

In response to a question from Councillor Harris regarding ISAE 3402, Hayley McGrath confirmed that this is a standard required by the payroll contractor which would provide assurance to Colchester Borough Council. The Council has been informed verbally that there are no issues however the statement is required and this is being monitored. If the statement is not received by the end of July this will be reported to the Executive Management Team to take further. Ann Hedges provided the Committee with an update regarding the new payroll system which is being rolled out.

RESOLVED that;

a) the Committee considered and noted the review of the Council's compliance with the seven principles of good governance including the review of effectiveness of the internal control arrangements.
b) The Annual Governance Statement for 2016/17 be approved.

61. Work Programme 2017-18

Councillor Barlow, introduced the Work Programme 2017-18. The report requests that the Committee note the content of the Committee's Work Programme for 2017-18.

Councillor Barlow highlighted the schedule of the routine work of the Committee and also suggested that an item on elections, focusing on engagement and local democracy week be scheduled on the work programme. Councillor Barlow felt that this would lead on from the work that the Review of Meetings and Ways of Working had done so far.

Councillor Harris raised the issue of the October Governance and Audit Committee meeting possibly containing too many items. The Committee were minded that some of the items could be moved to September or October.

RESOLVED that the Work Programme be noted.

COLCHESTER

Governance and Audit Committee

Item 7

25 July 2017

Report of	**Assistant Director (Policy & Corporate)**	**Author**	**Steve Heath** ☎ **282389**
Title	**Annual Statement of Accounts 2016/17**		
Wards affected	Not applicable		

This report provides comments on the Auditors' report on the Statement of Accounts for 2016/17

1. Decisions Required

1.1 To:

- Accept the Audit Results Report for the year ending 31 March 2017,
- Note the comments in this covering report,
- Approve the letter of representation, and
- Approve the audited Statement of Accounts.

2. Audit Results Report

2.1 The pre-audit Statement of Accounts (SOA) was certified by the responsible financial officer on 26 May, which is in accordance with the statutory deadline. A report was presented to this Committee on 27 June highlighting the availability of the draft accounts, and explaining the key financial statements.

2.2 The Auditors' work on the 2016/17 accounts has now been substantially completed. The issues raised during the audit have been discussed with the Auditor and dealt with, and the Statement of Accounts is being agreed. The presentation of the attached Draft Audit Results Report to those charged with governance is the final stage in the process to approve the Council's Statement of Accounts.

2.3 The Audit Plan identified general audit risks that are shown in section 2 of the Audit Results Report. The Auditors' testing has not identified any material issues in the 2016/17 accounts, and does not raise any concerns over our accounting treatment of these areas.

2.4 The Audit Report in section 3 shows that the Auditor expects to issue an unqualified opinion on the financial statements. This is expected to be issued by 31 July, which is in advance of the statutory deadline of 30 September. In keeping with the usual practice the published statement, including the Auditor's opinion, will be submitted to the Committee following conclusion of the audit.

2.5 Section 4 states that the audit identified a small number of minor disclosure adjustments within the accounts that have all been amended during the course of the audit. No material errors were identified, and there were no errors identified during the audit that have not been adjusted.

2.6 The Auditor has a responsibility to be satisfied that the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In

examining these arrangements, the Auditor raises the following two significant risks in section 5 of the report:

- **Sustainable resource deployment**. This concerns the Council's financial resilience and response to the financial pressure resulting from the continuing economic downturn. The Auditor has assessed the Council to have adequate arrangements in place, but highlights the significant challenges and risks over the next three to four years.
- **Working with partners and third parties**. This relates to the Essex Garden Communities project, and the risks relating to the governance and accounting arrangements. The Auditor's work demonstrates that the project is being governed appropriately, and highlights the positive response to Lord Kerslake's peer review.

2.7 In line with International Standards of Auditing, the Audit Commission requests a general letter of representation in support of the SOA. This provides assurance about the information within the SOA and any issues that could arise between the end of the financial year and the conclusion of the audit. A draft of the letter required, which will be signed by the Section 151 Officer, is attached to this report.

3. Strategic Plan References

3.1 The objectives and priorities of the Strategic Plan informed all stages of the budget process for 2016/17.

4. Publicity Considerations

4.1 The accounts were open for public inspection from Monday 5 June to Friday 14 July to meet our legal duties. This had been advertised on the Council's website via the link below:

http://www.colchester.gov.uk/article/16018/Audit-of-Accounts

5. Financial Implications

5.1 The approval of the audited 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 Appendix B to the Audit Results Report highlights a variation to the scale fee of £1,484, which is due to additional work performed on the Payroll data migration and the Expenditure and Funding Analysis.

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

Attached to this report:
Draft Audit Results Report
Draft Letter of Representation

Available on the Council's website:
Draft Statement of Accounts 2016/17 (updated)
http://www.colchester.gov.uk/article/11907/Statement-of-Accounts---Colchester-Borough-Council

Draft Annual Statement of Accounts – Report to Governance & Audit Committee on 27 June 2017
https://colchester.cmis.uk.com/colchester/MeetingCalendar/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/499/Committee/35/Default.aspx

Colchester Borough Council
Audit results report

Year ended 31 March 2017

Building a better working world

Private and Confidential July 2017

Dear Governance and Audit Committee Members

We have substantially completed our audit of Colchester Borough Council (the Authority) for the year ended 31 March 2017.

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.

The statutory deadline for 2016/17 is 30 September 2017. However, the Authority is aiming to approve the financial statements on 25 July 2017 in preparation for the earlier statutory deadline of 31 July which is relevant for financial years ending on or after 31 March 2018. As such we confirm that we also expect to issue our audit opinion by the end of July 2017.

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 would like to thank your staff for their help during the engagement.

We look forward to discussing with you any aspects of this report or any other issues arising from our work.

Yours faithfully

Kevin Suter
Executive Director

For and on behalf of Ernst & Young LLP

United Kingdom

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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).

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 September 2015)" 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, other members of the Authority 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, other members of the Authority 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, other members of the Authority 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 obtaining our written consent.

01 Executive Summary

Executive Summary

Overview of the audit

Scope and materiality

In our Audit Plan presented to the Governance and Audit Committee at their 7 March 2017 meeting, we gave you an overview of how we intended to carry out our responsibilities as your auditor. We carried out our audit in accordance with this plan. There have been no changes in our planned audit strategy.

We planned our procedures using a materiality of £2.9 million. We reassessed this using the actual results for the financial year and the materiality level remained at £2.9 million. The threshold for reporting audit differences has decreased from £0.146 million to £0.143 million. The basis of our assessment of materiality has remained consistent with prior years at 2% of gross expenditure.

We also identified areas where misstatement at a lower level than materiality might influence the reader and developed a specific audit strategy for them. They include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits. As these disclosures are considered to be of interest to users of the accounts we have adopted judgement in ensuring that we have tested the disclosures in sufficient detail to ensure they are correctly disclosed. In particular we have confirmed the figures for senior officer remuneration in full.
- Related party transactions. The accounting standard requires us to consider the disclosure from the point of materiality to either side of the transaction. We have therefore considered the nature of the relationship in applying materiality.
- Councillors' allowances. As these disclosures are considered to be of interest to users of the accounts we have adopted judgement in ensuring that we have tested the disclosures in sufficient detail to ensure they are correctly disclosed.

Executive summary (continued)

Status of the audit

We have substantially completed our audit of Colchester Borough Council's financial statements for the year ended 31 March 2017 and have performed the procedures outlined in our Audit plan. 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. However until all work is complete, further amendments may arise.

- Some limited PPE testing
- Assessing the discount rate and RPI assumptions of the pensions actuary;
- Group consolidation and disclosure notes;
- Review of the final version of the financial statements;
- Completion of subsequent events review;
- Completion of final review procedures;
- Receipt of the signed management representation letter; and
- Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts WGA) submission.

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

Audit differences

At the time of writing this report there are no unadjusted or adjusted audit differences arising from our audit.

We have identified a number of minor disclosure adjustments which have been corrected by management in the revised financial statements subject to approval.

Executive summary (continued)

Areas of audit focus

Our Audit Plan 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 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 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; and
- 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.

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 Plan we identified the following significant risk:

- Sustainable resource deployment: Achievement of savings needed over the medium term.

During the audit we also identified the following additional significant risk:

- Working with partners and third parties: Working with third parties to effectively to deliver strategic priorities.

This risk is in relation to the governance and set-up arrangements of the Garden Communities project.

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

Executive summary (continued)

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 are yet to complete our work on the Whole of Government Accounts (WGA) return. We are currently planning to complete this prior to 25 July 2017.

We have no other matters to report.

Control observations

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

Independence

Please refer to Appendix B for our update on Independence. We have no independence issues to highlight.

02 Areas of Audit Focus

Audit issues and approach: Risk of Fraud in Revenue Recognition

Revenue Recognition

What are our conclusions?

Our testing has not identified any material misstatements from revenue and expenditure recognition.

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

What is the risk?

Risk of fraud in revenue recognition

Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.

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.

Having assessed the key income and expenditure streams of the Council, we judge that there is material opportunity and incentive for the incorrect classification of revenue spend as capital expenditure.

Significant Risk

What did we do?

In order to address this risk we:

- Reviewed capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.

Audit issues and approach: Management Override of Controls

Management Override

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.

What is the risk?

Risk of management override

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.

Significant Risk

What did we do?

In order to address this risk we carried out a range of procedures including:

- 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; and
- Evaluating the business rationale for significant unusual transactions.

Audit issues and approach: Presentation of the Financial Statements

Expenditure and Funding Analysis

What are our conclusions?

Our testing performed has not identified any material misstatements in the 2016/17 statement of accounts.

Our work identified that the restated gross expenditure and gross income differed from the 2015/16 financial statements. The differences related mainly to the incorrect treatment in the prior year netting off HRA income and expenditure, which has been identified and corrected as a result of moving to the new Expenditure and Funding Analysis note.

The issue does not have an impact on the surplus/deficit on the CIES or the general fund.

No other issues were identified during our work performed in this area.

