

Governance Committee

Grand Jury Room, Town Hall
25 June 2013 at 6.00pm

To consider and approve the Council's Statement of Accounts and review the Council's annual audit letter. To consider and approve the Council's governance, risk management and audit arrangements. To make recommendations to the Council on functions such as Elections and byelaws, 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 5 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.

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

Accounts and Audit

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

Governance

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

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

Other regulatory matters

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

To determine and approve Community Governance Reviews.

Standards in relation to Member Conduct

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

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

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

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

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

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

**COLCHESTER BOROUGH COUNCIL
GOVERNANCE COMMITTEE
25 June 2013 at 6:00pm**

Members

Chairman : Councillor Ray Gamble.
Deputy Chairman : Councillor Nigel Offen.
Councillors Cyril Liddy, Christopher Arnold, Sue Lissimore,
Peter Sheane and Laura Sykes.

Substitute Members : All members of Council who are not Cabinet members or members of this Panel.

Agenda - Part A

(open to the public including the media)

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

Pages

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 and to give reasons for the urgency.

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 judgment 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. Have Your Say!

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

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

6. Minutes

To confirm as a correct record the minutes of the meeting held on 22

May 2013.

- | | |
|--|----------------|
| 7. Work Programme | 2 |
| See report from the Assistant Chief Executive. | |
| 8. Annual Report and Governance Statement - Colchester Borough Homes | 3 - 21 |
| See report from the Director of Resources, Colchester Borough Homes. | |
| Councillor Nigel Chapman, Member of Colchester Borough Homes and Chairman of the Finance and Audit Sub Committee and Mr. David Lincoln, Director of Resources, Colchester Borough Homes will attend the meeting for this item. | |
| 9. 2012/13 Internal Audit Report | 22 - 32 |
| See report from the Assistant Chief Executive. | |
| 10. 2012/13 Annual Governance Statement and Framework | 33 - 44 |
| See report from the Assistant Chief Executive. | |
| 11. 2012/13 Risk Management Strategy | 45 - 71 |
| See report from the Assistant Chief Executive. | |
| 12. Draft Annual Statement of Accounts | 72 - 74 |
| See report from the Assistant Chief Executive. | |

GOVERNANCE COMMITTEE
22 MAY 2013

Present :- Councillor Ray Gamble (Chairman)
Councillors Christopher Arnold, Cyril Liddy,
Sue Lissimore, Nigel Offen, Peter Sheane and
Laura Sykes

1. Appointment of Chairman

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

2. Appointment of Deputy Chairman

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



Governance Committee

Item

7

25 June 2013

Report of	Assistant Chief Executive	Author	Robert Judd Tel. 282274
Title	Work Programme 2013-14		
Wards affected	Not applicable		

1. Decision required

1.1 The Committee is asked to note the 2013-14 Work Programme.

2. Reason for the Decision

2.1 The Governance Committee deals with the approval of the Council's Statement of Accounts, audit, other miscellaneous regulatory matters and standards.

Meeting date / Agenda items
25 June 2013 1. Draft Annual Statement of Accounts (Finance Manager) 2. 2012-13 Annual Governance Statement and Framework (Risk and Resilience) 3. 2012-13 Risk Management Strategy (Risk and Resilience) 4. 2012-13 Annual Governance Statement and Audit Report CBH (David Lincoln CBH) 5. 2012-13 Internal Audit report (Audit and Governance)
30 July 2013
27 August 2013
24 September 2013 1. Audited Annual Statement of Accounts (Finance Manager) 2. Annual Governance Report (Ernst & Young)
15 October 2013 1. Publication of the Audited Statement of Accounts (Finance Manager) 2. Annual Audit Letter (Ernst & Young) 3. Update on Localism Act Provisions (Monitoring Officer) 4. Local Government Ombudsman annual review (Monitoring Officer) 5. Anti-Fraud and Corruption, Whistleblowing, Anti-Money Laundering and Benefits Fraud Sanctions Policies (Monitoring Officer) 6. Local Code of Corporate Governance review (Monitoring Officer)
19 November 2013 1. Annual Business Continuity report (Risk and Resilience) 2. 2013-14 Interim Annual Governance Statement (Risk and Resilience) 3. 2013-14 Interim Risk Management (Risk and Resilience) 4. 2013-14 Interim Internal Audit Monitor (Audit and Governance)
14 January 2014 1. Audit Opinion Plan (Ernst & Young) 2. Grants and Certifications (Ernst & Young)



Governance Committee

Item

8

25 June 2013

Report of	Director of Resources Colchester Borough Homes	Author	David Lincoln ☎ 07735 562046
Title	Annual Report and Governance Statement		
Wards affected	Not Applicable		

1. Recommendation

- 1.1 The Committee considers and comments on the Internal Audit Annual Report and Governance Assurance Statement of Colchester Borough homes.
- 1.2 The Committee accepts the assurance provided by Colchester Borough Homes regarding its governance arrangements throughout 2012/13

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.
- 3.2 Therefore, Colchester Borough Homes has provided the Council with its own Internal Audit Annual Report and Annual Governance Statement for 2012/13 as evidence of how well its arrangements are operating. (Appendix 1 and 2)
- 3.3 The Annual Governance Statement will inform the Council's Governance Statement.
- 3.4 Colchester Borough Homes' Finance and Audit Committee Chairman and the Director of Finance will present these reports to Committee and respond to any questions relating to them.

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

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 and 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 this report.

10. Residents at the Heart

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

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 Internal Audit Annual Report

12.2 Annual Governance Statement

COLCHESTER BOROUGH HOMES LIMITED

INTERNAL AUDIT ANNUAL REPORT 2012/13

May 2013

**Deloitte & Touche Public Sector Internal Audit Ltd
3 Victoria Square, Victoria Street, St Albans, Herts, AL1 3TF.**

This report has been prepared on the basis of the limitations set out on page 10.

This report and the work connected therewith are subject to the Terms and Conditions of the Contract dated 11th May 2007 and the Letters of Extension dated 20th May 2011 and 22nd November 2012 between Colchester Borough Homes Limited and Deloitte & Touche Public Sector Internal Audit Limited. The report is confidential and produced solely for the use of Colchester Borough Homes Limited. Therefore you should not, without our prior written consent, refer to or use our name or this document for any other purpose, disclose them or refer to them in any prospectus or other document, or make them available or communicate them to any other party. No other party is entitled to rely on our document for any purpose whatsoever and thus we accept no liability to any other party who is shown or gains access to this document.

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1. INTRODUCTION

The Internal Audit service for Colchester Borough Homes Limited (CBH) is provided by Deloitte & Touche Public Sector Internal Audit Limited (Deloitte).

We have now completed our audit plan for 2012/13 for CBH and present our annual report, in respect of the period from 1 April 2012 to 31 March 2013, to the Finance and Audit Sub-Committee.

The annual report includes:

- our progress against the Operational Audit Plan for 2012/13;
- our opinion on the system of internal control; and
- the findings and assurances resulting from our audit work.

This report is structured as follows:

- Sections 1-3 set out the overview of our audit approach and work done;
- Section 4 sets out the progress we have made against the Internal Audit Operational Plan for 2012/13;
- Section 5 contains our findings and details the number and priority of recommendations arising from the audits we have performed during 2012/13;
- Section 6 gives our annual opinion on the system of internal control in place; and
- Section 7 summarises our audit opinions by area, as well as the number and priority of recommendations raised during 2012/13.

2. OVERVIEW OF INTERNAL AUDIT APPROACH

As Internal Audit, our role is to provide an assurance on the adequacy and effectiveness of CBH's systems of governance, risk management and internal control.

3. OVERVIEW OF WORK DONE

The Audit Plan for 2012/13 included a total of 11 projects, including one shared audits with Colchester Borough Council (CBC). We have liaised with senior management throughout the year to ensure that internal audit work undertaken continues to focus on the high risk areas and ensure the most appropriate use of our resources.

As a result of this liaison, some changes were agreed to the plan during the year. The Capita Contract and IT audit days were carried over into 2013/14 with the audits of Business Continuity Planning and IT Disaster Recovery and Insurance being brought forward for completion as part of the 2012/13 audit plan.

We generally undertake individual projects with the overall objective of providing the Board, the Chief Executive and other officers with reasonable, but not absolute, assurance as to the adequacy and effectiveness of the key

controls over a number of management's objectives. Other projects are geared more towards the provision of specific advice and support to management to enhance the economy, efficiency and effectiveness of the services and functions for which they are responsible.

All internal audit reports include our recommendations and agreed actions that, if implemented by management, will enhance the control environment and the operation of the key management controls.

This report sets out the results of the work performed as follows:

- **Overall summary** of work performed by Internal Audit including an analysis of report gradings.

4. REVIEW OF PROGRESS AGAINST OPERATIONAL PLAN

The operational audit plan comprised 79 audit days, to be delivered between 1 April 2012 and 31 March 2013.

The following table summarises the audit areas in the plan and compares planned days with that actually required to complete our audit work. We are pleased to report we were able to complete our work within agreed budgets for all our audits.

AUDIT AREA	Plan Days	Days Delivered
Cash Management including Petty Cash	3	3
Corporate Governance	8	8
Creditors – joint with CBC	5	5
Housing Rents – joint with CBC	10	10
General Ledger / Main Accounting System	4	4
Payroll – joint with CBC	5	5
Sundry Debtors and Other Miscellaneous Income	4	4
Budgetary Control	7	7
Gas Servicing, Fire Safety and Legionella	8	8
Business Continuity Planning and IT Disaster Recovery	7	7
Insurance	8	8
Follow Up of Previous Audits	5	5
Management	5	5
Annual Plan	79	79

5. FOLLOW UP OF RECOMMENDATIONS

As part of our audit work we have undertaken follow up work to verify that recommendations raised have been implemented. The table below includes summary totals of the recommendations outstanding at the end of the year.

