

Governance and Audit Committee Meeting

**Grand Jury Room, Town Hall, High Street,
Colchester, CO1 1PJ
Tuesday, 28 June 2016 at 18:00**

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

Information for Members of the Public

Access to information and meetings

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

Accounts and Audit

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

Governance

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

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

Other regulatory matters

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

To determine and approve Community Governance Reviews.

Standards in relation to Member Conduct

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

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

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

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

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

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

COLCHESTER BOROUGH COUNCIL
Governance and Audit Committee
Tuesday, 28 June 2016 at 18:00

Member:

Councillor Chris Pearson
Councillor Nick Barlow
Councillor Karen Chaplin
Councillor Peter Chillingworth
Councillor Fiona Maclean
Councillor Dennis Willetts

Chairman
Deputy Chairman

Substitutes:

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

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

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

1 Welcome and Announcements

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

2 Substitutions

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

3 Urgent Items

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

4 Declarations of Interest

The Chairman to invite Councillors to declare individually any interests they may have in the items on the agenda. Councillors

should consult Meetings General Procedure Rule 7 for full guidance on the registration and declaration of interests. However Councillors may wish to note the following:-

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

5 Minutes

To confirm as a correct record the minutes of the meeting held on the 19 January 2016 and 25 May 2016.

19-01-16

9 - 12

25-05-16

13 - 14

6 Have Your Say!

a) The Chairman to invite members of the public to indicate if they wish to speak or present a petition at this meeting – either on an item on the agenda or on a general matter relating to the terms of reference of the Committee/Panel not on this agenda. You should indicate your wish to speak at this point if your name has not

been noted by Council staff.

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

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|----|--|---------|
| 7 | Work Programme 2016-17
See report of Assistant Chief Executive. | 15 - 16 |
| 8 | Audit Plan and Annual Audit & Certification Fees
See report of Assistant Chief Executive. | 17 - 42 |
| 9 | Draft Annual Statement of Accounts 2015/16
See report of Assistant Chief Executive. | 43 - 46 |
| 10 | Year End Internal Audit Assurance Report 2015/16
See report of Assistant Chief Executive. | 47 - 56 |
| 11 | Review of the Governance Framework and Draft Annual Governance Statement
See report of Assistant Chief Executive | 57 - 68 |
| 12 | Exclusion of the Public (not Scrutiny or Executive)
In accordance with Section 100A(4) of the Local Government Act 1972 to exclude the public, including the press, from the meeting so that any items containing exempt information (for example confidential personal, financial or legal advice), in Part B of this agenda (printed on yellow paper) can be decided. (Exempt information is defined in Section 100I and Schedule 12A of the Local Government Act 1972). | |

Part B

(not open to the public including the press)

GOVERNANCE COMMITTEE

19 JANUARY 2016

Present :-

Councillor Cyril Liddy (Chairman)
Councillors Christopher Arnold, John Elliot, Julia Havis,
Jo Hayes, Peter Higgins and Ben Locker

32. Minutes

The minutes of the meeting held 24 November 2015 were confirmed as a correct record.

33. Work Programme

The Chairman introduced to the Work Programme for 2015/16. The Committee heard that following the cancellation of two meetings during 2015/16 the Work Programme for 2016/17 will not hold a meeting during August 2016. In addition the Work Programme for 2016/17 has also been updated to reflect the changing timescales for completion and approval of the Statement of Accounts. It was also confirmed that a briefing date for the next municipal years Governance Committee would be scheduled as soon as possible.

RESOLVED that the Work Programme be noted.

34. Certification of Claims and Returns – Annual Report 2014/15

Kevin Suter, Director, and Francesca Palmer, Assistant Manager, from Ernst and Young introduced the Certification of Claims and Returns Annual Report for 2014/5. The report requests the Committee to note and comment on the contents of the 2014/15 Certification of Claims and Returns annual report from the external auditor, Ernst and Young.

Kevin Suter introduced himself to the Committee as he will be replacing Debbie Hanson as the representative for Colchester Borough Council.

Francesca Palmer highlighted the work undertaken including the Housing Benefit subsidy claim. This work was undertaken on behalf of the Department for Work and Pensions. Five issues were identified, with two amendments made, one case reviewed and two areas where 40+ testing was required.

The Committee heard that whilst this was the first time in a number of years that 40+ testing was required this is common for other Local Authorities. Reducing the instances of 40+ testing is difficult due to the amount of data being entered which increases the likelihood of human error. The performance of Colchester Borough Council is not a concern as 85% of all housing benefit claims are either qualified, amended or both; there are also frequent legislation changes, which make it harder to keep up to date with the latest developments.