What is the risk?

Presentation of the financial statements

Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) changing the way the financial statements are presented.

The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement, and include the introduction of a new Expenditure and Funding Analysis note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.

The Code no longer requires statements or notes to be prepared in accordance with Service Reporting Code of Practice. Instead the Code requires that the service analysis is based on the organisational structure under which the authority operates. We expect this to show the Council's segmental analysis.

This change in the Code will require a new structure for the primary statements, new notes and full retrospective restatement of comparatives. This restatement will require audit review, which could potentially incur additional costs, depending on the complexity and manner in which the changes are made.

Significant Risk

What did we do?

In order to address this risk we carried out a range of procedures including:

- Reviewing the expenditure and funding analysis, CIES and new disclosure notes to ensure disclosures are in line with the Code;
- Reviewing the analysis of how these figures are derived, and how the ledger system has been re-mapped to reflect the Council's organisational structure;
- Agreeing restated comparatives figures to the Council's segmental analysis and supporting working papers; and
- Due to the initial findings that the restated figures for gross expenditure and gross income did not agree to the 2015/16 financial statements, reviewing how overheads are apportioned across the service areas reported and their treatment.

Audit issues and approach: Property, Plant and Equipment Valuations

Property, Plant and Equipment Valuations

What are our conclusions?

Our testing performed has not identified any material misstatements in the property, plant and equipment figures in the 2016/17 statement of accounts.

What is the risk?

Property, plant and equipment valuations

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.

Significant Risk

What did we do?

In order to address this risk we carried out a range of procedures including:

- Procedures to ensure we are able to rely on management's valuation experts;
- Challenging the key assumptions made by the experts;
- Testing the accounting treatment of valuations made in the year, including the assessment and treatment of impairments; and
- Reviewing and testing the Council's application of IFRS13 to ensure the fair value of relevant assets is based on economic best interest.

Audit issues and approach: Pension Valuation and Disclosure

Pension Valuation and Disclosure

What are our conclusions?

Our testing performed to date has not identified any material misstatements in the pension valuation and disclosure in the 2016/17 statement of accounts.

However, we are still working to assess the reasonableness of the actuaries assumptions over the discount rate and RPI.

We will update the committee on any further issues should they arise.

What is the risk?

Pension valuation and disclosure

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.

Significant Risk

What did we do?

In order to address this risk we carried out a range of procedures including:

- Liaising with the auditors of the Essex Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Colchester Borough Council;
- Assessing the conclusions drawn on the work of the actuary by the Consulting Actuary commissioned by the NAO, including the use of our own pensions specialists; and
- Reviewing and testing the accounting entries and disclosures made in relation to IAS19.

Both specialists identified that the assumptions used by the pension fund actuary were considered to be at the optimistic end of the range for the discount rate and RPI inflation.

We have obtained further information from the actuary regarding their methodology, and are assessing its impact.

03 Audit Report

Draft audit report

Our opinion on the financial statements

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

Opinion on the Authority's financial statements

We have audited the financial statements of Colchester Borough Council for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Comprehensive Income and Expenditure Statement,
- Authority and Group Movement in Reserves 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 2016/17.

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.

Draft audit report (continued)

Our opinion on the financial statements

Respective responsibilities of the Strategic Finance Manager (S151 Officer) and auditor

As explained more fully in the Statement of Responsibilities of the Strategic Finance Manager (Section 151 Officer) set out on page 20, the Strategic Finance Manager (Section 151 Officer) is responsible for the preparation of the Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Strategic Finance Manager (Section 151 Officer); and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2016-2017 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

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 2017 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 2016/17.

Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2016-2017 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Draft audit report (continued)

Our opinion on the financial statements

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
- 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.

Conclusion on Colchester Borough Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

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

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.

Draft audit report (continued)

Our opinion on the financial statements

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 2015, 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 Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether 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 2017.

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, Colchester Borough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion
On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, 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 2017.

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.

04 Audit Differences

Audit differences

In any audit, we may identify misstatements between amounts we believe should be recorded in the financial statements and 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.

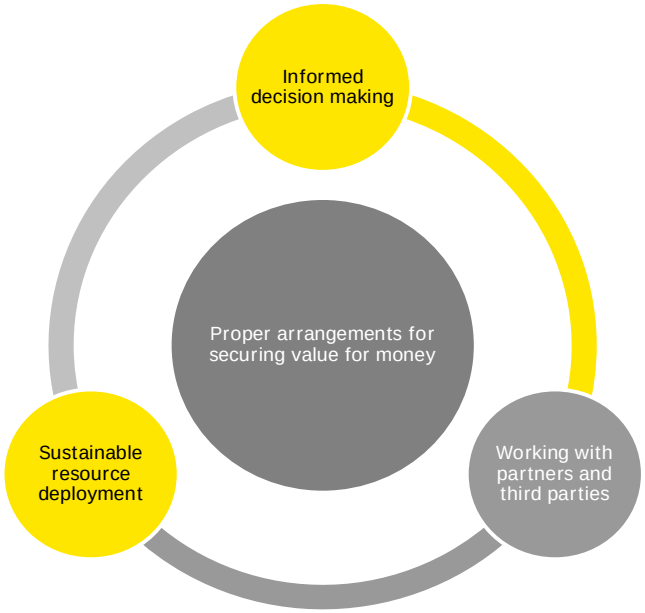
Summary of adjusted differences

At the time of writing this report there are no corrected misstatements that we wish to bring to your attention. We have identified a number of minor disclosure adjustments during the audit that have been updated by management in the financial statements. We do not deem any of these to be so significant that they require reporting to you.

At the time of writing this report there were no uncorrected misstatements.

05 Value for Money

Value for Money



Economy, efficiency and effectiveness

We must consider whether you have 'proper arrangements' to secure economy, efficiency and effectiveness in your use of resources. This is known as our value for money conclusion.

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 use the CIPFA/SOLACE framework for local government to ensure that our assessment is made against an already existing mandatory framework which you use in documents such as your Annual Governance Statement.

Overall conclusion

We identified two significant risks around these arrangements. The tables below present our findings in response to the risks in our Audit Plan and any other significant weaknesses or issues we want to bring to your attention.

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

VFM risks

We are only required to determine whether there is any risk that we consider significant within the Code of Audit Practice, where risk is defined as:
"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"
Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.
The table below presents the findings of our work in response to the risk area in our Audit Plan.

What is the significant VFM risk?	Arrangements this impacts?	What are our findings?
Sustainable resource deployment: Financial resilience – achievement of savings needed over the medium term To date the Council has responded well to the financial pressure resulting from the continuing economic downturn. However, the Council continues to face significant financial challenges over the next three to four years, with a forecasted underlying budget gap of £2.5m by 2020-21. Given the scale of the savings needed, there is a risk that savings plans to bridge this gap are not robust and/or achievable.	· Taking informed decisions · Deploying resources in a sustainable manner	We have undertaken the procedures as set out in our audit strategy which have focused on: • The adequacy of the Council's budget monitoring process, comparing budget to outturn. • The robustness of any assumptions used in medium term planning. • The savings plans in place, and assessing the likelihood of whether these plans can provide the Council with the required savings/efficiencies over the medium term. Although the 2017/18 financial period sees the most challenging saving targets to date the Council has a strong history of delivering saving targets, has a strong and highly experienced management team and has taken effective steps to address future budget gaps. In 2016/17 the Council continued its strong performance against budget, delivering a small deficit of £0.1m, including approximately £1.5m of savings and additional income. The general fund balance stands at £9.4 million as at 31 March 2017. The 2017/18 budget is balanced, through the use of efficiencies and income plans. Although it is still relatively early in the financial year, we assessed these as reasonably based taking into account the Council's track record of delivering savings over the recent financial periods. While incrementally savings can become harder to achieve over time, the Council's performance in delivering its plans gives confidence that it can continue to do so. The cumulative budget gap, taking into account the 2016/17 outturn, is now forecast at £2.5m to 2020/21. Compared to a gross expenditure of approximately £130m per annum, we judge this to be a manageable budget gap. Therefore, based on the known information as at the end of the financial year, we assess the Council to have adequate arrangements.

VFM risks

We are only required to determine whether there is any risk that we consider significant within the Code of Audit Practice, where risk is defined as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risk area identified during our audit.

What is the significant VFM risk?	Arrangements this impacts?	What are our findings?
Work with Partners and Third Parties: Essex Garden Communities Project Over the past eighteen months, the Council, jointly with Essex County Council, Braintree District Council and Tendring District Council have developed proposals for Garden Communities in North Essex. The aim of the Garden Communities approach is to identify an agreed strategic approach to the allocation and distribution of large scale housing led mixed use development, including employment opportunities and infrastructure provision. The Council has sourced a peer review, performed by Lord Kerslake. The review looked at the current approach to delivering Garden Communities in North Essex. As a new and significant arrangement there may be risks relating to the governance and accounting arrangements for the establishment of the project that affect the Council.	· Working with third parties to effectively to deliver strategic priorities	We have undertaken the procedures as set out in our audit strategy which have focused on: • Gaining an understanding of the governance structure; and • Obtaining and assessing the findings of the peer review performed by Lord Kerslake. Our work performed demonstrates that the North Essex Garden Communities project between Essex County Council, Braintree District Council, Colchester Borough Council and Tendring District Council is being governed appropriately and that there is a strong working relationship between the parties. The Authorities have responded positively and in a timely manner to the recommendations provided in Lord Kerslake's peer review. Given the early stage of the project we are likely to revisit this issue as the project develops.

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 Colchester Borough Council Statement of Accounts 2016/17 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.

Our findings are:

- Financial information within the Annual Report and published with the financial statements was consistent with the Annual Accounts.
- The remuneration and staff report was prepared correctly.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information that we are aware of 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.

We are yet to complete our work on the Whole of Government Accounts (WGA) return. We are currently planning to complete this prior to 25 July 2017.

Once completed we will report any matters arising to the Governance and Audit Committee.

Other reporting issues

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 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.

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.