Recommendations can only be followed up once the new processes /

requirements have become embedded to enable us to verify that the controls are operating effectively.

Recommendations Raised	Implemented	Not Due	Not Implemented	Audit to Verify
36	20	7	1	8

6. ANNUAL STATEMENT OF ASSURANCE

Roles and responsibilities

The whole Board is collectively accountable for maintaining a sound system of internal control and is responsible for putting in place arrangements for gaining assurance about the effectiveness of that overall system.

The Head of Internal Audit (HoIA) is required to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the company's risk management, control and governance processes (i.e. the company's system of internal control). This is achieved through a risk-based plan of work, agreed with management and approved by the Finance and Audit Sub Committee, which should provide a reasonable level of assurance, subject to the inherent limitations described below.

The opinion does not imply that Internal Audit have reviewed all risks and assurances relating to the organisation. The opinion is substantially derived from the conduct of risk-based plans.

The Head of Internal Audit Opinion

The purpose of my annual HoIA Opinion is to contribute to the assurances available to the Chief Executive and the Board which underpin the Board's own assessment of the effectiveness of the organisation's system of internal control.

My **overall opinion** is that:

From the Internal Audit work undertaken in 2012/13, it is our opinion that we can provide **Satisfactory Assurance** that the system of internal control in place at CBH for the year ended 31 March 2013 accords with proper practice, except for the significant control environment issues as documented below.

The basis for forming my opinion is as follows:

An assessment of the range of individual opinions arising from risk-based audit assignments contained within internal audit risk-based plans that have been reported throughout the year. This assessment has taken account of the relative materiality of these areas and management's progress in respect of addressing control weaknesses.

An audit assurance level of 'full assurance' has been assigned to the following audit; this has been considered in the basis for the overall opinion:

- Budgetary Control

An audit assurance level of 'substantial assurance' has been assigned to the following audits, and this represents the basis for the overall opinion expressed within this statement:

- Cash Management
- Corporate Governance
- Housing Rents
- General Ledger
- Payroll
- Sundry Debtors
- Gas Servicing, Fire Safety and Legionella
- Business Continuity Planning and IT Disaster Recovery
- Insurance

Some weaknesses were identified in the design and application of the controls, resulting in a 'limited assurance' for the following audit; this has been considered in the basis for the overall opinion:

- Creditors

It is the Board's responsibility to satisfy itself it has sufficient assurance about the operation of controls in place to manage other principal risks.

Mike Clarkson

DELOITTE & TOUCHE PSIA LIMITED

17th May 2013

7. AUDIT FINDINGS FOR 2012/13

In this section we have set out the detailed recommendations arising from our audits. Internal Audit recommendations are graded in order of importance, as follows:

- Priority 1** - major issue for the attention of senior management and the Finance and Audit Sub-Committee.
- Priority 2** - important issues to be addressed by management in their areas of responsibility.
- Priority 3** - minor issues resolved on site for local management.

Cash Management including Petty Cash

The Cash Management function at CBH is undertaken by Colchester Borough Council's (CBC) Resource Management Service, under the terms of a service level agreement (SLA) between the two parties. CBC uses the closing balance in the CBH bank account every night and invests this along with any CBC surplus funds. CBH then receives interest payments in line with the agreement.

As of 30th November 2012, over £4,900 in interest had been generated by CBC on behalf of CBH in respect during the current financial year.

Petty cash floats are retained at three CBH sites: Rowan House; Gosbecks; and Greenstead. A maximum float of £600 should be retained at both Rowan House and Gosbecks, and £400 at Greenstead.

Requests for petty cash are submitted on a petty cash voucher form, where receipts are attached and then approved by the appropriate manager. There are petty cash guidelines in place and all claims should be dealt with in adherence to these procedures

As a result of our work, we have made two priority 2 recommendations where we consider that changes could be made to improve control.

Corporate Governance

CBH is 100% owned by CBC and was set up in August 2003 to manage CBC's housing stock. CBH is an Arms-Length Management Organisation (ALMO) of CBC and its strategic direction is set by the Board of Directors, which consists of tenants, leaseholders, CBC members and independent members.

A review of CBC's housing has been undertaken this year to ensure that the Council can maintain a sustainable supply of high quality housing that meets the borough's future housing needs. The decision was taken for CBH to remain as the ALMO but the full management agreement is yet to be fully set and agreed.

As a result of our work, we have made two priority 2 recommendations where we consider that changes could be made to improve control.

Creditors

The Accounts Payable Team within Resource Management at CBC is responsible for the processing of creditor payments on behalf of CBH. The Accounts Payable Team consists of four members of staff headed up by the Procurement and Accounts Payable Manager. Invoices are checked and authorised by CBH and then sent to the Accounts Payable section for processing. Payments are authorised and recorded manually as CBH are not using the e-Procurement system adopted by CBC.

Since the start of the financial year, CBC has processed 987 BACS payments and six cheque payments on behalf of CBH. The total value of transactions processed as at the end of September 2012 exceeded £4.3m.

As a result of our work, we raised two priority 1 recommendations as follows:-

- Independent sample checks of new supplier details set up should be undertaken; and
- Checks should be undertaken directly with suppliers whenever requests are received to change bank details. Evidence of the checks conducted should be retained on file.

In addition we have made two priority 2 recommendations.

Housing Rent

The Housing Rents function is split between CBC and CBH. The day-to-day operation of the rents system, including rental income collection, handling of refunds, amendments, current tenant arrears and suspense items are managed by CBH. CBC is responsible for the annual adjustment of rental charges, recovery of former tenant arrears and providing assistance to CBH through systems management activity.

There are over 6,000 council houses with an annual rental value of in excess of £27million. As at the end of November 2012 the collection rate for housing rent was 97.73%

As a result of our work, we have made two priority 2 recommendations where we consider that changes could be made to improve control.

General Ledger

CBH has a separate general ledger which is an add-on to CBC system. The general ledger is maintained by CBC using the COA e-Financials system. The CBC Systems Accountant within the Resource Management Service is responsible for the maintaining and controlling the system. The e-Financials system has a number of feeder systems including payroll, accounts receivable and housing rents.

As a result of our work, we have made two priority 2 recommendations where we consider that changes could be made to improve control.

Payroll

The Payroll function for CBH is processed by CBC Human Resources Service Centre. The HR Service Centre consists of a small team responsible for the

Payroll function for both CBC and CBH. Employee details for CBH staff are electronically stored on the IDOX system with backup support provided by Northgate, the software provider.

At the end of September 2012, there were 166 employees at CBH equating to 146 full time equivalents.

As a result of our work, we have made two priority 2 recommendations where we consider that changes could be made to improve control.

Sundry Debtors

The Finance Team is responsible for the production and recovery of all debtor accounts. The Finance Officer ensures all email requests for invoices to be raised are dealt with in a timely manner. Between April and September 2012, 50 invoices were issued which amounted to £5.8m. At the time of the audit, there was a total of £376,057 of debt outstanding.

As a result of our work, we have made two priority 2 and one priority 3 recommendations where we consider that changes could be made to improve control.

Budgetary Control

As part of an on-going Fundamental Service Review (FSR), changes to operations at both CBC and CBH may have an impact on overall budgets and influence decision making as efforts are made to make year-on-year savings. In summary the FSR expects CBH savings to equate to £300,000 in 2011/12; £110,000 in 2012/13; and £110,000 for 2013/14.

There are three core budgets in place for CBH. These are:

Management Fee - This is received directly from CBC and is a finite sum of money;

Delegated Budgets - These belong to CBC but are managed by CBH on their behalf; and

Property Services - In respect of managing the housing stock including day-to-day repairs and capital works. This is on a programmed basis and CBC will release funding as required. CBH have limited control over this as it is the CBC that will decide upon how much money to release.

No recommendations were raised as a result of our work.

Gas Servicing, Fire Safety and Legionella

The housing stock is owned by CBC and managed on its behalf by CBH. CBH has a contract with Morrison Facilities Services Limited (Morrison) for them to provide gas servicing and inspections for the housing stock and CBH properties. All gas engineers working on behalf of CBH must be Gas Safety qualified and records of their qualifications are retained by the CBH Gas Surveyor.

Fire risk assessments are undertaken by the Risk and Environmental Manager to help ensure that all fire risks in CBH properties and sheltered / temporary accommodation are adequately mitigated and action taken to resolve any issues identified. Fire evacuation exercise are completed every six months at CBH offices, while sheltered housing schemes operate a 'stay put' policy that

has been in place since the early 1990's under protocols agreed between CBC and Essex Fire and Rescue Services.

CBH also has a contract in place with Primec Ltd to provide legionella risk assessments for all of its properties and the sheltered / temporary accommodation. As well as providing legionella risk assessments, Primec Ltd also undertake water quality inspections and cleaning services on behalf of CBH.

As a result of our work, we have made two priority 2 and three priority 3 recommendations where we consider that changes could be made to improve control.

Business Continuity Planning and IT Disaster Recovery

BCP continually confronts the likelihood, or otherwise, of a disaster. It is a provocative, crisis management programme driven by business requirements. BCP modifies the consequences of a business interruption to a level acceptable to management and provides a vehicle which when executed, will permit an effective resumption of interrupted functions.

As a result of our work, we have made four priority 2 and two priority 3 recommendations where we consider that changes could be made to improve control.

Insurance

In 2007, CBH appointed Giles Insurance Brokers (Giles) as their insurance broker, responsible for managing CBH's insurance portfolio. Giles consider a range of insurance providers to find CBH the most appropriate product to meet their needs. Giles also notifies the insurer of any changes in circumstances communicated by CBH and manages claims made against CBH by liaising with the insurance company directly.