In response to a query on the procedure of 40+ testing, Kevin Suter confirmed that it is taking a sample and checking forty further entries for any further error. If the population of the area that is being surveyed is smaller, then a smaller sample will be assessed. Francesca Palmer added that in certain circumstances where the sample rate is small it is better to amend the claim rather than run further testing; an example of this is the Housing Revenue Account rebate.

RESOLVED that the Governance Committee noted the Certification of Claims and Returns – Annual Report 204/15

35. Amendment to the Member/Officer Protocol

Andrew Weavers, Monitoring Officer, introduced the report requesting that the Governance Committee approve the revised wording to paragraph 10 (4) of the Member/Officer Protocol.

Andrew Weavers stated that the Committee at its meeting of 13 October 2015 approved an amendment to the Member/Officer Protocol regarding Councillors use of social media. Following the decision, Will Quince MP wrote to the Chairman of the Committee and expressed concern that this could lead to Councillors being in breach of the Members Code of Conduct when criticising the Council, and cause issues for backbench Councillors representing the views of the constituents.

Mr Weavers stated that whilst the original wording was not intended as such, and in reality would not have been interpreted as such a revised wording was circulated to the Chairman and Group Spokespersons.

RESOLVED that the Amendment to the Member/Officer Protocol be approved and included in the Council's constitution.

36. Gifts and Hospitality – Review of Guidance for Councillors and Policy for Officers

Andrew Weavers, Monitoring Officer, introduced the report on Gifts and Hospitality – Review of Guidance for Councillors and Policy for Officers. The report requests that the Committee approve the Guidance for Members regarding Gifts and Hospitality and that it be included in the constitution, and to approve the Gifts and Hospitality for Officers.

Andrew Weavers highlighted that following the meeting on 13 October 2015, it was agreed that the item be deferred to seek clarification on 'civic' night hospitality. In addition as a result of the Governance Chairman's briefing prior to the meeting, Andrew Weaver's highlighted a number of suggested amendments to the Guidance, which were agreed by the Committee.

In response to a question from the Committee Andrew Weavers confirmed that the amendment would prevent the issue of Councillors having to declare Civic night at the Mercury as Gifts.

RESOLVED that;

- (a) The final sentence in Paragraph 4.6 be amended to 'The Monitoring Officer in consultation with the Chairman of the Governance Committee will determine whether it is appropriate for the Council to retain the gift in question and if so it will be donated to the Mayors Charities'
- (b) Paragraph 5.3, bullet point two, be amended to 'Offers of theatre tickets for Individual Members and their family or free travel.'
- (c) Paragraph 5.3, bullet point two, be deleted.
- (d) The Guidance for Members regarding Gifts and Hospitality and that it be included in the Constitution be approved.
- (e) The Gifts and Hospitality Policy for Officers be approved.

37. Risk Management Progress Report

Andrew Weavers, Monitoring Officer, introduced the Risk Management Progress Report. The report comes to the Governance Committee each six months providing an update with the work undertaken and current strategic risk register.

Andrew Weavers stated that the most significant risk continues to be risk 4d, which is the potential impact of future central government decisions to reduce public funding, including that of partners. In addition the risk 5a, failure of inappropriate performance management of one of more strategic partnerships of key contracts is the second most significant risk to the Council.

Mr Weavers also highlighted that as the probability of Risk 6c, inability to deliver the budget strategy as planned, has decreased from 4 to 3, with the level of risk reducing from high to medium.

RESOLVED that the Risk Management Progress report be noted.

38. Annual Review of Business Continuity

Andrew Weavers, Monitoring Officer, presented the Annual Review of Business Continuity Report to the Governance Committee. The report requests that the business continuity work undertaken so far be noted, the Business Continuity Strategy be reviewed, and for the Committee to note the intended work plan for 2016.

Andrew Weavers stated that the key risks continue to be the loss of IT and buildings. In addition, Mr Weavers highlighted that following the creation of the Corporate Governance Team in 2014, the Emergency Planning and Business Continuity functions were brought together which has aided resilience within the team. The Council is also a member of Resilience Direct, which is a cloud based secure document store and mapping application, enabling access to important documents if IT systems are not accessible.

The Committee welcomed the news that the Council was above the Essex average for Business Continuity. In response to a question from the Committee, Ann Hedges stated that officers had attended a workshop run by South Oxfordshire District Council to gain a greater understanding of the lessons learnt as a result of the loss of their building through fire.