In accordance with our Audit Plan we have tested the key financial controls within the Payroll system. This was limited to the control testing of starters and leavers which did not identify any significant control deficiencies. Due to the change of payroll service provider from 1 April 2016 we performed additional work on the migration of the data to the new provider and arrangements for ensuring the payroll expenditure was correctly stated. Although we did not identify any material misstatements with the payroll expenditure we did identify a number of weaknesses with the process:

- Evidence to support the running of a parallel run were not maintained; and
- No detailed evidence was retained of checks performed after the transfer to ensure individual employees pay was accurate.

We also note Internal Audit's previously reported finding that the Council were unable to obtain an ISAE 3402 controls report from the payroll service provider, meaning there was no assurance over the internal controls of the provider.

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.

08 Appendices

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 done this by:

		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.
Planning and audit approach	Communication of the planned scope and timing of the audit, including any limitations.	March 2017 Audit Plan
Significant findings from the audit	• Our view of the 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	July 2017 Audit Results Report
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ 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	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	▸ 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 ▸ Significant corrected misstatements, in writing	July 2017 Audit Results Report

Appendix A

Required communications	What is reported?	Our Reporting to you When and where
Fraud	► Asking the Governance and Audit Committee whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ► Unless all those charged with governance are involved in managing the entity, any fraud identified or information obtained indicating that a fraud may exist involving: (a) management; (b) employees with significant roles in internal control; or (c) others where the fraud results in a material misstatement in the financial statements. ► A discussion of any other matters related to fraud, relevant to Governance and Audit Committee responsibility.	We have asked management and those charged with governance about arrangements to prevent or detect fraud. We have not become aware of any fraud or illegal acts during our audit.
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, where applicable: ► Non-disclosure by management ► Inappropriate authorisation and approval of transactions ► Disagreement over disclosures ► Non-compliance with laws and/or regulations ► Difficulty in identifying the party that ultimately controls the entity	We have no matters to report.
Subsequent events	► Where appropriate, asking the Governance and Audit Committee whether any subsequent events have occurred that might affect the financial statements.	We have asked management and those charged with governance. We have no matters to report.
Other information	► Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision.	July 2017 Audit Results Report
External confirmations	► Management's refusal for us to request confirmations ► We were unable to obtain relevant and reliable audit evidence from other procedures.	At the time of writing this report we are awaiting some external confirmations in relation to cash, investments and borrowings. We will provide you with an update at the Governance and Audit Committee on 25 July 2017.

Appendix A

Required communications	What is reported?	Our Reporting to you When and where
Consideration of laws and/or regulations	▸ Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on "tipping off" ▸ Asking the Governance and Audit Committee about possible instances of non-compliance with laws and/or regulations that may have a material effect on the financial statements, and known to the Governance and Audit Committee.	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	▸ Significant deficiencies in internal controls identified during the audit.	July 2017 Audit Results Report
Group Audits	▸ An overview of the type of work to be performed on the financial information of the components ▸ An overview of the group audit team's planned involvement in the component auditors' work on the financial information of significant components ▸ Instances where the group audit team's evaluation of a component auditor's work of gave rise to a concern about its quality 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 or component management, employees with significant roles in group-wide controls, or others where the fraud resulted in a material misstatement of the group financial statements.	March 2017 Audit Plan July 2017 Audit Results Report
Independence	Communication of all significant facts and matters that have a bearing on EY's objectivity and independence. Communicating key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats ▸ Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards ▸ Information on the firm's general policies and processes for maintaining objectivity and independence Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards.	March 2017 Audit Plan July 2017 Audit Results Report

Appendix A

Required communications	What is reported?	Our Reporting to you When and where
Fee Reporting	Breakdown of fee information when the audit plan is agreed Breakdown of fee information at the completion of the audit Any non-audit work	March 2017 Audit Plan July 2017 Audit Results Report
Certification work	Summary of certification work	Certification Report

Independence

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 7 March 2017.

We complied with the APB Ethical Standards and the requirements of the Public Sector Audit Appointment's (PSAA) 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 25 July 2017.

We confirm we plan to undertake non-audit work outside the PSAA Code requirements in relation to our work on the Pooling of Housing Capital Receipts return. We have adopted the necessary safeguards in our completion of this work.

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2017.

We confirm that we plan to undertake non-audit work outside the PSAA Code requirements. This work relates to the review of the Pooling of Housing Capital receipts return. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2016.

	Planned Fee 2016/17 £'s	Scale Fee 2016/17 £'s	Final Fee 2015/16 £'s
Total Audit Fee – Code work (Note 1)	64,066	62,582	62,582
Total audit fee – Certification of claims and returns (Note 2)	17,926	17,926	13,640
Non-audit work (Note 3)	4,250		4,250

Note 1: Due to additional work performed on the expenditure and funding analysis and the payroll data migration we have submitted a scale fee variation to PSAA of £1,484. We must seek the agreement from PSAA for this proposed variation, which also needs to be agreed with the Council's Strategic Finance Manager.

Note 2: The planned fee for the certification of housing benefit subsidy is based on the programme of work carried out in 2014/15.

Note 3: The fee for non-audit work will be discussed with management and reported to the Governance and Audit Committee in subsequent reporting once the scope of work has been agreed for 2016/17. This work relates to the agreed upon procedures certification arrangements for the Pooling of Housing Capital receipts return.

We will confirm our final fees following the completion of our audit and non-audit work and report this within our Annual Audit Letter and Annual Certification Report.

Accounting and regulatory update

Accounting update

Since the date of our last report to the Governance and Audit Committee, new accounting standards and interpretations have been issued. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures	Impact on Colchester Borough Council
IFRS 9 Financial Instruments	Applicable for local authority accounts from the 2018/19 financial year and will change: • How financial assets are classified and measured • How the impairment of financial assets are calculated • Financial hedge accounting • The disclosure requirements for financial assets. Transitional arrangements are included within the accounting standard, however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be and whether any accounting statutory overrides will be introduced to mitigate any impact.	Although some initial thoughts on the approach to adopting IFRS 9 have been issued by CIPFA, until the Code is issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to: • Reclassify existing financial instrument assets • Re-measure and recalculate potential impairments of those assets; and • Prepare additional disclosure notes for material items
IFRS 15 Revenue from Contracts with Customers	Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except: • Leases; • Financial instruments; • Insurance contracts; and • for local authorities; Council Tax and NDR income. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations. There are transitional arrangements within the standard; however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be.	As with IFRS 9, some initial thoughts on the approach to adopting IFRS 15 have been issued by CIPFA. However, until the Code is issued there remains some uncertainty. However, what is clear is that for all material income sources from customers the Council will have to: • Disaggregate revenue into appropriate categories • Identify relevant performance obligations and allocate income to each • Summarise significant judgements

Appendix C

Name	Summary of key measures	Impact on Colchester Borough Council
IFRS 16 Leases	IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year. Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease in a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet. There are transitional arrangements within the standard, although as the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be or whether any statutory overrides will be introduced.	Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area. However, what is clear is that the Council will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented.
Earlier deadline for production and audit of the financial statements from 2017/18	The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.	The Council has implemented a dry-run for 2016/17 and subject to the outstanding matters raised elsewhere in this report, we are proposing to issue our audit report by the 31 July 2017. This is an excellent achievement. Through working together, and reflecting on this year, there are a number of areas where the closedown and audit processes can be further improved going forward. We do not expect the formal earlier deadline to pose a significant issue for the Council.

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ED None

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Your ref
Our ref
Date 25 July 2017

Kevin Suter
Director
Ernst & Young LLP

Dear Kevin

Letter of Representation – 2016/17 financial year

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 2017. 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 2017 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 2016/17.

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 2016/17.

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 2016/17 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 2016/17 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. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

2. 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.

3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Group or Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the consolidated or council financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the consolidated or council financial statements or otherwise affect the financial reporting of the Group or Council.

C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the consolidated and council financial statements.

D. 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 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: 25 July 2017.

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.

E. 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.

F. 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.

G. 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.

H. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises of 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.

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 2016/17.

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 Group and Council.

3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

J. 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 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.

K. 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.

Signed on behalf of Colchester Borough Council

I confirm that this letter has been discussed and agreed by the Governance and Audit Committee on 25 July 2017.

Sean Plummer
Strategic Finance Manager – Section 151 Officer

Cllr Nick Barlow
Chairman of the Governance and Audit Committee

Colchester

Governance and Audit Committee

Item 8

25 July 2017

Report of	**Director of Resources, Colchester Borough Homes**	**Author**	**Michael Hadjimichael ☏ 01206 507815**
Title	**Colchester Borough Homes Annual Report and Governance Statement**		
Wards affected	Not Applicable		

The purpose of the report is for the Committee to consider and comment on the Governance Assurance Statement of Colchester Borough Homes

1. Recommendation

1.1 The Committee considers and comments on the Governance Assurance Statement of Colchester Borough Homes.

1.2 The Committee accepts the assurance provided by Colchester Borough Homes regarding its governance arrangements throughout 2016/17.

2. Background

2.1 Colchester Borough Homes is a wholly owned company of the Council. As such:

- Its accounts are consolidated into the Council's financial statements
- Disclosures regarding the adequacy and effectiveness of its governance arrangements are included in the Council's Annual Governance Statement.

2.2 Colchester Borough Homes has therefore provided the Council with its own Annual Governance Statement for 2016/17 as evidence of how well its arrangements are operating (Appendix 1).

2.3 The Annual Governance Statement will inform the Council's Governance Statement.

2.4 Colchester Borough Homes' Finance and Audit Committee Chairman (subject to work commitments) and the Director of Resources will present this report to Committee and respond to any questions relating to it.

3. Additional Information

3.1 The Finance and Audit Committee of Colchester Borough Homes also takes the following actions to assure itself that the Company has proper and secure arrangements in place:

- Each year it agrees an audit plan for a three year period on a risk based approach
- It receives regular updates on the progress against this plan throughout the year from Internal Audit

- It carries out an annual self assessment of how it is functioning based on CIPFA guidelines

- It considers and recommends the Annual Governance Statement to the Board

- It monitors the actions coming out of the Annual Governance Statement

- It produces the Risk Management Strategy and monitors the key strategic risks of the Company

4. Head of Internal Audit Opinion 2016/17

4.1 Set out below are some key information from the Internal Audit Opinion Report:

- The Audit Plan covered 10 internal audit projects including all the key financial areas (these were amalgamated into one audit in the year).