CBH insurance risks are covered through seven separate insurance policies arranged through a number of insurance companies.

As a result of our work, we have made four priority 2 recommendations where we consider that changes could be made to improve control.

8. SUMMARY OF AUDIT ASSURANCE

For each audit, we arrive at a conclusion that assesses the audit assurance in one of four categories:

Full Assurance

There is a sound system of internal control designed to achieve the client's objectives and/or the control processes tested are being consistently applied.

Substantial Assurance

While there is a basically sound system of internal control, there are weaknesses, which put some of the client's objectives at risk and/or there is evidence that the level of non-compliance with some of the control processes may put some of the client's objectives at risk.

Limited Assurance

Weaknesses in the system of internal controls are such as to put the client's objectives at risk and/or the level of non-compliance puts the client's objectives at risk.

No Assurance

Control processes are generally weak leaving the processes/systems open to significant error or abuse and/or significant non-compliance with basic control processes leaves the processes/systems open to error or abuse.

Audit Title	Days	Assurance	Recommendations		
			Priority 1	Priority 2	Priority 3
Cash Management including Petty Cash	3	Substantial	-	2	-
Corporate Governance	8	Substantial	-	2	-
Creditors – joint with CBC	5	Limited	2	2	-
Housing Rents – joint with CBC	10	Substantial	-	2	-
General Ledger / Main Accounting System	4	Substantial	-	2	-
Payroll – joint with CBC	5	Substantial	-	2	-
Sundry Debtors and Other Miscellaneous Income	4	Substantial	-	2	1
Budgetary Control	7	Full	-	-	-
Gas Servicing, Fire Safety and Legionella	8	Substantial	-	2	3
Business Continuity Planning and IT Disaster Recovery	7	Substantial	-	4	2
Insurance	8	Substantial	-	4	-
TOTAL			2	24	6

9. STATEMENT OF RESPONSIBILITY

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system. The assurance level awarded in our internal audit report is not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

Deloitte & Touche Public Sector Internal Audit Limited

St Albans

May 2013

In this document references to Deloitte are references to Deloitte & Touche Public Sector Internal Audit Limited.

Registered office: Hill House, 1 Little New Street, London EC4A 3TR, United Kingdom. Registered in England and Wales No 4585162.

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Member of Deloitte Touche Tohmatsu Limited

Colchester Borough Homes Annual Governance Statement 2012/13

1. Scope of Responsibility

Colchester Borough Homes (CBH), formed in October 2003, is the Arms Length Management Organisation of Colchester Borough Council, responsible for the management and maintenance of the Council's homes. In 2012/13, it was financed from the Council by a Management Fee of £3,313,300 and Property Services recharge of £6,618,205.

There is a formally binding Management Agreement between the Council and CBH in place until August 2013. 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 six Council nominees, six tenants and three independent members. In discharging this overall responsibility, Colchester Borough Homes is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk. Three sub committees report to the Board: Finance & Audit, Performance Review and Human Resources & Governance. These have formal, approved terms of reference.

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, and not absolute, assurance of effectiveness. The system of internal control is based on an ongoing process, designed to:

- identify and prioritise the risks to the achievement of 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.

Colchester Borough Homes Annual Governance Statement 2012/13

The governance framework has been in place at Colchester Borough Homes for the year ended 31 March 2013 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 Financial Regulations.
- 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 sub 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 an Annual 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 2013/14 are:
 - ✓ Placing residents at the heart of what we do
 - ✓ Investing in homes
 - ✓ Letting homes fairly and effectively
 - ✓ Working with our communities
 - ✓ Providing value for money
 - ✓ Looking to the future

Regular review of performance against objectives and targets detailed in the Annual Delivery Plan is carried out by Executive Management and the Board.

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. The review of effectiveness is informed by the work of the Executive Directors 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 an Annual Delivery Plan each year and from these 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:

Colchester Borough Homes Annual Governance Statement 2012/13

- the Performance Review Sub Committee receiving quarterly performance reports.
- the Finance & Audit Sub 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 Sub 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 Deloitte & Touche Public Sector Internal Audit Ltd (Deloitte). A five-year risk-based Strategic Audit Plan was prepared based on an audit needs assessment undertaken in April 2011. This has been refreshed on an annual basis in consultation with the Directors Management Team. The updated plan was approved by the Finance & Audit Sub Committee in May 2012.

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 are presented to each Finance & Audit Sub Committee of progress against the audit plan as well as the status of outstanding recommendations.

The Head of Internal Audit prepares an annual 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 May 2013 Finance & Audit Sub 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)

During the year, Internal Audit highlighted areas that further work was required to improve arrangements. The main issues, which have now been resolved, were related to:

Creditors

- Independent sample checks of new supplier details.
- Checking with suppliers whenever requests are received to change bank details and retaining evidence of the checks.

Colchester Borough Homes Annual Governance Statement 2012/13

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.

Scrutton Bland has also been requested to carry out a limited number of other audit tests in accordance with a request from the auditors to Colchester Borough Council and to report to those auditors on their findings.

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

4. Significant Governance Issues

The main areas for further work identified through the Governance Assurance Process in 2012/13, and which should be disclosed in the Governance Statement Action Plan are:

- **Anti-Fraud and Corruption**
The action plan arising from the strategy needs to be agreed and implemented during the year.
- **Code of Governance**
The key policies identified in the Code of Governance need to be reviewed during the year and published on the Company's website.
- **Management Agreement and Memorandum & Articles of Association**
These key documents need to be reviewed and aligned with the new management arrangements with Colchester Borough Council.
- **Data Security**
The action plan arising from the Information & Confidentiality Policy needs to be implemented.

Colchester Borough Homes Annual Governance Statement 2012/13

5. Action Plan

An action plan is set out below, which will be monitored by the Finance & Audit Sub Committee.

Description	Proposed Actions	Responsibility	Target Completion Date
Anti-Fraud & Corruption	Agree action plan	Director of Resources	31 Jul 2013
	Implement action plan	Director of Resources	31 Mar 2014
Code of Governance	Review key policies and publish on web site	Director of Resources	31 Oct 2013
Management Agreement and Mem & Arts	Review and align with new management arrangements	Chief Executive	31 Aug 2013
Data Security	Implement action plan	Board Assurance Officer	31 Mar 2014

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed: _____
(Vice Chair of the Board)

Signed: _____
(Vice Chair of the Board)

Signed: _____
(Chief Executive Officer)



Governance Committee

Item
9

25 June 2013

Report of

Assistant Chief Executive

Author

Elfreda Walker
282724

Title

Year End Internal Audit Assurance Report 2012/13

Wards
affected

Not applicable

This report summarises the performance of internal audit during 2012/13 and details internal audit work undertaken between 1st October 2012 and the 31st March 2013. The report also provides an introduction to the Public Sector Internal Audit Standards.

1. Actions Required

1.1 To note and comment on the Council's performance relating to:

- Internal audit activity for the period 1st October 2012 – 31st March 2013
- Executing the internal audit work programme for 2012/13
- Performance of internal audit by reference to national best practice benchmarks;

1.2 To note the introduction of the Public Sector Internal Audit Standards.

2. Reason for Scrutiny

2.1 The Accounts and Audit Regulations 2003 require local authorities to maintain an adequate and effective system of internal audit.

2.2 Internal audit is a key element of the Council's corporate governance framework. Robust implementation of audit recommendations gives assurance to members and management that services are operating effectively, efficiently and economically and in accordance with legislative requirements and professional standards.

3. Key Messages

- The Council continued to provide an effective internal audit service during the second half of the 2012/13 financial year.
- No recommendations were raised in relation to either the audit of VAT or the regularity audit of Debtors.
- The assurance ratings for the Homelessness and the Managing the Risk of Fraud audits have improved from 'Limited' to 'Substantial'.
- 10 priority 1, 71 priority 2 and 14 priority 3 recommendations have been made. All recommendations have been accepted by management.
- There continues to be good progress made in implementing and verifying outstanding recommendations.

4. Supporting Information

4.1 This report has been designed to show:

- Summary information concerning audits finalised in the period receiving a 'Full' or 'Substantial' assurance rating and more detailed information on those audits

receiving a 'Limited' or 'No' assurance rating. Please see Appendix 1 for a Key to Assurance levels

- The effectiveness of the Internal Audit provider in delivering the service

4.2 Using a risk-based approach, Internal Audit generates reports for all audits, with recommendations to improve the effectiveness of the internal control framework and maximise potential for service improvement across the Council. The audit plan consists of a mix of regularity, systems and probity audits. Only systems audits generate an assurance level and these are categorised as follows:

5. Internal Audit Performance

5.1 Summary of Audits Finalised During the Period

During the period 1st October 2012 to 31st March 2013 a total of 19 audits have been finalised. The assurance rating improved in 9% of the systems audits carried out, remained the same in 73% and declined in 18%. Audits completed during the period 1st April to 30th September 2012 were reported to the Finance and Audit Scrutiny Panel on 20th November 2012.

Audit	Assurance Level	Change in Level	Priority of Recommendations			
			1	2	3	Agreed
701 – Management of Expenditure	Regularity	N/A	0	6	0	6
702 – Contract Management	Limited	▶	0	1	1	2
709 – IT E-Financials	Substantial First Audit	▶	0	6	1	7
711 – Cash Collection Procedures	Substantial	▶	0	3	1	4
717 – Parking Services Income	Regularity	N/A	1	5	3	9
720 – Risk Management	Substantial	▶	0	3	1	4
721 – Payroll	Regularity	N/A	0	3	2	5
722 – Creditors	Limited	▼	2	4	0	6
723 – Performance Management of Staff	Substantial	▶	0	3	0	3
724 – Debtors	Regularity	N/A	0	0	0	0
725 – General Ledger	Regularity	N/A	0	3	0	3
726 – Housing Rents	Substantial	▶	0	2	0	2
727 – Managing the Risk of Fraud	Substantial	▲	0	4	1	5
728 – Homelessness	Substantial	▲	0	2	2	4
729 – Fuel Usage	No First Audit	▶	7	6	0	13
730 – IT Governance	Substantial First Audit	▶	0	3	1	4
731 – Corporate Governance and Scrutiny	Substantial	▶	0	5	0	5
734 – Leisure World including Joint Use Sports Centres	Limited	▼	0	12	1	13
737 – VAT	Full	▶	0	0	0	0

Please see Appendix 2 for a summary of the audits receiving a 'Limited' or 'No' assurance rating.

