Colchester Borough Council
Audit results report

Year ended 31 March 2017

EY
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Private and Confidential July 2017

Dear Governance and Audit Committee Members

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

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3.

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

We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources

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

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

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

Yours faithfully

Kevin Suter
Executive Director

For and on behalf of Ernst & Young LLP

United Kingdom

Contents

01 Executive Summary

02 Areas of Audit Focus

03 Audit Report

04 Audit Differences

05 Value for Money

06 Other Reporting Issues

07 Assessment of Control Environment

08 Appendices

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

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

The "Terms of Appointment (updated September 2015)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature..

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

01 Executive Summary

Executive Summary

Overview of the audit

Scope and materiality

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

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

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

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

Executive summary (continued)

Status of the audit

We have substantially completed our audit of Colchester Borough Council's financial statements for the year ended 31 March 2017 and have performed the procedures outlined in our Audit plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 3. However until all work is complete, further amendments may arise.

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

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

Audit differences

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

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

Executive summary (continued)

Areas of audit focus

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

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

- There are no other considerations or matters that could have an impact on these issues; and
- There are no other significant issues to be considered.

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

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties.
In our Audit Plan we identified the following significant risk:

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

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

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

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

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

Executive summary (continued)

Other reporting issues

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

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

We have no other matters to report.

Control observations

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

Independence

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

02 Areas of Audit Focus

Audit issues and approach: Risk of Fraud in Revenue Recognition

Revenue Recognition

What are our conclusions?

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

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

What is the risk?

Risk of fraud in revenue recognition

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

In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

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

Significant Risk

What did we do?

In order to address this risk we:

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

Audit issues and approach: Management Override of Controls

Management Override

What are our conclusions?

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

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

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

What is the risk?

Risk of management override

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

Significant Risk

What did we do?

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

- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- Reviewing accounting estimates for evidence of management bias; and
- Evaluating the business rationale for significant unusual transactions.

Audit issues and approach: Presentation of the Financial Statements

Expenditure and Funding Analysis

What are our conclusions?

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

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

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

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

What is the risk?

Presentation of the financial statements

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

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

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

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

Significant Risk

What did we do?

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

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

Audit issues and approach: Property, Plant and Equipment Valuations

Property, Plant and Equipment Valuations

What are our conclusions?

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

What is the risk?

Property, plant and equipment valuations

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

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

Significant Risk

What did we do?

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

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

Audit issues and approach: Pension Valuation and Disclosure

Pension Valuation and Disclosure

What are our conclusions?

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

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

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

What is the risk?

Pension valuation and disclosure

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

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

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

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

Significant Risk

What did we do?

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

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

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

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

03 Audit Report

Draft audit report

Our opinion on the financial statements

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

Opinion on the Authority's financial statements

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

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

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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

Draft audit report (continued)

Our opinion on the financial statements

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

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Colchester Borough Council and Group as at 31 March 2017 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Opinion on other matters

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

Draft audit report (continued)

Our opinion on the financial statements

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

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

Authority's responsibilities

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

Auditor's responsibilities

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

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

Draft audit report (continued)

Our opinion on the financial statements

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2015, as to whether the Colchester Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Colchester Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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

Conclusion
On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, we are satisfied that, in all significant respects, Colchester Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

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

04 Audit Differences

Audit differences

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

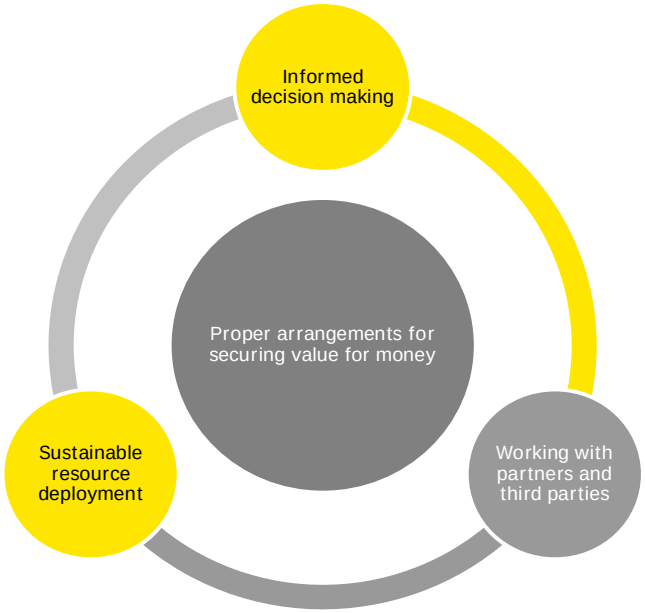
Summary of adjusted differences

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

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

05 Value for Money

Value for Money



Economy, efficiency and effectiveness

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

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

- take informed decisions;
- deploy resources in a sustainable manner; and
- work with partners and other third parties.

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

Overall conclusion

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

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

Value for Money

VFM risks

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

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

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

The table below presents the findings of our work in response to the risk area in our Audit Plan.

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

Value for Money

VFM risks

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

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

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

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

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

06 Other reporting issues

Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Colchester Borough Council Statement of Accounts 2016/17 with the audited financial statements

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

Our findings are:

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

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

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

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

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

Other reporting issues

Other powers and duties

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

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

Other matters

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

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

We have no matters to report.

07 Assessment of Control Environment

Assessment of control environment

Financial controls

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

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed.

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

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

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

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

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

08 Appendices

Required communications with the Governance and Audit Committee

There are certain communications that we must provide to the Governance and Audit Committees of UK clients. We have done this by:

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Governance and Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, including any limitations.	March 2017 Audit Plan
Significant findings from the audit	• Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Any significant difficulties encountered during the audit • Any significant matters arising from the audit that were discussed with management • Written representations we have requested • Expected modifications to the audit report • Any other matters significant to overseeing the financial reporting process	July 2017 Audit Results Report
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy of related disclosures in the financial statements	No conditions or events were identified, either individually or together to raise any doubt about Colchester Borough Council's ability to continue for the 12 months from the date of our report.
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Significant corrected misstatements, in writing	July 2017 Audit Results Report

Appendix A

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

Appendix A

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

Appendix A

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

Appendix B

Independence

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

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

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Governance and Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Governance and Audit Committee on 25 July 2017.

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

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

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

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

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

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

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

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

Accounting and regulatory update

Accounting update

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

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

Appendix C

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

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