- Assurance gradings were as follows:

Assurance Grading	No.
Full	1
Substantial	7
Limited	2

- Plans have been drawn up to deal with any areas of weakness and particular attention is being paid to the area of limited assurance relating to Payroll function, which is provided by Colchester Borough Council. Colchester Borough Homes continually reviews its control framework and strives for best practice where possible.

- **The overall Internal Audit Opinion is that substantial assurance on internal controls within the financial and operating systems operating throughout the year are in accordance with proper practice.**

5. Financial Implications

5.1 No further financial implications arise from matters included in these reports.

6. HR Implications

6.1 No HR implications arise from matters included in these reports.

7. Legal Implications

7.1 No legal implications arise from matters included in these reports.

8. Health & Safety Implications

8.1 No Health & Safety implications arise from matters included in these reports.

9. Equality & Diversity Implications

9.1 There are no direct diversity or equal opportunities issues as a result of these reports.

10. Residents at the Heart

10.1 These reports provide members with additional assurance around systems of internal control at Colchester Borough Homes Ltd.

11. Risk Management

11.1 Failure to operate robust governance arrangements can potentially lead to poor management, performance, stewardship of public engagement and, ultimately, poor outcomes for citizens and service users. It increases the risk that the company's priorities will not be delivered. Reviewing the governance arrangements each year and identifying and addressing the key issues minimises these risks.

12. Appendices

12.1 Annual Governance Statement

Colchester Borough Homes
Annual Governance Statement 2016/17

1. Scope of Responsibility

Colchester Borough Homes (CBH), formed in October 2003, is the Arms-Length Management Organisation of Colchester Borough Council (CBC), responsible for the management and maintenance of the Council's homes and transferred general fund services. In 2016/17, these were primarily financed from the Council through a Management Fee of £8,947,948, This fee also includes Property Services professional fees, Corporate Facilities management fee and CBH Revenue work costs. Property Services also manages capital and revenue work costs paid directly by CBC, totalling £6,962,000.

There is a formally binding Management Agreement between the Council and CBH in place until August 2023, with a review in 2020. This clearly sets out the governance arrangements that should apply between the two parties and complies with national best practice.

CBH is managed by a Board comprising four Council nominees, four tenants and four independent members. In discharging this overall responsibility, Colchester Borough Homes is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk. Three committees report to the Board: Finance & Audit, Governance & Remuneration and Operations. Additionally, there is also a Business Opportunities Panel. These all have formal, approved terms of reference, which are reviewed biennially.

2. The Purpose of the Governance Framework

Good governance leads to good management, good performance, good stewardship, good public engagement and ultimately good outcomes for citizens and the service user. Good governance enables the Company to pursue its vision effectively, as well as underpinning that vision with mechanisms for control and management of risk.

The governance framework comprises the systems, processes, culture and values by which the Company is directed and controlled and its activities through which it accounts to, engages with and serves the community. It enables the Company 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, 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 the Company’s policies, aims and objectives
- to evaluate the likelihood of those risks being realised and the impact should they be realised
- to manage them efficiently, effectively and economically.

The governance framework has been in place at Colchester Borough Homes for the year ended 31 March 2017 and up to the date of approval of the financial statements of accounts.

Colchester Borough Homes exercises control through:

- Corporate governance arrangements outlined in the Memorandum & Articles of Association, the Code of Governance and the Standing Financial Instructions.
- The employment of suitably qualified and experienced staff to take responsibility for key areas of the business. This is supported by a formal annual appraisal system.
- The preparation of forecasts and budgets that allow the committees and the executive officers to monitor the key business risks and financial objectives, and identify variances arising during the monthly reporting cycle.
- Business planning is based on a 3 year Medium Term Development Plan that sets out key actions to enable CBH to achieve its goals for the ensuing year. This cascades through supporting Service Plans and individual performance appraisals. The key aims for 2017/18 are:
  - ✓ Maximise the supply of housing to meet local needs
  - ✓ Work with partners and residents to create mixed and sustainable communities which are economically, environmentally and socially healthy and resilient
  - ✓ Prevent homelessness and rough sleeping
  - ✓ Improve the life chances of Colchester's residents including their health and wellbeing
  - ✓ Work with customers to enable them to make informed choices about their housing options
  - ✓ Make the best use of existing homes
  - ✓ Provide healthy, safe and energy efficient homes
  - ✓ Ensure that housing and related services meet a range of specialist needs
  - ✓ Manage and improve the Council's corporate assets
  - ✓ Ensure customers are at the heart of everything we do
  - ✓ Make the most of resources and opportunities

The Executive Management and the Board carry out regular review of performance against objectives and targets detailed in the Medium Term Delivery Plan.

3. Review of Effectiveness

Colchester Borough Homes conducts, at least annually, a review of the effectiveness of its governance framework, including the system of internal control that is in place, and to ensure it is appropriate to support the company's objectives. The review of effectiveness is informed by the work of the Executive Officers and Senior Management Team within the Company, who have responsibility for the development and maintenance of the governance environment. This is supported by the Internal Audit's annual report, and by comments made by external auditors and other review agencies and inspectorates.

The company produces a Medium Term Delivery Plan every three years, which is refreshed every year. From this plan, Key Performance Indicators (KPIs) and projects are produced. A performance and scrutiny framework is in place to review and monitor delivery against these. This is a combination of company, tenants and CBC scrutiny as well as benchmarking against other providers.

CBH's internal arrangements for ensuring the effectiveness of its governance arrangements consist of:

- The Operations Committee receiving quarterly performance reports.
- The Governance & Remuneration Committee monitoring the implementation of the Governance Action Plan and significant staffing matters.
- The Finance & Audit Committee considering Internal Audit reports throughout the year, reviewing how well strategic risks are identified and managed, and monitoring financial performance against budgets.
- The Finance & Audit Committee monitoring the regular review of key policies against an agreed policy review timetable.
- The production and approval of annual Manager Assurance Statements by service directors and their teams to assess compliance with key governance processes throughout the year.

Internal Audit
Internal Audit is delivered through a contract with Mazars LLP (Mazars). A five-year risk-based Strategic Audit Plan was initially approved by the Finance and Audit Committee in June 2016, following the successful re-appointment of Mazars in April 2016. This is refreshed on an annual basis in consultation with the Directors Management Team. The updated plan was approved by the Finance & Audit Committee in June 2017.

The audit plan was delivered, with reports issued to senior managers at the conclusion of each audit highlighting internal control weaknesses identified and the actions required to address them. Recommendations were also reviewed to ensure they were implemented properly by the due date. Reports were presented to each Finance & Audit Committee of progress against the audit plan as well as the status of outstanding recommendations.

The Head of Internal Audit prepares an annual Head of Internal Audit Opinion (HOIA) report that includes an overall opinion on CBH's internal control environment based on the results of the audit work completed. This was considered by the June 2017 Finance & Audit Committee.

Internal Audit performance is subject to annual review by the external auditor of CBH in order that they can place reliance on its audit work. The Company provided the Council with the following assurance regarding the robustness of its governance arrangements during the year:

- Internal Audit reports
- Summary results of Manager Assurance Statements

- The Annual Report, which incorporates the Head of Internal Audit's annual report (including an opinion on the effectiveness of the company's systems of internal control)

External Audit
External Audit of the annual financial statements is undertaken by Scrutton Bland with a view to expressing an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland).

In carrying out the audit work, Scrutton Bland will consider whether the financial statements are free from 'material misstatement'. Materiality is an expression of the relative significance of a particular matter in the context of the financial statements as a whole. An item will normally be considered material if its omission would reasonably influence the decisions of those using the financial statements.

Scrutton Bland will issue a report to management at the conclusion of the audit work. This will include a management letter that will contain comments and recommendations for improvements in operations and internal control in respect of the Company. This will be discussed with management prior to the issue of the final report. The report will also include details of significant adjusted and unadjusted items that arise as a result of the audit work.

The Finance & Audit Committee considers the external auditor's report and recommends adoption of the financial statements to the Board.

4. Significant Governance Issues from 2015/16 - Update

In the 2015/16 Annual Report it was stated the need to carry out a disaster recovery test, which was already overdue. Two tests were carried out in the year:

- Communications Test
- IT Access Test

A testing plan is currently being developed with a couple of key operational tests ear-marked to take place in 2017/18.

In addition, the Business Continuity Plan (BCP) was formally reviewed and approved by Executive Management in March 2017. This was also subject to an Internal Audit Review which was reported to the June 2017 Finance and Audit Committee. CBH is working closely with CBC to ensure all BCP's across the two organisations are aligned, due to close reliance on each other should the plan need to be activated.

5. Significant Governance Issues

In 2016/17, Internal Audit provided an opinion of Limited Assurance in the following two areas:

- Insurances
- Payroll

Insurance
The key issue with the insurance audit was regarding the timing of the renewal process. As a consequence of the audit, we have commenced the annual process for 2017/18 a month earlier than previously to ensure adequate review and approval of the insurances recommended by the broker are both fit for purpose and value for money.

Payroll
CBC provide the payroll function on behalf of CBH. In April 2016, CBC commenced the transition to a new system, which resulted in the short-term use of a payroll bureau system whilst the new system was being developed. The inherent risks of the transition ultimately sit with CBC, but CBH are actively managing their risks with CBC to ensure an appropriate control framework is in place to protect its employees and its own reputation.

Signed: _____
(Chair of the Board)

Signed: _____
(Chair of the Finance & Audit Committee)

Signed: _____
(Chief Executive Officer)

Colchester

Governance & Audit Committee

Item 9

25 July 2017

Report of	**Assistant Director Policy & Corporate**	**Author**	**Hayley McGrath** ☏ **01206 508902**
Title	**2016/17 Year End Review of Risk Management**		
Wards affected	Not Applicable		

This report reviews the Risk Management work undertaken for the period 1 April 2015 to 31 March 2016.