5.2 Assurance Gradings 2012-13

	Total No. of Reports		Level of Assurance – Systems Audits*				Change in Assurance Level – compared to last audit		
	Other	Systems	Full	Substantial	Limited	No	▲	▶ (or 1 st Audit)	▼
Audits Finalised April 2012 – September 2012*	4	9	0	6	3	0	0	7	2
Audits Finalised October 2012 – March 2013*	5	14	1	9	3	1	2	10	2

*Only systems audits are given an assurance level.

During 2012/13 a total of 32 audits have been finalised. The assurance rating improved in 9% of the systems audits carried out, remained the same in 74% and decreased in 17%.

5.3 Use of Audit Resources:

	Days	%
Audit days delivered April - September	166	46%
Audit days delivered October 2012 – March 2013	195	54%
	361	100%

6. Status of all recommendations as at 31st March 2013:

- 6.1 Following the completion of each audit, a report is issued to management, incorporating recommendations for improvement in controls and management's response to those recommendations.
- 6.2 The table below provides a breakdown of the outstanding recommendations as at the 31st March 2013.

Date	Outstanding Recommendations That Are:			
	Implemented & Verified	Awaiting Verification	Not Due	Overdue
31/03/13	105	77	63	7

- 6.3 During the period internal audit have been monitoring 252 recommendations. At the end of the period 105 recommendations (42%) had been implemented and verified, 77 (30%) had been implemented and were awaiting verification from internal audit 63 (25%) were not due, and seven (3%) were overdue. 13 of the recommendations awaiting verification relate to managed audits and in accordance with the agreed protocol will be followed up at the time of the next annual audit.
- 6.4 Progress in implementing overdue recommendations will continue to be closely monitored with priority being given to the recommendations awarded a higher priority rating and / or those that have been outstanding the longest. Progress will continue to be reported to the panel.

7. Performance of Internal Audit 2012/13 to date – Key Performance Indicators (KPIs):

KPI	Target	Actual
Efficiency:		
Percentage of annual plan completed (to at least draft report stage)	100%	100%
Average days between exit meeting and issue of draft report	10 max	6
Average days between receipt of management response and issue of final report	10 max	1
Quality:		
Meets CIPFA Code of Practice – per Audit Commission	Positive	Positive
Results of Client Satisfaction Questionnaires (Score out of 10)	7.8	8.8
Percentage of all recommendations agreed	96%	100%

7.1 The key performance indicators show that the internal audit provider is exceeding the standards set.

8 Introduction to Public Sector Internal Audit Standards

8.1 A new set of internal audit standards for the public sector has recently been published – the “Public Sector Internal Audit Standards” or PSIAS for short. These took effect from 1 April 2013. In local government, the PSIAS are mandatory for all authorities subject to the Accounts and Audit (England) Regulations 2011. They replace the Code of Practice for Internal Audit in Local Government in the United Kingdom which was last revised in 2006.

8.2 The overall objective of the standards is to provide a high level overarching framework applicable to all the public sector. The purposes of the PSIAS can be summarised as:

- To define the nature of internal audit within the public sector;
- To set basic principles for undertaking internal audit;
- To establish a framework for providing internal audit which will add value to the organisation and lead to improved processes and objectives;
- To establish the basis for the evaluation of internal audit performance and to drive improvement planning.

8.3 The PSIAS are based on the mandatory elements of the framework produced by the Chartered Institute of Internal Auditors. Particular elements which underpin the framework include:

i) **Definition of Internal Auditing:** Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisations operations. It helps an organisation accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes

ii) **Code of Ethics:** This is based on the principles of:

Integrity – The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.

Objectivity - Internal auditors exhibit the highest level of professional objectivity in gathering, evaluation and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant

circumstances and are not unduly influenced by their own interests or by others in forming judgements.

Confidentiality - Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Competency - Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

iii) **Governance Arrangements and Definitions:** The PSIAS use the term “Board” to describe those charged with the responsibility for overseeing internal audit activity. Each local authority has to define what it means by the “Board” in this context as governance arrangements between authorities can be different. In the local context, the term “Board” is generally taken to mean the Governance Committee of Colchester Borough Council.

8.4 An internal assessment of the Council’s compliance with the PSIAS is currently in progress, the outcomes of which will be reported to Members in the Interim Internal Audit Monitor report in November.

9. Colchester Borough Homes Limited

9.1 Colchester Borough Homes Limited has its own agreed audit plan which is administered by Deloitte and Touche Public Sector Internal Audit Limited, who are also the Council’s auditors. The coverage of the plan, and the scope of the audits, is decided by Colchester Borough Homes Limited and in general the audits do not affect the systems operated by the Council.

9.2 However, there are a few audits that, whilst they are carried out for either Colchester Borough Homes Limited or the Council, have a direct relevance and impact on the other organisation and in these circumstances it is appropriate that the results of the audit are reported to both organisations. These are known as joint audits.

9.3 There has been one joint audit carried out during the period. The audit was in relation to Housing Rents. The audit received a substantial assurance rating and 2 priority 2 recommendations were made. Both recommendations were accepted by management.

10. Proposals

To note and comment upon the Council’s progress and performance relating to:

- Executing the Internal Audit plan for 2012/13
- Internal Audit activity during the second half of 2012/13
- Performance of Internal Audit by reference to national best practice benchmarks

11. Strategic Plan Implications

The audit plan has been set with due regard to the identified key strategic risks to the Council. The strategic risk register reflects the objectives of the strategic plan. Therefore, the audit work confirms the effectiveness of the processes required to achieve the strategic objectives.

12. Risk Management Implications

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

13. Other Standard References

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

Key to Assurance Levels

Assurance Gradings

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

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

Recommendation Gradings

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

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

Summary of Audits with a Limited or No Assurance Rating:

702 – Contract Management	Days	Assurance Limited	Priority of Recommendations			Agreed
			1	2	3	
	15		2	9	0	11

Scope of Audit: This review examined the following areas:

- Policies and Procedures;
- Compliance with Contract Procedure Rules;
- Supplier Lists;
- Quotations;
- Tenders; and
- Retention of Documentation.

Key Outcomes: The recommendations resulting from this review are summarised as follows:

- Procurement guidance for staff should be amended to provide clear guidance on when a tender exercise should be undertaken. It should explicitly detail the action required in cases where, although individual purchases do not exceed the threshold, the total spend with the organisation does. (2)
- Management should consider delivering training courses on the Council's Contract Procedure Rules and Procurement Toolkit. (2)
- The Procurement Toolkit currently under development should be finalised to assist staff in the understanding of the Council's procurement processes, including the contracts tender framework, approval gateways and likely cost of the work during the period the Council plans to receive services from the supplier. (2)
- The service level agreement with Braintree District Council relating to the Essex Procurement Hub should be signed by both parties as soon as possible. (2)
- Management should implement a procedure to ensure that the total spend with organisations is examined to verify that the correct procurement processes are followed. (1)
- A formal independent review of each contract letting process should be undertaken. (2)
- Management should ensure that the standard quotation recording form is completed on each occasion to confirm details of the quotations obtained and to facilitate the selection of an appropriate supplier. (2)
- Management should ensure that a tender evaluation report is completed on each occasion to confirm details of the tenders received and to facilitate the selection of an appropriate supplier. (2)
- Staff should be reminded to retain all documentation in support of the decisions made in connection with the procurement of goods or services from selected suppliers. (1)
- Officers should be requested to bring the Contracts Register completely up to date by a specified deadline to capture missing information identified by the Procurement and Accounts Payable Manager. (2)
- Officers should be reminded of the need for contracts to be reviewed on expiry with a further evaluation being completed to ensure the achievement of value for money. (2)

722 – Creditors	Days	Assurance Limited	Priority of Recommendations			Agreed
			1	2	3	
	8		2	4	0	6

Scope of Audit: This review examined the following areas:

- Policies and Procedures;
- Validity, Documentation and Approval of Transactions;
- Supplier Details;
- Safeguarding of Documents;
- Processing of Invoices;
- Credit Notes;

- Cheque Requisition System;
- Authorisation Levels;
- Construction Industry Scheme; and
- Management Information.

Key Outcomes: The recommendations resulting from this review are summarised as follows:

- Documented procedures relating to the Creditors function should be reviewed and brought up to date as soon as possible. The procedures should also be amended to include the systems for the checking and processing of supplier amendments. (2)
- Manual payment request forms should be independently checked prior to authorisation. (2)
- Staff should be reminded that the BACS transmissions forms should be checked by both officers involved in the electronic transmission process. (2)
- Independent checks of new supplier details set up should be undertaken. (1)
- Checks should be undertaken directly with suppliers whenever requests are received to change bank details. Evidence of the checks conducted should be retained on file. (1)
- Awareness of the risk of change in supplier fraud should be communicated to relevant staff. (2)

729 – Fuel Usage	Days	Assurance No	Priority of Recommendations			Agreed
			1	2	3	
	10		7	6	0	13

Scope of Audit: This review examined the following areas:

- Policies and Procedures;
- Diesel Orders and Deliveries;
- Diesel Stock Checks;
- Diesel Fobs;
- Monitoring of Diesel Usage;
- Fuel Cards;
- Fuel Card Expenditure; and
- Monitoring of Fuel Purchases.

Key Outcomes: The recommendations resulting from this review are summarised as follows:

- The Council should develop a Corporate Vehicle Handbook detailing best practice for fuel usage across the Council. The Council should also review and update the Management of Waste Collection Services guidance to ensure reflection of current working practice. Both documents should be formally approved. (2)
- Staff should be reminded to complete the GRN on delivery of fuel and to ensure that goods are receipted onto E-Procurement and Fuel Wizard promptly following delivery. (2)
- The Council should complete a weekly meter reading which should be recorded and reported formally to the depot's operational managers. (2)
- The Council should complete an annual fuel fob inventory to check the status of all fuel fobs. A record should be kept of all fobs issued and voided. Consideration should also be given to restricting the time when fuel can be dispensed for applicable fobs. (1)
- The Council should complete a monthly void fob audit to identify any inappropriate attempted use of voided fuel fobs. A sample of valid fobs should also be selected to verify appropriate usage. (2)
- Use of the master fob should be restricted to exceptional circumstances only; access to the master fob should be restricted through secure storage arrangements (locked drawer/cabinet). Staff should be reminded to sign the master sheet explaining reasons for use every time the master fob is used. (1)
- Use of master cards should be restricted to authorised users only and a record of any master card use should be kept. Master cards should be held securely in the safe with the passwords retained by the Group Manager of Recycling and Fleet and/or a nominated officer. (1)
- Regular checks should be undertaken to compare expected to actual diesel usage (i.e. miles per gallon). Any variances should be investigated. (2)
- Drivers should be reminded that diesel should be filled from the depot only. Drivers using the Colchester fuel card should be reminded to sign the fuel book for all transactions. (1)

- The Council should clarify and document fuel card procedures. In addition a fuel card verification check should be undertaken to confirm the number of fuel cards in use and the relevant responsible officers. (1)
- The Council should complete a check on each fuel card invoice received to ensure the purchase has been made against a fleet vehicle. In addition the receipt should be obtained from the driver prior to invoice payment. (1)
- A monthly review of all purchase card transactions should be completed to confirm that cards are not being used for fuel expenditure. (1)
- A monthly report should be produced detailing all fuel card expenditure. This should be reviewed by management to confirm all transactions are appropriate against expected expenditure. (2)

734 – Leisure World including Joint Use Sports Centres	Days	Assurance Limited	Priority of Recommendations			
			1	2	3	Agreed
	15		0	12	1	13

Scope of Audit: This review examined the following areas:

- Cash Collection;
- Scale of Charges;
- Hire of Facilities;
- Credits / Refunds;
- Season Tickets;
- Machine Income;
- Stock Control; and
- Vetting of Instructors.

Key Outcomes: The recommendations resulting from this review are summarised as follows:

- All procedural guidance, including Cashing Up and Reception Operating Procedures, should be appended with a version history confirming planned future dates of review. Monitoring should then be carried out in accordance with these set dates. Appropriate procedures should also be drafted for Tiptree Sports Centre if it is decided that cash will continue to be taken at the site. (2)
- Staff should be reminded that the security courier receipts should be retained with each day's cash reconciliation records as confirmation that the cash collection has taken place. Consideration should be given to management spot checking daily records for completeness and then following-up on any missing documentation. (2)
- Following the approval and update of annual price changes, a checking process should be completed to verify that: each of the new rates has been correctly matched from the approved rates to the till system; and all key prices stated on the website accurately reflect applicable charges. (2)
- Chasing of invoices relating to the hiring of facilities should be completed in a timely manner. (2)
- In the interim period before the introduction of the Gladstone system, additional checking should be completed by staff to reconcile invoices raised against amounts received by any customers that pay "on account". Alternatively, payment "on account" should be stopped, subject to advising the hirer, as it is the expected process to be introduced by April 2013. (2)
- Staff should be reminded to append the original invoice details on any credit note documentation for reference purposes in accordance with agreed working requirements. (3)
- Process should be implemented, in line with those operated at Leisure World, for the approval and recording of credit notes and supporting documentation. (2)
- Management should consider whether it is possible to strengthen the control process over local refunds so that a manager has to authorise the refund at the point of sale. Confirmation should be sought that this will be addressed through the introduction of the new Gladstone system. (2)
- The Catering Team should request notification of when vending machine receipts are received back from the Cash Office, at which time these records can be used to effectively maintain a log of vending income throughout the year. (2)
- Monthly stock checks should be undertaken in throughout the year. In addition, staff should sign stock take records to evidence their involvement in the process. (2)

- Upon the introduction of the new Gladstone till system, management should utilise the enhanced till functions so that stock checking for swimming related items can be more effectively completed. System reports should be used to identify expected levels of stock and enable staff to match records against items actually held. (2)
- The Business Manager – Pools should consider the use of formulas in the swimming stock monitoring spread sheet so that opening and closing stock figures accurately translate from the source tabs to the summary page. (2)
- Evidence of instructor qualifications should be retained on the individual's personal file. In addition, spot checking of files should be undertaken and additional records / certificates etc. should be obtained where appropriate. (2)



Governance Committee

Item
10

25 June 2013

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

**This report concerns the Annual Governance Statement for
2012/13**

1. Decisions Required

- 1.1 To consider and note the review of the Council's compliance with the six principles of good governance including the review of effectiveness of the internal control arrangements.
- 1.2 To approve the Annual Governance Statement for 2012/13.

2. Reasons for Decision(s)

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

3. Alternative Options

- 3.1 None.

4. Supporting Information

4.1 Colchester Borough Council has adopted a Local Code of Corporate Governance based on the 2007 CIPFA and SOLACE guidance document – Delivering Good Governance in Local Government. The purpose of the AGS is to review compliance with the six principles of good governance outlined in the guidance and contained in Colchester's Local Code of Corporate Governance.

4.2 The six principles of Corporate Governance are:

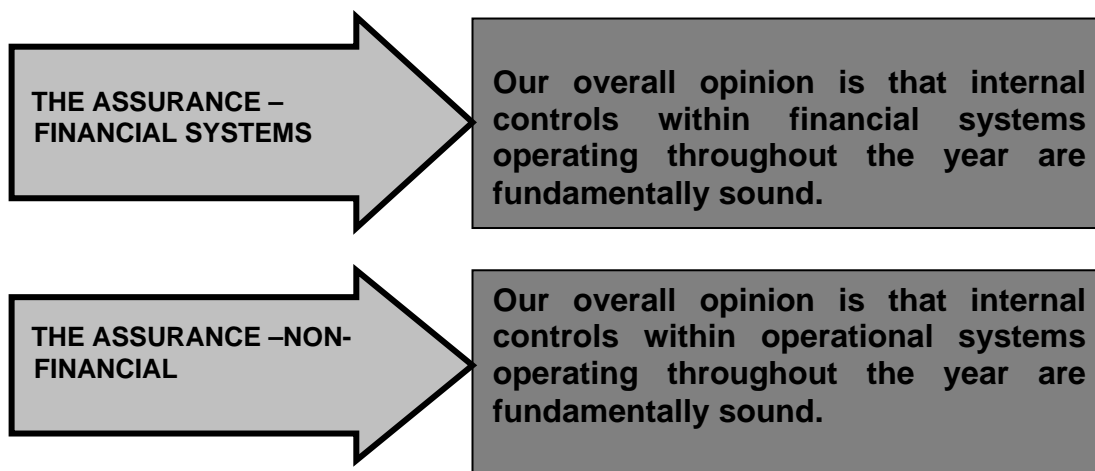
- **Focusing on the purpose** of the authority and on outcomes for the community and creating and implementing a vision for the local area
- **Members and officers working together** to achieve a common purpose with clearly defined functions and roles.
- **Promoting values** for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
- **Taking informed and transparent decisions** which are subject to effective scrutiny and managing risk.
- **Developing the capacity** and capability of members and officers to be effective.
- **Engaging with local people** and other stakeholders to ensure robust accountability.

4.3 As part of the governance review it is a requirement that the Council reviews the effectiveness of internal control and this is primarily evidenced by the Head of Internal Audit Report produced by the Council's Internal Audit provider, Deloitte. A copy of the report is provided as a background paper. The key statement from this report is detailed below:-

2012/13 Year Opinion

Internal Control

From the Internal Audit work undertaken in 2012/13 it is our opinion that we can provide **satisfactory assurance** that the system of internal control that has been in place at Colchester Borough Council for the year ended 31st March 2013 accords with proper practice, except for any details of significant internal control issues as documented in the detailed report. The assurance can be further broken down between financial and non-financial systems, as follows:



- 4.4 The overall summary from the report states 'The Audit Plan has focussed on areas where management have raised concerns or where management has requested support to deal with problematic areas. Although the percentage of 'limited assurance' audit opinions has increased during the year, it is our opinion that this does not reflect a reduction in the overall quality of the control environment. During the 2012/13 year, some sixteen (62%) of internal audit projects were rated 'full/substantial assurance' compared with twenty three (85%) in the prior year. There have been nine audits rated as 'limited assurance' (34%) compared with four (11%) in the prior year. There has also been one project (4%) rated as 'no assurance' which is in line with the previous year. It is noted that the audit plans also contain a number of regularity audits for which no opinion was given. In 2012/13 there were 10 regularity audits within the plan whilst in 2011/12 there were 11.'
- 4.5 In addition, the further steps taken in producing the AGS have been as follows:-
- The creation of a working group consisting of the Monitoring Officer, the Policy and Projects Officer and the Risk and Resilience Manager. This group was responsible for gathering and reviewing evidence in support of the AGS and reporting to the Executive Director.
 - A full review of the Council's code of corporate governance including detailed assessment of evidence supporting each principle.
 - Assurance assessments relating to key areas of governance and control have been completed by senior management.
 - Consideration of risk management issues.
 - Detailed follow up of issues with relevant managers to provide evidence of controls in place.
 - Review of the action plan from the Statement of Internal Control for 2011/12.
 - Review of the implementation of recommendations made by Internal Audit.
 - Review of issues raised in External Audit reports, principally the Annual Audit Letter.
 - Assessment that the financial arrangements comply with the governance requirements of the CIPFA statement on the Role of the Chief Financial Officer in Local Government (2010).
- 4.6 The AGS for 2012/2013 is attached at appendix 1. The format of the statement takes into account both the mandatory pro-forma contained within CIPFA's proper practice guidance, together with subsequent examples of best practice.
- 4.7 The AGS includes a table showing significant internal control issues and planned actions to address these. A more detailed action plan is set out within this report at Appendix 2. The AGS should be an ongoing assessment and therefore a review of the progress against the recommendations has been programmed into the internal audit plan for 2013/14. The results of this review will be reported to this committee in the normal manner.
- 4.8 As stated earlier the Governance Committee is required to approve the AGS, which will then be signed and included within the Statement of Accounts.
- 5. Proposals**
- 5.1 That the panel consider the review of governance and internal control arrangements and approve the Annual Governance Statement for 2012/13.