1. Decision(s) Required

1.1 The Committee is requested to:
1.2 Consider and note the risk management work undertaken during 2016/17.
1.3 Consider and comment on the current strategic risk register.
1.4 Consider and comment on the proposed risk management strategy for 2017/18.
1.5 Endorse the submission of this report to Cabinet.

2. Reason for decision

2.1 The Risk Management Strategy, which forms part of the policy framework, identifies the Governance & Audit Committee as being responsible for reviewing the effectiveness of the risk management process and reporting critical items to cabinet as necessary.

2.2 Regular progress reports, detailing work undertaken and current issues, are provided to assist with this responsibility.

3. Key Messages

- The main risks on the register continue to be the potential impact of future central government decisions to reduce public funding, failure or inappropriate management of a strategic partner and the potential impact of the European Union referendum result. These are all outside of the direct control of the Council. However the impact of these risks can be mitigated, and risks identified in section 6 - Assets and Resources - are a reflection of the work that is undertaken to ensure that the organisation can respond to these challenges.
- Risk Management principles continue to be reinforced and embedded in the organisation. The 2015/16 Annual Audit Report, issued by the Council's external auditors, Ernst & Young, in December 2016, did not include any findings of anticipated risks occurring. This is further demonstrated by the 2016/17 internal audit review which provided a substantial assurance level.

4. Supporting Information

4.1 The aim of the Council is to adopt best practices in the identification, evaluation, cost-effective control and monitoring of risks across all processes to ensure that risks are properly considered and reduced as far as practicable.

4.2 In broad terms risks are split into three categories:

- Strategic – those risks relating to the long term goals of the Council
- Operational – risks related to the day-to-day operation of each individual service
- Project – consideration of the risks relating to specific initiatives

4.3 Strategic risks are essentially those that threaten the long term goals of the Council and therefore are mainly based around meeting the objectives of the Strategic Plan. They may also represent developing issues that have the potential to fundamentally affect service provision, such as proposals to dramatically change welfare processes. Strategic risks are owned by members of the Senior Management Team.

4.4 Operational risks are those that threaten the routine service delivery of the Council. Each service area has their own operational risk register that details the risks associated with providing the service. These registers are reported, in summary format, to the Senior Management Team and committee on an annual basis. High risks and the success in controlling them are reported to Senior Management Team on a quarterly basis, as these assist in the formulation of the strategic risk register.

4.5 Project risks are those that relate solely to the successful delivery of that specific project. They tend to be quantifiable issues, such as resource or time related, and constantly change and develop over the course of the project as each stage is completed. The lead on the project is responsible for ensuring that there is an appropriate risk register and high level issues are reported to the senior management team.

5.0 Summary of 2016/17

5.1 Health and Safety is a key part of manging operational risks and work continues to ensure that the Health and Safety framework is embedded across the organisation. A more detailed report will be provided to committee later in the year however key projects have included reviewing the support for lone workers and managing challenging customers.

5.2 Work has been undertaken supporting the Community Stadium and football club with their Safety Advisory Group (SAG), in particular with regards to the recent Olly Murs concert. Officers also support the Colchester SAG, reviewing the risk elements of event plans.

5.3 There were no fundamental changes to the processes used to identify and control risk, during 2016/17.

5.4 An audit of the risk management function was carried out in January 2017. This produced four level two recommendations. These related to managing the operational risk registers and

5.5 The risk registers for the Joint Museum Service and the North Essex Parking Partnership both continue to be produced and reported to the joint committees.

6. Strategic Risk Register

6.1 During 2016/17 the strategic risk register was reviewed by the senior management team every quarter and reported to the Governance & Audit Committee every six months. The current register is shown at appendix 1. These risks have been mapped onto a risk chart as shown at appendix 2.

6.2 The Corporate Governance Manager reviewed the strategic risks with each member of the Senior Management Team in March 2017, and in June the Performance Management Board (PMB) comprehensively reviewed the register to ensure that the identified risks were still appropriate.

6.3 A separate exercise was undertaken to review the actions highlighted on the register to ensure that they are suitable to control the identified risks and an audit review was carried out to verify that actions were being implemented.

6.4 A new risk has been added at 3.e – increase in challenging behaviour from customers, when the Council cannot meet the customer's expectations. Alongside partners being unable to provide support or having incorrectly signposted the customer to the Council.

6.5 There were no changes made to the scores following the review.

7. Risk Management Strategy for 2017/18

7.1 The Council's current approach to managing risk was introduced in 2006/07. A requirement within the strategy, and also of the annual audit assessment, is to review the approach each year to ensure that it is still appropriate to the Council's needs.

7.2 Therefore a review has been undertaken and the strategy has been updated for 2017/18. The revised strategy is attached at appendix 3. There are no fundamental changes proposed to the risk process with amendments only to external review comments and the updating of role titles.

8. Proposals

8.1 To note and comment upon the Councils progress and performance in managing risk during 2016/17, the updated strategic risk register and the revised risk management strategy.

8.2 Endorse the submission of this report to Cabinet.

9. Strategic Plan Implications

9.1 The strategic risk register reflects the objectives of the strategic plan and the actions have been set with due regard to the identified key strategic risks. Therefore the risk process supports the achievement of the strategic objectives.

10. Equality, Diversity and Human Rights Implications

10.1 Whilst there are no direct equality, diversity or Human Rights implications from this report, the risk management process recognises the impact of the legislation and controls have been implemented, including the completion of Equality Impact Assessments, to mitigate the risk.

11. Risk Management Implications

11.1 The failure to adequately identify and manage risks may have an effect on the ability of the Council to achieve its objectives and operate effectively.

12. Other Standard References

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

Appendix 1

Colchester Borough Council – Corporate Strategic Risk Register
July 2017 – September 2017

1. AMBITION											
Specific Risks		SCORE						Consequences	Actions	Owner	
		Current			Previous						
		P	I	O	P	I	O				
1a	In a period of public sector resource reductions the ability to have ambition and to deliver on that ambition.	3	2	6				Major changes needed to the town would not be delivered thus affecting the quality of life of its residents and businesses. Major downturn in public sector resourcing over the next few years will hamper the speed of delivery across the services provided. Poorer external assessments by independent agencies and loss of Council reputation. The Borough Council loses its status and influencing ability at sub-regional, regional and national levels.	Ensure the KPI and SPAP reporting processes are effectively used to inform senior management and politicians about the performance and direction of the organisation.	Assistant Director Policy and Corporate	Sept 2017
1b	Unrealistic internal and external expectations on the speed of delivery.	3	3	9					Ensure that the organisation has a clear strategy for working effectively with businesses in the borough, to develop the economy.	Strategic Director of Policy and Place	Sept 2017
1c	The Council is unable to effectively influence changes in the Borough economy.	3	4	12							
1d	Over reliance on a limited number of people limits ability to deliver our ambition.	3	3	9					Manage the recruitment and development processes to ensure that the organisation has the appropriate skills and expertise.	Chief Executive	Sept 2017

2. CUSTOMERS											
Specific Risks		SCORE						Consequences	Actions	Owner	Timing
		Current			Previous						
		P	I	O	P	I	O				
2a	The expectations of our customers, set alongside the financial constraints will create challenges to service delivery, our channel shift ambitions and the reputation of the authority.	4	3	12				The Authority fails to deliver the standards of service and delivery which our customers expect, especially in relation to self-service and the reliance on IT capabilities.	Monitor the engagement and consultation processes, to ensure customers are able to inform service priorities and delivery, whilst managing their methods of interaction with the organisation. This will be evidenced by reporting the pattern of usage of the routes used by customers and savings achieved.	Strategic Director of Customer and Relationships	Sept 2017
2b	The expectation remains that the Council will step in to deliver services when other providers either fail or reduce service provision	3	3	9				The Council suffers from a loss of reputation as customers' expectations are not met. There is increased demand on existing services leading to a reduction in standards of delivery.	Ensure that Cabinet set a clear and consistent message about the role of CBC for customers and partners.	Strategic Director of Customer and Relationships	Sept 2017
2c	Impact of Welfare Reform will pose challenges to our resources in responding to rising customer need.	2	4	8				The Council fails to support our most vulnerable residents leading to an increase in crisis intervention.	Regularly monitor the impact of the resources allocated to the welfare reform project, to ensure that customers are supported with signposting to appropriate providers/partners.	Strategic Director of Customer and Relationships	Sept 2017

P - Probability I – Impact O – Overall score

Low = 1 – 4 Medium = 5 – 9 High = 10 – 25

3. PEOPLE											
Specific Risks		SCORE						Consequence	Actions	Owner	Timing
		Current			Previous						
		P	I	o	P	I	O				
3a	Unable to compete with the private sector in the recruitment (and retention) of staff with key marketable skills	4	3	12				Decline in service performance Disengaged and demotivated staff Efficiency and productivity reduction Inability to meet changing requirements and needs Customer perceptions decline as we deliver less Loss of key staff	Communicate job opportunities and benefits of working at CBC clearly and imaginatively.	Assistant Director Policy and Corporate	Sept 2017
									Review opportunities to do things differently for key posts including considering the value of trading companies.	Assistant Director Policy and Corporate	Sept 2017
3c	Staff motivation declines with an impact on service delivery, our capacity to make changes and implementation of budget efficiencies	3	4	12					Monitor staff morale and trends using staff surveys and by monitoring the People Dashboard; and ensure good communications with staff, exploiting new technologies such as yammer.	Assistant Director Policy and Corporate	Sept 2017
									Implement the action plan for the People Strategy; ensuring that performance is regularly monitored.	Assistant Director Policy and Corporate	Sept 2017
									Regularly report the progress of the learning and development strategy, including financial considerations and business behaviours, and exploring training alternatives.	Assistant Director Policy and Corporate	Sept 2017

3. PEOPLE											
Specific Risks		SCORE						Consequence	Actions	Owner	Timing
		Current			Previous						
		P	I	o	P	I	O				
3e	There is an increase in challenging behaviour from customers, towards officers, when the Council cannot meet the customer's expectations. Alongside partners being unable to provide support or having incorrectly signposted the customer to the Council.	3	3	9				Officers suffer potential mental and physical issues as a result of confrontations. The ability to assist the customer is reduced. Service delivery declines	Ensure that the Health & Safety reporting process is used to record instances of violence and aggression, with regular reporting to senior management. Develop an on-line training tool for staff, for managing difficult situations. Liaise with partners, such as Police and health, about expectations for vulnerable customers. Both in terms of emergency response to issues and services that the Council can, and cannot, provide.		