6. Strategic Plan Implications

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

7. Risk Management Implications

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

8. Other Standard References

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

Background Papers

Head of Internal Audit report for the year ended 31 March 2013 by Deloitte

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**COLCHESTER BOROUGH COUNCIL
ANNUAL GOVERNANCE STATEMENT
FOR THE YEAR ENDED 31 MARCH 2013**

APPENDIX 1

Scope of responsibility

Colchester Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Colchester Borough Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

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

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

DELIVERING GOOD GOVERNANCE IN LOCAL GOVERNMENT:

The purpose of the governance framework

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

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

The governance framework has been in place at Colchester Borough Council for the year ended 31 March 2013 and up to the date of approval of the annual accounts.

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Elements of the Framework

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

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

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

*These committees operated during 2012/13 but have been replaced under the new committee arrangements implemented in April 2013.

Until October 2012 there was an interim Head of Resource Management which was a shared post with a neighbouring authority. From November 2012 until the end of the financial year the Executive Director (People and Performance) took on the role of Head of Resource Management. However the Finance Manager (Management Accounting) has continued to hold the post of the Section 151 Officer for Colchester Borough Council during the entire year. The arrangements in place ensured that Colchester Borough Council's financial management arrangements conformed with the governance requirements of the CIPFA statement on the Role of the Chief Financial Officer in Local Government (2010).

DELIVERING GOOD GOVERNANCE IN LOCAL GOVERNMENT:

Review of effectiveness

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

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

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

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

Effectiveness of Other Organisations

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

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

A review of the management arrangements for CCSL was carried out as part of the preparation of this statement. Whilst CCSL is an 'arms length' company it is still necessary for the Council to ensure that it operates effectively to ensure that it can make the necessary loan repayments to the Council and that the Council's asset, the stadium, is adequately protected. Previous governance reviews had highlighted some weaknesses in control arrangements of the stadium which have been resolved.

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

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

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

Internal Audit Opinion

From the work undertaken in 2012/13, Internal Audit has provided satisfactory assurance that the system of internal control that has been in place at the Council for the year ended 31 March 2013 accords with proper practice. This is excepting any details of significant internal control issues as documented hereafter. It is also the opinion of Internal Audit that the Council's corporate governance framework complies with the best practice guidance on corporate governance issued by CIPFA/SOLACE.

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Significant Governance Issues

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

No.	Issue	Action
1.	<p>Leisure World During the year the accountancy business partner highlighted an anomaly with some income for the Events service at Leisure World. This led to further investigation which uncovered the loss of a significant sum of money over a period of time. A member of staff was dismissed as a result. During February 2013 an internal audit of Leisure World was carried out. 12 level 2, and 1 level 3, recommendations were made. This resulted in a limited assurance being given. Several of the recommendations related to the policies and procedures relating to cash handling and income processes.</p>	<p>Management have agreed the recommendations in the report and many are already implemented. These include:</p> <ul style="list-style-type: none"> • Reviewing policies and procedures • Record control • Updating information • Invoice monitoring • Monitoring hire income • Monitoring refunds • Stock control • Evidencing qualifications
2.	<p>Fuel Usage and Control The internal audit of fuel usage and control resulted in 7 level 1, and 6 level 2, recommendations. The issues highlighted covered areas including policies and procedures, receipting fuel, monitoring usage, dispensing fuel, use of fobs and use of fuel cards.</p>	<p>Management have agreed the recommendations in the report and these include:</p> <ul style="list-style-type: none"> • Revising policies and procedures • Recording of information • Inventory management • Reconciling fuel usage • Monitoring of fob usage • Monitoring of fuel cards • Management reporting
3.	<p>Joint Museum Service An internal audit of the joint museum service was carried out in March 2013. This is currently in the draft report stage but has highlighted several medium priority issues relating to procedures, records, cash handling and stock control.</p>	<p>The recommendations in the report, that are agreed, will be implemented.</p>
4.	<p>Creditors This is one of the Council's key financial systems and received a limited assurance opinion when the internal audit was carried out in October 2012. The audit was limited due to changes in the external risk of fraud. The system has not changed but the risk of fraudulent creation of, or changes to, supplier details has become greater and the system has not been adapted to safeguard against this.</p>	<p>Management have agreed to introduce an independent check of new supplier details or requests to change bank account details.</p>

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No.	Issue	Action
5.	<p>Contract Management The internal audit, carried out in August 2012, highlighted two level 1, and nine level 2, recommendations. The issues mainly relate to the actions of service areas failing to ensure that correct processes are followed.</p>	<p>It has been agreed that the following will be implemented:</p> <ul style="list-style-type: none"> • Training sessions to be provided • Amended guidance on procurement • Completion of the procurement toolkit • Monitoring of usage • Review of contract lettings • Completion and maintenance of records.

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

Signed:

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Leader of the Council & Chief Executive

on behalf of Colchester Borough Council

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Colchester Borough Council
Annual Governance Statement – Action Plan for 2013/14

Significant Internal Control Issues – Relating to 2012/13 Financial Year

No.	Issue	Action	Due Date	Responsible Officer	How this Issue was Identified
1.	<p>Leisure World During the year the accountancy business partner highlighted an anomaly with some income for the Events service at Leisure World. This lead to further investigation which uncovered the loss of a significant sum of money over a period of time. A member of staff was dismissed as a result. During February 2013 an internal audit of Leisure World was carried out. 12 level 2, and 1 level 3, recommendations were made. This resulted in a limited assurance being given. Several of the recommendations related to the policies and procedures relating to cash handling and income processes.</p>	<p>Management have agreed the recommendations in the report and many are already implemented. These include:</p> <ul style="list-style-type: none"> • Reviewing policies and procedures • Record control • Updating information • Invoice monitoring • Monitoring hire income • Monitoring refunds • Stock control • Evidencing qualifications 	01 Oct 2013	Head of Operational Services	Issue arising in year & Internal Audit report
2.	<p>Fuel Usage and Control The internal audit of fuel usage and control resulted in 7 level 1, and 6 level 2, recommendations. The issues highlighted covered areas including policies and procedures, receipting fuel, monitoring usage, dispensing fuel, use of fobs and use of fuel cards.</p>	<p>Management have agreed the recommendations in the report and these include:</p> <ul style="list-style-type: none"> • Revising policies and procedures • Recording of information • Inventory management • Reconciling fuel usage • Monitoring of fob usage • Monitoring of fuel cards • Management reporting 	31 Oct 2013	Head of Operational Services	Concerns raised during the year & Internal Audit report

No.	Issue	Action	Due Date	Responsible Officer	How this Issue was Identified
3.	<p>Joint Museum Service An internal audit of the joint museum service was carried out in March 2013. This is currently in the draft report stage but has highlighted several medium/low priority issues relating to procedures, records, cash handling and stock control.</p>	<p>The recommendations in the report, that are agreed, will be implemented.</p>	31 Oct 2013	Head of Community Services	Internal Audit report
4.	<p>Creditors This is one of the Council's key financial systems and received a limited assurance opinion when the internal audit was carried out in October 2012. The audit was limited due to changes in the external risk of fraud. The system has not changed but the risk of fraudulent creation of, or changes to, supplier details has become greater and the system has not been adapted to safeguard against this.</p>	<p>Management have agreed to introduce an independent check of new supplier details or requests to change bank account details.</p>	Sep 2013	Head of Corporate and Financial Management	Internal Audit Report
5.	<p>Contract Management The internal audit, carried out in August 2012, highlighted two level 1, and nine level 2, recommendations. The issues mainly relate to the actions of service areas failing to ensure that correct processes are followed.</p>	<p>It has been agreed that the following will be implemented:</p> <ul style="list-style-type: none"> • Training sessions to be provided • Amended guidance on procurement • Completion of the procurement toolkit • Monitoring of usage • Review of contract lettings • Completion and maintenance of records. 	01 Sep 2013	Head of Corporate and Financial Management	Internal Audit report

25 June 2013

Report of	Assistant Chief Executive	Author	Hayley McGrath
Title	2012/13 Year End Review of Risk Management		
Wards affected	Not Applicable		

**This report reviews the Risk Management work undertaken for the period
1 April 2012 to 31 March 2013.**

1. Decision(s) Required

- 1.1 The Committee is requested to:
- 1.2 Consider and note the risk management work undertaken during 2012/13.
- 1.3 Consider and comment on the year end strategic risk register.
- 1.4 Consider and comment on the proposed risk management strategy for 2013/14.
- 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 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 economy and cuts in public spending continue to have had a significant impact on the key risks during the year. The highest risk on the year end strategic register remains the potential impact of future central government decisions to reduce public funding, including that of the Council's partners.
- As well as having a direct effect on resources, cuts in public spending are also influencing non-financial risk areas, such as staff motivation, as a result of implementing the changes required to ensure that effective services continue to be provided.
- Risk Management principles continue to be reinforced and embedded in the organisation. The 2011/12 Annual Governance Report, issued by the Audit Commission in September 2012, stated that "Good systems, processes and controls are in place, including effective risk management systems". This is demonstrated by the 2012/13 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 the corporate assessment process. 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 2012/13

- 5.1 A major area of work during the year has been the comprehensive review of motor fleet risks. In August 2012 the Council experienced a significant increase in motor vehicle insurance premiums, primarily due to the number of incidents involving Council fleet vehicles. This led to the creation of a team to fundamentally review the issues surrounding the fleet and in turn an action plan to reduce the risks faced by the fleet. The action plan identified various objectives including senior management commitment, the creation of a drivers handbook and various types of training. The work undertaken so far has already seen a reduction in claim numbers from the previous year and a lower than anticipated insurance premium for 2013/14.
- 5.2 The work started in the previous year to embed anti-fraud and corruption processes has continued during 2012/13. Work has been undertaken with CBH to review their policies and training sessions are being organised for their staff. As part of the review of anti-fraud and corruption policies it was recognised that the Council did not have any formally trained investigators to conduct suspected fraud reviews. Therefore the Risk and Resilience Manager undertook the BTEC Advanced Professional Certificate in Investigative Practice to ensure that investigation reports are completed to the required standard.
- 5.3 There were no fundamental changes to the risk management function, or the processes used to identify and control risk, during 2012/13.
- 5.4 An audit of the risk management function was carried out in January 2013. This produced four recommendations three at level two and one at level three. These related to updating on-line documents and inclusion of partnership and flexible working risks in all operational risk registers.
- 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 2012/13 the strategic risk register was reviewed by the senior management team every quarter and reported to the Finance and Audit Scrutiny Panel every six months. The register for quarter 4 is shown at appendix 1. These risks have been mapped onto a risk chart as shown at appendix 2.
- 6.2 Currently the issues relating to the uncertainties around the economic climate and the impact that this is having on staff morale continue to be the highest risks.
- 6.3 Due to the implementation of the new organisational structure both the operational and strategic registers are currently being comprehensively reviewed to ensure that they accurately capture the risks faced by the Council. Therefore the revised strategic risk register for 2013/14 will be reported to this committee at the six month review in November 2013.

7. Risk Management Strategy for 2013/14

- 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 2013/14. 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 titles to reflect the new organisational structure.

8. Proposals

- 8.1 To note and comment upon the Council's progress and performance in managing risk during 2012/13, the updated strategic risk register and the revised risk management strategy and 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.

Quarter4 2012/13
Colchester Borough Council – Corporate Strategic Risk Register
January 2013 – March 2013

1. AMBITION								
Specific Risks		SCORE						Consequence
		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.
1b	Unrealistic internal and external expectations on the speed of delivery.	3	3	9				Major economic downturn in public sector resourcing over the next few years will hamper the speed of delivery across the services provided.
1c	The Council is unable to effectively influence changes in the Borough economy.	3	4	12	2	4	8	Poorer external assessments by independent agencies and loss of Council reputation.
1d	Over reliance on a limited number of people limits ability to deliver our ambition.	3	3	9	2	3	6	The Borough Council loses its status and influencing ability at sub-regional, regional and national levels.
1e	The resource implications, including ICT, staffing and financial, of the UCC FSR are greater than anticipated.	2	4	8				The review does not achieve its full potential and anticipated improvements are not realised, resulting in Customers not receiving an improved level of service.

ACTION PLAN – AMBITION		
Action	Owner	Review
Constantly challenge the ambition shown by the Council and look for new and innovative ways of delivering that ambition.	Chief Executive / Executive Directors / Heads of Service	March 2013
Make the most of information and communication technology; continue the process of Fundamental Service Reviews	Executive Management Team	March 2013
Continue internal assessment of service effectiveness and seek external assessments as appropriate for continuous improvement purposes.	Senior Management Team	March 2013
Consider longer term impacts of staffing reductions.	Senior Managers and Human Resources function	March 2013
The resourcing issues around the UCC FSR are managed by the UCC FSR risk register which covers ICT, Cultural Change, Financial and External risks.	Executive Director	The register is reviewed by the implementation group monthly and by the project board bi-monthly.

2. CUSTOMERS								
Specific Risks		SCORE						Consequence
		Current			Previous			
		P	I	O	P	I	O	
2a	The increasing expectations of our customers, set alongside the financial challenges to service delivery may pose some challenges to customer excellence, service and delivery and the reputation of the authority.	4	3	12	3	3	9	The Authority fails to deliver the high standards of service and delivery which our customers expect, especially in relation to self service and the reliance on IT capabilities.
2b	There is increasing expectation that the Council will step in to deliver services when other providers either fail or reduce service provision	4	3	12				The Council suffers from a loss of reputation as customer's expectations are not met. There is increased demand on existing services leading to a reduction in standards of delivery

ACTION PLAN – CUSTOMERS

Action	Owner	Timing
A programme of engagement and consultation is put in place to ensure customers are able to inform service priorities and delivery	ED Customer Excellence	March 2013
Front line services need to ensure that customers are fully aware of the level of service that can be expected and details should be made available to sign post customers to other relevant organisations.	ED Customer Excellence	March 2013

3. PEOPLE									
Specific Risks		SCORE						Consequence	
		Current			Previous				
		P	I	O	P	I	O		
3a	Unable to update skills at a time when we need a changing skill set to deliver in a different economic climate	3	3	9				Decline in service performance	
3b	Failure to sustain adequate resource to support Training and Development because of the financial situation	3	3	9				Disengaged and demotivated staff	
3c	Failure to provide effective and visible political and managerial leadership.	3	3	9				Efficiency and productivity reduction	
3d	Staff motivation declines with impact of fundamental service reviews and implementation of other budget efficiencies	4	4	16				Inability to meet changing requirements and needs	
3e								Customer perceptions decline as we deliver less	
								Loss of key staff	

ACTION PLAN – PEOPLE

Action	Owner	Timing
Ensure effective communications strategy around budget implications with staff	ED People & Performance	March 2013
Ensure people strategy is updated to reflect changing needs as appropriate	ED People & Performance	March 2013
Continue to recognise the importance of training and development budgets and use more innovative methods to keep skills up to date	ED People & Performance	March 2013
Ensure performance management process is effectively implemented and monitored to include development needs and plans	ED People & Performance	March 2013
Active promotion and use of Colchester Learning Managers programme and development to meet evolving needs	ED People & Performance	March 2013
Ensure outcomes of fundamental service reviews reflect training and development needs to support changes in services.	ED Customer Excellence	March 2013

4. HORIZON SCANNING

Specific Risks		SCORE						Consequence
		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.
4b	Not taking or creating opportunities to maximise the efficient delivery of services through shared provision, partnerships or commercial delivery	4	3	12				Adverse impact on local residents / resources. Missed opportunities to boost local economy.
4c	Failure by the Council to spot / influence at an early stage the direction of Central Government policies / new legislation.	3	3	9	2	3	6	Conflict between Council / Government agendas. Reduction in levels of service provision and potential withdrawal of services.
4d	Potential impact of future central government decisions to reduce public funding, including that of our partners	4	5	20	3	5	15	

ACTION PLAN – HORIZON SCANNING

Action	Owner	Timing
Ensure organisational readiness to respond to external challenges through the Way We Work programme strands: - People - Transformation - Customer Excellence - Leadership of Place	EMT	March 2013
Supported by a robust Medium term Financial strategy and organisational development strategy.	EMT	March 2013
Continuous review of strategies and policies to reflect changing context.	EMT	March 2013
The budget situation is under constant review, including the impact of decisions from central government. Additional actions and areas for spending reviews are being identified.	EMT	March 2013

5. PARTNERSHIPS										
Specific Risks		SCORE						Consequence		
		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, Growth Cities Network, CAPITA, CBH	4	3	12						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
5b	Change of direction / policy within key partner organisations and they revise input / withdraw from projects.	4	3	12	3	3	9			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.
5c	Potential inability to agree shared outcomes/ agendas with partners and the Council’s ability to influence partner’s performance.	3	4	12	3	3	9			

ACTION PLAN – PARTNERSHIPS		
Action	Owner	Timing
Assess proposed strategic partnerships to ensure that they will satisfy the Council’s objectives before commitment to new partnerships is made.	EMT	March 2013
Define a relationship / performance management process for partnerships	ED People & Performance	March 2013
Ensure that there is a mechanism to review partnerships and assess the value added.	ED People & Performance ED Leadership of Place	March 2013

6. ASSETS & RESOURCES

Specific Risks		SCORE						Consequence
		Current			Previous			
		P	I	o	P	I	o	
6a	Failure to protect public funds and resources – ineffective probity / monitoring systems	3	4	12	2	4	8	Service delivery failure Financial and reputational loss by the Authority
6b	Risk that Asset Management is not fully linked to strategic priorities and not supported by appropriate resources	3	4	12				Personal liability of Officers and Members. Legal actions against the Council
6c	Inability to deliver the budget strategy in the current economic climate	3	4	12	3	5	15	Loss of stakeholder confidence in the Borough Inability to sustain costs
6d	Failure to set aside sufficient capital funds for strategic priorities	3	4	12	3	2	6	Failure to deliver a balanced budget Required to use Reserves & Resources to fund services and capital priorities Severe impact on cash-flow leading to negative effect on performance targets
6e	Increased risk to ICT resilience with migration to new supplier and ever increasing demands around information security	2	5	10				