4. HORIZON SCANNING											
Specific Risks		SCORE						Consequence	Actions	Owner	Timing
		Current			Previous						
		P	I	o	P	I	O				
4a	To continuously assess future challenges to ensure Council is fit for future purpose	2	4	8				If not properly managed then either the Council will lose the opportunity to develop further or will have enforced changes to service delivery. Adverse impact on local residents / resources. Missed opportunities to boost local economy. Conflict between Council / Government agendas. Reduction in levels of service provision and potential withdrawal of services.	Regularly monitor national trends and policy changes, ensure that CBC is represented on specialist network groups.	Strategic Director of Customer and Relationships	Sept 2017
4b	Not taking or creating opportunities to maximise the efficient delivery of services through shared provision, partnerships or commercial delivery	4	3	12					Identify and maintain skill set required to meet future challenges, maintain partnership relationships	Strategic Director of Policy and Place	Sept 2017
4c	Failure by the Council to spot / influence at an early stage the direction of Central Government policies / new legislation.	3	3	9					Ensure that responses are considered and provided for consultations. Utilise specialist officer knowledge and ensure CBC representation on relevant working groups.	Assistant Director Policy and Corporate	Sept 2017
4d	Potential impact of future central government decisions to reduce public funding, including that of our partners	5	4	20					Maintain a constant review of the budget situation, incl impact of decisions from central government. Identify additional actions and areas for spending as necessary.	Chief Operating Officer	Sept 2017
4e	The outcome of the referendum to leave the European Union is leading to a number of uncertainties. At the moment it is unclear how this will impact on the Council, our communities and businesses. However, it does raise a potential set of risks that will need to be monitored.	5	3	15					Continue to monitor the progress of the exit from the EU, ensuring that there is a formal process for reporting potential impacts.	Strategic Director of Policy and Place	Sept 2017

P - Probability I – Impact O – Overall score

Low = 1 – 4 Medium = 5 – 9 High = 10 – 25

5. PARTNERSHIPS											
Specific Risks		SCORE						Consequence	Actions	Owner	Timing
		Current			Previous						
		P	I	O	P	I	O				
5a	Failure or inappropriate performance management of one or more strategic partnerships or key contracts E.g. Haven Gateway, LEP, Health, CBH	4	4	16				The cost of service delivery is increased however quality decreases. Failure to deliver key priorities. Reputational and financial loss by the Authority. Failure to deliver expected outcomes through partnerships Requirement to repay external funding granted to partnership – taking on the liabilities of the 'withdrawn' partner. External assessment of the Councils partnerships are critical and score poorly.	Set an assessment process for proposed strategic partnerships (to ensure that they will satisfy the Council's objectives) that needs to be signed off by EMT before commitment to new partnerships is made.	Strategic Director of Customer and Relationships	Sept 2017
5b	Change of direction / policy within key partner organisations and they revise input / withdraw from projects.	4	3	12					Set a formal relationship / performance review process to be used by all partnerships and ensure results are reported to senior management. Ensure that Exec Board and Leadership review partnerships on a regular basis. Embed Scrutiny Cttee process for key partnerships including CBH and the Safer Colchester Partnership.	Strategic Director of Customer and Relationships	Sept 2017
5c	Potential inability to agree shared outcomes/ agendas with partners and the Council's ability to influence partner's performance.	3	4	12							
5d	Working across the partners for delivery of the garden communities project encounters delay. The partners - Colchester BC, Tendring DC, Braintree DC, Essex CC and the landowners fail to agree objectives and actions	2	4	8				The project fails to deliver its objectives leading to increased costs as there would be delays in local plan progress and loss of reputation, as well as the long term effect on ability to generate investment into the area and meet housing and employment needs.	There is a joint shadow delivery Board that allows the Authorities to co-ordinate their actions and resolve issues.	Strategic Director of Policy and Place	Sept 2017

6. ASSETS & RESOURCES											
Specific Risks		SCORE						Consequence	Actions	Owner	Timing
		Current			Previous						
		P	I	O	P	I	O				
6a	Failure to protect public funds and resources – ineffective probity / monitoring systems	3	4	12				Service delivery failure Financial and reputational loss by the Authority Personal liability of Officers and Members. Legal actions against the Council Loss of stakeholder confidence in the Borough Inability to sustain costs	Ensure the outcomes of the assurance systems that form the internal control environment, (including Internal Audit, Risk Management, Budget process, Corporate Governance and performance management) are appropriately reported so that issues and concerns are managed and variances are spotted at an early stage.	Chief Operating Officer	Sept 2017
6b	Risk that Asset Management is not fully linked to strategic priorities and not supported by appropriate resources	3	4	12				Failure to deliver a balanced budget as planned. A need to use balances / reserves or to adapt financial plans to deal with impact of changes. Required to use Reserves & Resources to fund capital priorities Severe impact on cash-flow leading to negative effect on performance targets	Review the budget monitoring process to ensure it reflects the structure and co-ordinates finances across the whole Council not just individual service areas.	Chief Operating Officer	Sept 2017
									Ensure the continued development of the Revolving Investment Fund (RIF) and ensure that assets are used to their full commercial potential.	Strategic Director Policy and Place	Sept 2017

Continued.

6. ASSETS & RESOURCES											
Specific Risks		SCORE						Consequence	Actions	Owner	Timing
6c	Inability to deliver the budget strategy as planned.	3	4	12					Ensure effective use of the controls built into the annual budget strategy, to enable the organisation to respond quickly to changes. Include sensitivity analysis to consider the impact of potential changes to external funding/ income streams and the capacity of the organisation to deliver services. Consider income risks as part of budget strategy / budget plans.	Chief Operating Officer	Annual exercise. Council approves budget in Feb annually
6d	Failure to set aside sufficient capital funds for strategic priorities	3	4	12					Monitor the review processes for the medium term financial outlook, capital programme and HRA business plan processes, to ensure they are kept up to date and realistic.	Chief Operating Officer	Sept 2017
6e	Significant reliance on our ICT presents challenges in maintaining customer service in the event of service interruptions.	2	5	10					Ensure that the IT Disaster Recovery plan, and service plans, adequately reflect the organisation's requirements and provide an effective framework for maintaining service provision. Regularly review the IT development strategy to ensure it continues to support the organisations ambitions.	Assistant Director Policy and Corporate	Sept 2017

6. ASSETS & RESOURCES											
Specific Risks		SCORE						Consequence	Actions	Owner	Timing
6f	Increasing demands around information security create a risk in the event that security breaches occur	2	5	10					Review the IT security policies to ensure that they are fit for purpose and implement a training program for all staff.	Assistant Director Policy and Corporate	Sept 2017

SCORE DEFINITIONS	1 Very Low	2 Low	3 Medium	4 High	5 Very High
Impact	Insignificant effect on delivery of services or achievement of Strategic Vision & Corporate Objectives.	Minor interruption to service delivery or minimal effect on Corporate Objectives.	Moderate interruption to overall service delivery/effect on Corporate Objectives or failure of an individual service.	Major interruption to overall service delivery or severe effect on Corporate Objectives.	Inability to provide services or failure to meet Corporate Objectives
Probability	10% May happen – unlikely	10 -25% Possible	26 – 50% Could easily happen	51 – 75% Very likely to happen	Over 75% Consider as certain

Risks Removed

1e The resource implications, including ICT, staffing and financial, of the UCC FSR are greater than anticipated. Removed July 15.

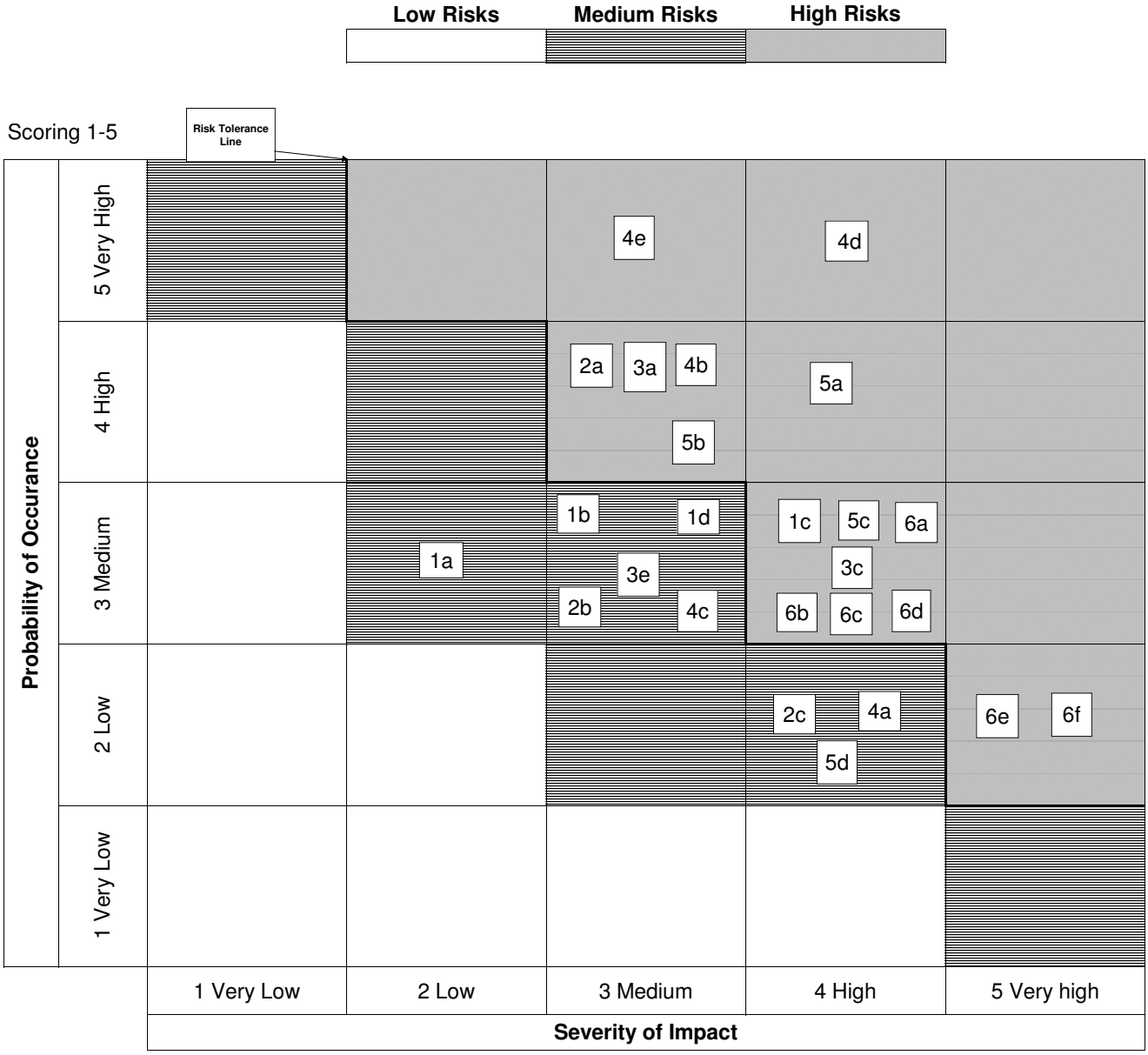
1f The organisation fails to recognise the tensions between aspirations and statutory functions. Removed June 17