ACTION PLAN – ASSETS & RESOURCES

Action	Owner	Timing
Ensure that there is a robust system of internal control that encompasses all assurance systems including Internal Audit, Risk Management, Budget process, Corporate Governance and performance management. This must be reported to senior officers and members on a regular basis to ensure that it is fully embedded	EMT / Head of Resource Management	There is cycle of reviewing and reporting including internal Audit, Risk management and the AGS Review March 2013
Continue to ensure that the budget monitoring process is reflective of finances across the whole Council not just individual service areas	Head of Resource Management	Regular reporting to PMB. & FASP. Review March 2013
Develop the annual budget strategy to ensure it has controls built in to be able to respond to changes in the strategic objectives and is innovative to reflect the current climate and emerging options	Head of Resource Management	Annual exercise. Council approves budget in Feb 2013
Review the medium term financial outlook and capital programme processes to ensure they are kept up to date and realistic	Head of Resource Management	MTFS is part of the budget strategy & considered during the process. Capital programme reported to FASP quarterly Review March 2013
Regular reviews with new ICT supplier Ensure IT policies comply with information security requirements and that staff are aware of the correct procedures.	ED People & Performance	From beginning of new contract and ongoing. Next review March 2013

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

RISK MATRIX YEAR END 2012/13

Low Risks	Medium Risks	High Risks
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Scoring 1-5

Risk Tolerance Line

Probability of Occurrence	5 Very High					
	4 High			2a 2b 4b 5a 5b	3e	4d
	3 Medium		1a	1b 1d 3a 3b 3d 4c	1c 5c 6a 6c 6d	
	2 Low				1e 4a	6e
	1 Very Low					
		1 Very Low	2 Low	3 Medium	4 High	5 Very high
Severity of Impact						

Removed Risks

3c

Declining number of staff affects our capacity and impacts on our ambitions
Removed Qtr 1 2012/13



DRAFT Risk Management Strategy 2013/14

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.”

A handwritten signature in black ink that reads "A. R. Pritchard." The signature is written in a cursive style with a long, sweeping underline.**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 regeneration 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.

The Audit Commission, in their 2011/12 Annual Governance Report stated that the Council has "Good systems, processes and controls in place, including effective risk management systems".

This is an endorsement that we have devised a practical and workable approach to managing risk. This has resulted in the Council becoming more risk aware and actually taking more risks, as demonstrated by the comprehensive risk register for the regeneration projects. Colchester is also highly regarded for managing risk by both our insurers and other authorities.

The 2012/13 internal audit of risk management gave a substantial assurance opinion. Some recommendations were raised during this audit and these mainly related to the availability of information on line.

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 D 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 Business & Resources – Lead member for the risk management process

Governance 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 Chief Executive – Responsible for co-ordination of the risk management process, co-ordinating and preparing reports and providing advice and support.

Heads of Service – 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 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 Committee & 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 four 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 – The 2007 Use of Resources Criteria for Risk Management

Appendix 4 – CIPFA guidance on Risk Management Responsibilities

APPENDIX A

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 B

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 needs to be reviewed on a quarterly basis by P.M.B.
- Six monthly review of the operational risk registers and a summary report of these reviews to P.M.B.
- A six monthly report needs to be provided to Committee (Governance) 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 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	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 C

Audit Commission Key Line of Enquiry Criteria

4. INTERNAL CONTROL How well does the council's internal control environment enable it to manage its significant business risks?			
Key line of enquiry 4.1 The council manages its significant business risks			
Audit Focus Evidence that: the council has a risk management process in place the risk management system covers partnership working			
Criteria for Judgement			
Level 2	Level 3	Level 4	
<p>* The council has adopted a risk management strategy/policy that has been approved by members.</p> <p>* The risk management strategy/policy requires the council to:</p> <ul style="list-style-type: none"> • identify corporate and operational risks • assess the risks for likelihood and impact • identify mitigating controls • allocate responsibility for the mitigating controls. <p>* The council maintains and reviews a register of its corporate business risks linking them to strategic business objectives and assigns named individuals to lead on the actions identified to mitigate each risk.</p> <p>* Member responsibility for corporate risk management is identified in the terms of reference of one or more committees as appropriate.</p> <p>* Reports to support strategic policy decisions, and project initiation documents, include a risk assessment.</p>	<p style="text-align: center;">1.1.2</p> <p>* The risk management process is reviewed and updated at least annually.</p> <p>* The risk management process specifically considers risks in relation to significant partnerships and provides for assurances to be obtained about the management of those risks.</p> <p>* All appropriate staff are given relevant training and guidance to enable them to take responsibility for managing risk within their own working environment.</p> <p>* The members with specific responsibility for risk management have received risk management awareness training.</p> <p>* Members with responsibility for corporate risk management receive reports on a regular basis and take appropriate action to ensure that corporate business risks are being identified and effectively managed, including reporting to full council as appropriate.</p>	<p>* A senior officer and member jointly champion and take responsibility for embedding risk management throughout the council.</p> <p>* The council can demonstrate that it has embedded risk management in its business processes, including:</p> <ul style="list-style-type: none"> • strategic planning • financial planning • policy making and review • performance management <p>* All members receive risk management awareness training appropriate to their needs and responsibilities</p> <p>* The council considers the opportunity side of innovative and challenging projects.</p> <p>* Reports to support strategic policy decisions, and initiation documents for all major projects, require a risk assessment including sustainability impact appraisal.</p>	

Appendix D 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 Chief Executive	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.	



Governance Committee

Item

12

25 June 2013

Report of	Assistant Chief Executive	Author	Steve Heath ☎ 282389
Title	Draft Annual Statement of Accounts 2012/13		
Wards affected	Not applicable		

This report sets out the arrangements for the audit and approval of the Draft Statement of Accounts for 2012/2013

1. Decisions Required

- 1.1 To consider this report relating to the pre-audit Statement of Accounts for 2012/13.
- 1.2 To note and comment on the proposal for a separate internal briefing session for the Committee, and the deadline for approval of the audited accounts of 30 September 2013.

2. Procedure

- 2.1 The compilation of the draft accounts is currently underway, and they are due to be certified by the responsible financial officer in accordance with the statutory deadline of 30 June. It is suggested good practice to publish the draft Statement of Accounts on the Council's website, which would be in line with the Government's policy of increased transparency. This will take place in early July, and Members will be notified when it has been done. The Governance Committee is not required to approve the draft accounts. Instead this now happens when Members are aware of the findings of the audit and can make a better informed decision.
- 2.2 The final accounts audit is due to commence on 15 July, and the External Auditor will report to the meeting of this Committee on 24 September. The report will address any matters arising out of the final accounts audit and comment on the proposed opinion on the accounts. The responsible financial officer must re-certify the presentation of the annual accounts before Member approval is given.
- 2.3 As has been the case in prior years, it is proposed that an internal briefing session for Members is arranged to take place prior to the 24 September Committee when Members will be asked to approve the certified accounts. This session will seek to explain the purpose of the main statements, and provide a broader understanding of the contents of the accounts and the Auditors' report. This, in turn, should enable Members approving the accounts to be satisfied that the presentation appears appropriate, and that the accounts are consistent with other financial information provided. Members are requested to advise of any particular areas of concern prior to this date so they can be addressed within the session.
- 2.4 The Council needs to have secured approval and published the accounts with the audit opinion and certificate by the statutory deadline of 30 September 2013. The published statement, including the Auditors' opinion, will then be reported to the meeting of the Committee on 15 October 2013.

3. Statement of Accounts 2012/13

3.1 The Statement of Accounts for 2012/13 has been prepared using the International Financial Reporting Standards (IFRS) based Code of Practice on Local Authority Accounting in the United Kingdom 2012/13, and the Service Reporting Code of Practice 2012/13. The following paragraphs explain the key areas of the Statement of Accounts, including the main financial statements:

Movement in Reserves Statement

3.2 This statement is a summary of the movements in the different reserves held by the Council. The reserves are analysed into usable reserves and unusable reserves. Usable reserves are those that can be applied to fund expenditure or reduce local taxation. Unusable reserves include reserves set-up to hold unrealised gains/losses and adjustment accounts that absorb the difference between the outcome of applying proper accounting practices and the requirements of statutory arrangements for funding expenditure.

Comprehensive Income and Expenditure Account

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

Balance Sheet

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

Cash Flow Statement

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

Housing Revenue Account Income and Expenditure Statement

3.6 This statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis on which rents are raised, is shown in the Movement on the Housing Revenue Account Statement.

Collection Fund Accounts

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

Group Accounts

3.8 These accounts bring together the financial position of the Council and its interest in Colchester Borough Homes Limited and Colchester Community Stadium Limited, together with the Port Health Authority and the various Trust Funds.

4. Strategic Plan References

- 4.1 The objectives and priorities of the Strategic Plan informed all stages of the budget process for 2012/13.

5. Publicity Considerations

- 5.1 The accounts will be open for public inspection from Monday 22 July to Friday 16 August to meet our legal duties. The dates will be advertised in the local press two weeks prior to this period commencing, which will be by Friday 5 July. They will also be shown on the Council's website.
- 5.2 Staff will be available to provide information and respond to questions during this period. The local press usually take the opportunity to view the accounts and information will be provided as appropriate.

6. Financial Implications

- 6.1 The approval of the Statement of Accounts meets a statutory requirement for financial reporting and is an important part of the process to demonstrate accountability in the use of public funds.
- 6.2 The Finance and Audit Scrutiny Panel received periodic financial reports during the course of the financial year. The pre-audit revenue and capital outturn results for the financial year 2012/13 were considered by the Scrutiny Panel on 11 June 2013.

7. Other Standard References

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

Background Papers

None