3b Failure to sustain adequate resource to support training and development because of the financial situation. Removed July 15.

3d Failure to provide effective and visible political and managerial leadership. Removed July 15

Appendix 2

RISK MATRIX
JUL 17 - SEP 17



Removed Risks

1e The resource implications, including ICT, staffing and financial, of the UCC FSR are greater than anticipated. Removed July 15.

3b Failure to sustain adequate resource to support training and development because of the financial situation. Removed July 15.

3c Failure to provide effective and visible political and managerial leadership. Removed July 15

Colchester

DRAFT
Risk Management Strategy 2017/18

A guide to the Council's approach to managing risk. Draft for review.

July 2017

RISK MANAGEMENT STRATEGY

This document outlines the Council's commitment to managing risk in an effective and appropriate manner. It is intended to be used as the framework for delivery of the Risk Management function and provides guidance on developing risk management as a routine process for all services.

INTRODUCTION

The Council undertakes that this strategy will ensure that:

1. The management of risk is linked to performance improvement and the achievement of the Council's strategic objectives.

2. Members and the Senior Management Team own, lead and support on risk management.

3. Ownership and accountability are clearly assigned for the management of risks throughout the Council.

4. There is a commitment to embedding risk management into the Council's culture and organisational processes at all levels including strategic, programme, project and operational

5. All members and officers acknowledge and embrace the importance of risk management as a process, by which key risks and opportunities are identified, evaluated, managed and contribute towards good corporate governance.

6. Effective monitoring and reporting mechanisms are in place to continuously review the Council's exposure to, and management of, risks and opportunities.

7. Best practice systems for managing risk are used throughout the Council, including mechanisms for monitoring and reviewing effectiveness against agreed standards and targets.

8. Accountability to stakeholders is fully demonstrated through periodic progress reports and an annual statement on the effectiveness of and the added value (benefits) from the Council's risk management strategy, framework and processes.

9. The Council's approach is regularly assessed by an external, independent body against other public sector organisations, national standards and Best Practice.

10. The Risk Management Strategy is reviewed and updated annually in line with the Council's developing needs and requirements.

Endorsement by Adrian Pritchard, Chief Executive

"*Colchester Borough Council is committed to ensuring that risks to the effective delivery of its services and achievement of its overall objectives are properly and adequately controlled. It is recognised that effective management of risk will enable the Council to maximise its opportunities and enhance the value of services it provides to the community. Colchester Borough Council expects all officers and members to have due regard for risk when carrying out their duties*."

WHAT IS RISK MANAGEMENT

Risk Management is the control of business risks in a manner consistent with the principles of economy, efficiency and effectiveness. It is an essential performance management process to ensure that both the long and short term objectives of the Council are achieved and that opportunities are fully maximised.

Risk Management is not about eliminating risk, as this would limit the ability of the organisation to develop and deliver its ambitions. Its purpose is to recognise the issues that could effect the achievement of our objectives and develop actions to control or reduce those risks. Acknowledgement of potential problems and preparing for them is an essential element to successfully delivering any service or project. Good management of risk will enable the Council to rapidly respond to change and develop innovative responses to challenges and opportunities.

'The Good Governance Standard for Public Services' issued by The Independent Commission on Good Governance in Public Services states that there are six core principles of good governance including 'Taking informed, transparent decisions and managing risk'. The document goes on to state 'Risk management is important to the successful delivery of public services. An effective risk management system identifies and assesses risks, decides on appropriate responses and then provides assurance that the chosen responses are effective'.

BACKGROUND

A process for managing risks was first adopted by the Council in 2003 and since then has been developed to ensure that it continues to be an effective management system. This strategy defines Colchester Borough Council's definition of risk and the processes to be followed.

In broad terms risks are split into three categories:

- Strategic – those risks relating to the long term goals of the Council
- Operational – risks related to the day-to-day operation of each individual service
- Project – consideration of the risks occurring as a result of the Council's involvement in specific initiatives

The following are some of the practical ways that risks are managed and how effectiveness is measured:

- Creation of an overall strategic register.
- Creation of operational risk registers for all service areas.
- Consideration of risk in Committee reports.
- Development of a comprehensive risk register for the project management programme and consideration of risk as a project management tool.
- Successful internal and external assessment.
- Provision of advice to other authorities regarding our management of risk.

This has led to a practical and workable approach to managing risk and has resulted in the Council becoming more risk aware and actually taking more risks, as demonstrated by the comprehensive project risk register. Colchester is also highly regarded for managing risk by both our insurers and other authorities.

The 2016/17 internal audit of risk management gave a substantial assurance opinion. Three recommendations were raised during the audit relating to the update and reviewing of operational risk registers.

OWNERSHIP

The responsibility to manage risk rests with every member and officer of the Council however it is essential that there is a clearly defined structure for the co-ordination and review of risk information and ownership of the process.

Appendix 3 is from the CIPFA/SOLACE risk management guide, Chance or Choice. It is a generic map of responsibility for each part of the risk management process.

The following defines the responsibility for the risk management process at Colchester:

Cabinet – Overall ownership of the risk management process and endorsement of the strategic direction of risk management.

Portfolio Holder for Resources – Lead Member for the risk management process

Governance and Audit Committee – Responsible for reviewing the effectiveness of the risk management process and reporting critical items to Cabinet as necessary.

Performance Management Board (PMB) – Ownership of the strategic risks and overview of the operational risks. Actively support the Risk Management Strategy and framework.

Chief Operating Officer – Lead officer for the risk management process, demonstrating commitment to manage risk.

Assistant Director Policy & Corporate – Responsible for co-ordination of the risk management process, co-ordinating and preparing reports and providing advice and support.

All Assistant Directors – Ownership, control and reporting of their service's operational risks. Contribute to the development of a risk management culture in their teams.

All Employees – To understand and to take ownership of the need to identify, assess, and help manage risk in their individual areas of responsibility. Bringing to the management's attention at the earliest opportunity details of any emerging risks that may adversely impact on service delivery.

Internal Audit, External Audit and other Review Bodies – Annual review and report on the Council's arrangements for managing risk throughout the Council, having regard to statutory requirements and best practice. Assurance on the effectiveness of risk management and the control environment.

AIMS & OBJECTIVES

The aim of the Council is to adopt best practices in the identification, evaluation, cost-effective control and monitoring of risks across all processes to ensure that risks are properly considered and reduced as far as practicable.

The risk management objectives of Colchester Borough Council are to:

- Integrate risk management into the culture of the Council
- Ensure that there are strong and identifiable links between managing risk and all other management and performance processes.
- Manage risk in accordance with best practice
- Anticipate and respond to changing social, environmental and legislative requirements
- Prevent injury, damage and losses and reduce the cost of risk
- Raise awareness of the need for risk management by all those connected with the Council's delivery of services.
- Ensure that opportunities are properly maximised through the control of risk.
- Reduce duplication between services in managing overlapping risks and promote 'best practise'.

Risk Management forms an important part of the Council's system of Internal Control. Previously the Audit Commission assessed the function as operating at level 3 as part of their 'Use of Resources' review… However, the Use of Resources assessment is no longer carried out but the criteria laid down for each assessment level, set out in Appendix C, still provides a robust framework for delivering an effective service.

STRATEGIC RISK MANAGEMENT

Strategic risks are essentially those that threaten the long term goals of the Council and therefore are mainly based around meeting the objectives of the Strategic Plan. They may also represent developing issues that have the potential to fundamentally effect service provision, such as proposals to dramatically change the corporate assessment process.

Strategic risks will be controlled using a register that will detail the risks and associated controls. The register will be owned by the Senior Management Team, with ownership for risks being assigned to individual officers, and will be reviewed every quarter. The strategic risks will be reported to the Governance & Audit Committee at least twice a year.

OPERATIONAL RISK MANAGEMENT

Operational risks are those that threaten the routine service delivery of the Council. Each service area will have their own operational risk register that details the risks associated with providing the service. These registers will be reported, in summary format, to the Senior Management Team and committee on an annual basis. High risks and the success in controlling them will be reported to Senior Management Team on a quarterly basis, as these will help in the formulation of the strategic risk register.

LINKS

It is essential that risk management does not operate in isolation to other management processes. To fully embed a risk management culture it has to be demonstrated that risk is considered and influences all decisions that the Council makes. It is essential that there is a defined link between the results of managing risk and the following:

- The Strategic Plan
- Service Plans
- Revenue and Capital Budgets
- Annual Internal Audit Plan

ACTION REQUIRED

The following actions will be implemented to achieve the objectives set out above:

- Considering risk management as part of the Council's strategic planning and corporate governance arrangements.
- Ensuring that the responsibility for risk management is clearly and appropriately allocated
- Maintaining documented procedures for managing risk
- Maintaining a corporate approach to identify and prioritise key services and key risks across the Council and assess risks on key projects.
- Maintain a corporate mechanism to evaluate these key risks and determine if they are being adequately managed and financed.
- Establish a procedure for ensuring that there is a cohesive approach to linking the risks to other management processes
- Including risk management considerations in all committee reports
- Providing risk management awareness training to both members and officers.
- Developing risk management performance indicators.
- Establishing a reporting system which will provide assurance on how well the Council is managing its key risks and ensures that the appropriate Members and officers are fully briefed on risk issues.
- Preparing contingency plans in areas where there is a potential for an occurrence to have a significant effect on the Council and its business capability.
- Regularly reviewing the risk process to ensure that it complies with current national Governance Standards and Best Practice.
- Developing risk management links with key partners and contractors, to ensure that principles are adopted in all areas of service delivery.

REVIEW

To ensure that the risk management process is effective it will need to be measured and reported to P.M.B., Governance & Audit Committee and Cabinet. As well as a structured reporting process of risks and controls during the year there will need to be an annual review demonstrating the success of the following:

- The inclusion of risk management principles within Service Plans and budgets.
- The development of the Internal Audit plan based on the risk issues.
- Achievement against identified performance indicators.
- Members consistently ensuring managing risk is considered as part of the decision making processes within the Council.
- Service managers making recommendations that regard risk as an opportunity as well as a threat.
- Risk management principles being considered in service reviews, for example in areas such as options for change and service improvements.
- Changes in risk being independently identified and assessed by Service Managers
- Compliance with the use of resources criteria and self assessment requirements.

Suitable opportunities to benchmark the risk management service against other organisations should also be explored to ensure that it is effective and the work carried out by the Council conforms to best practise.

The three appendices attached give greater detail of key issues:

Appendix 1 – Outline of the risk management process
Appendix 2 – Details of how Risk Management will be reported.
Appendix 3 – CIPFA guidance on Risk Management Responsibilities

APPENDIX 1

The Risk Management Process

Risk Management is a continual process of identifying risks, evaluating their potential consequences and determining the most effective methods of controlling them and / or responding to them. The risks faced by the Council are constantly changing and the continual process of monitoring risks should ensure that we can respond to the new challenges. This process is referred to as the risk management cycle.

Stage 1 – Risk Identification
Identifying and understanding the hazards and risks facing the council is crucial if informed decisions are to be made about policies or service delivery methods. There is detailed guidance available on how to identify risks which includes team sessions and individual knowledge. Once identified a risk should be reported to the Head of Service who will consider its inclusion on the relevant risk register. If the risk is identified in between register reviews then it is reported to the Risk & Resilience Manager for information and the Head of Service is responsible for managing the risk.

Stage 2 – Risk Analysis
Once risks have been identified they need to be systematically and accurately assessed. If a risk is seen to be unacceptable, then steps need to be taken to control or respond to it.

Stage 3 – Risk Control
Risk control is the process of taking action to minimise the likelihood of the risk event occurring and / or reducing the severity of the consequences should it occur.

Stage 4 – Risk Monitoring
The risk management process does not finish with the risk control procedures in place. Their effectiveness in controlling risk must be monitored and reviewed. It is also important to assess whether the nature of the risk has changed over time.

APPENDIX 2

Reporting

No matter how good the process to identify and control risks is, it will not be effective unless the information gained from it is reported and used to influence other management issues / processes. Therefore it is essential that there is a defined process and timetable for reporting the results of the risk management process to both members and officers.

Types of Report

- The strategic risk register is reviewed a minimum of twice yearly by P.M.B., with interim reports quarterly as required.
- Six monthly review of the operational risk registers and a summary report of these reviews to P.M.B.
- A six monthly report is provided to Committee (Governance and Audit) detailing the current strategic and high level operational risks and the progress made in controlling them.
- An annual report reviewing Risk Management activity and an action plan for the coming year – taking into account changes in methodology and results of internal and external reviews. Going to P.M.B., Governance & Audit and Cabinet. This needs to cover all of the three areas of risk
- Ad-hoc reports need to be provided to P.M.B. when new, significant risk issues arise.

The reports can be summarised as follows:

	Service's	P.M.B.	Governance & Audit	Cabinet
Quarterly		Review of strategic risk register		
6 Monthly	Review of operational risk register	Summary of operational review from services	Progress report of strategic & high level operational risks	
Yearly		Scrutiny of annual progress report to cttee on R.M.	Endorsement of annual progress report on R.M.	Summary of past years work on R.M.

Appendix 3

Risk Management Responsibilities – CIPFA / SOLACE Guidance

	Framework, Strategy and Process	**Identifying risk**	**Analysing Risk**	**Profiling risk**	**Prioritising action based on risk appetite**	**Determining action on risk**	**Controlling risk**	**Monitoring & Reporting**	**Reporting to external stakeholders.**
Members	Agreeing the Framework, Strategy and Process Determined by Officers	Identifying risk	Analysing Risk	Profiling Risk	Determining the risk appetite and prioritising risk. Agreeing the priorities determined by officers			Reviewing the effectiveness of the risk management process.	Reporting to external stakeholders on the framework, strategy, process and effectiveness .
Risk Management Team	Providing advice And support to the executive Management Team and Members	Providing advice and support.	Providing Advice and support	Providing advice and support	Providing advice and support			Co-ordinating the results for reporting to the corporate management team and members	
Senior Management Team	Determining the framework, Strategy and Process	Identifying strategic and cross-cutting issues	Analysing Strategic and cross-cutting issues.	Profiling strategic and cross-cutting issues.	Determining the risk appetite and prioritising strategic and cross-cutting issues	Determining action on strategic and cross-cutting issues. Delegating responsibility for control.		Monitoring progress on managing strategic and cross-cutting risks and reviewing the implementation of the risk management framework, strategy and process. Reporting to members.	Reporting to external stakeholders on the framework, strategy, process and effectiveness.
Assistant Director Policy & Corporate	Providing Advice and Support	Providing advice and support	Providing advice and support	Providing advice and support	Providing advice and support	Providing advice and support	Providing advice and support	Co-ordinating the results for reporting to the executive management team and members	Preparing draft reports for the corporate management team and members to issue.
Service Managers / G.M.T's		Identifying service Risks	Analysing Service risks.	Profiling service risks.	Prioritising action on service risks.	Determining action on service risks. Delegating responsibility for control.		Monitoring progress on managing service risks. Reporting to the group management team	
Employees, contractors And partners		Maintaining awareness of risks and feeding these into the formal process.	Maintaining awareness impact of risks and feeding information into the processes				Controlling risk in their jobs.	Monitoring progress on Managing job related risks Reporting to the service manager.	

Colchester

Governance and Audit Committee

Item 10

27 June 2017

Report of	**Assistant Director (Policy & Corporate)**	**Author**	**Jonathan Baker** ☏ **282207**
Title	**Work Programme 2017-18**		
Wards affected	Not applicable		

This report sets out the current Work Programme 2017-2018 for the Governance and Audit Committee.

1. Decisions Required

1.1 The Committee is asked to note the contents Committee's Work Programme for 2017-18.

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 and Audit 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 2017-18

Meeting date / Agenda items
Governance and Audit Committee - **27 June 2017**
Governance and Audit Committee briefing – **26 June 2017**
1. 2017/18 Audit and Certification Fees letter 2. Draft Annual Statement of Accounts 2016/17 3. Review of Meetings and Ways of Working 4. Year End Internal Audit Assurance Report 2016/17 5. Review of the Governance Framework and Draft Annual Governance Statement
Governance and Audit Committee - **25 July 2017**
Governance and Audit Committee briefing – **20 July 2017**
1. Annual Statement of Accounts 2016/17 2. 2016/17 Year End Review of Risk Management 3. Colchester Borough Homes Annual Report and Governance Statement
Governance and Audit Committee - **19 September 2017**
Governance and Audit Committee briefing – **18 September 2017**
1. Publication of Annual Statement of Accounts 2016/17 2. Financial Monitoring Report – April to June 2017 3. Capital Expenditure Monitor 2017/18
Governance and Audit Committee - **17 October 2017**
Governance and Audit Committee briefing – **10 October 2017**
1. Health and Safety Policy and Annual Report 2. Local Government Ombudsman Annual Review 3. Review of the Council's Ethical Governance Policies 4. Review of the Members' Code of Conduct and the Council's "Arrangements" 5. Gifts and Hospitality – Review of Guidance for Councillors and Policy for Officers 6. Review of Local Code of Corporate Governance 7. Income and Debt Policy 8. Equality and Safeguarding Annual Update 9. Member/Officer Protocol Review
Governance and Audit Committee - **28 November 2017**
Governance and Audit Committee briefing – **21 November 2017**
1. Annual Audit Letter 2. Internal Audit Work Programme 2017/18 3. Annual Review of Business Continuity 4. Treasury Management – Half Yearly Update
Governance and Audit Committee - **16 January 2018**
Governance and Audit Committee briefing – **11 January 2018**
1. Certification of Claims and Returns – Annual Report 2016/17 2. Risk Management Progress Report 3. 2017-18 Interim Internal Audit Monitor

4. Annual Governance Statement Interim Review
Governance and Audit Committee - **6 March 2018**
Governance and Audit Committee briefing – **26 February 2018**
1. Audit Plan 2017/18 2. 2017-18 Revenue Monitor, period April – December 3. 2017-18 Capital Monitor, period April – December