RESOLVED that the Annual Review of Business Continuity report be noted.

GOVERNANCE AND AUDIT COMMITTEE

25 MAY 2016

Present:- Councillor Pearson (Chairman), Councillor Barlow, Councillor Chaplin, Councillor Chillingworth, Councillor F. Maclean, Councillor Willetts

1. Appointment of Chairman

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

2. Appointment of Deputy Chairman

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

28 June 2016

Report of	Assistant Chief Executive	Author	Jonathan Baker
Title	Work Programme 2016-17		282207
Wards affected	Not applicable		

This report sets out the current Work Programme 2016-2017 for the Governance and Audit Committee.

1. Decisions Required

- 1.1 The Committee is asked to note the contents Committee's Work Programme for 2016-17.

2. Alternative options

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

3. Introduction

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

4. Strategic Plan References

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

5. Standard References

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

WORK PROGRAMME 2016-17

Meeting date / Agenda items
28 June 2016 <ol style="list-style-type: none">1. Audit Plan and Annual Audit & Certification Fees (Ernst and Young)2. Draft Annual Statement of Accounts 2015/16 (Finance Manager)3. Review of the Governance Framework and Draft Annual Governance Statement (Corporate Governance Manager)4. Year End Internal Audit Assurance Report 2015/16 (Audit Manager and Corporate Governance Manager)
26 July 2016 <ol style="list-style-type: none">1. Annual Statement of Accounts 2015/16 (Finance Manager)2. 2015/16 Year End Risk Management Report (Corporate Governance Manager)
13 September 2016 <ol style="list-style-type: none">1. Publication of the Audited Statement of Accounts (Finance Manager)2. Annual Governance Statement and Audit Report Colchester Borough Homes (Director of Resources Colchester Borough Homes)
11 October 2016 <ol style="list-style-type: none">1. Local Government Ombudsman Annual Review (Monitoring Officer)2. Review of the Council's Ethical Governance Policies (Monitoring Officer)3. Review of the Members' Code of Conduct and the Council's "Arrangements" (Monitoring Officer)4. Gifts and Hospitality – Review of Guidance for Councillors and Policy for Officers (Monitoring Officer)5. Review of Local Code of Corporate Governance (Monitoring Officer)6. Health and Safety Policy and Annual Report
22 November 2016 <ol style="list-style-type: none">1. Annual Audit Letter (Ernst and Young)2. 2016-17 Interim Annual Governance Statement (Corporate Governance Manager)3. Internal Audit Work Programme 2017/18 (Corporate Governance Manager)4. Annual Review of Business Continuity (Corporate Governance Manager)5. Equality and Diversity Annual Report
17 January 2017 <ol style="list-style-type: none">1. Certification of Claims and Returns – Annual Report 2015/16 (Ernst and Young)2. Risk Management Progress Report (Corporate Governance Manager)3. 2016-17 Interim Internal Audit Monitor (Corporate Governance Manager)4. Annual Governance Statement Interim Review (Corporate Governance Manager)

28 June 2016

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

The accompanying reports from Ernst & Young sets out their Audit Plan for the financial year ending 31 March 2016, and Audit and Certification Fees for 2016/17

1. Action required

- 1.1 To consider and note the contents of the Audit Plan for year ending 31 March 2016.
- 1.2 To consider and note the indicative audit and certification fees for 2016/17.

2. Reason for scrutiny

- 2.1 The Accounts and Audit Regulations require the Council to review the proposed audit approach and scope for the 2016 audit.
- 2.2 To ensure that the audit is aligned with the Committee's service expectations.

3. Supporting information

- 3.1 The Audit Plan for year ending 31 March 2016 summarises the Auditor's assessment of the key risks facing the Council's financial statements, and outlines the planned audit strategy in response to those risks.
- 3.2 The Audit and Certification fees letter confirms the work that the auditors propose to undertake for the 2016/17 financial year.

4. Strategic Plan references

- 4.1 The objectives and priorities of the Strategic Plan informed all stages of the budget process for 2015/16.

5. Other Standard References

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

Attached Documents:

Audit Plan for year ending 31 March 2016 – **Appendix A**
Annual Audit and Certification Fees 2016/17 – **Appendix B**

Colchester Borough Council

Year ending 31 March 2016

Audit Plan

10 June 2016

Ernst & Young LLP





Building a better
working world

Ernst & Young LLP
400 Capability Green
Luton
Bedfordshire LU1 3LU

Tel: 01582 643000
Fax: 01582 643001
www.ey.com/uk

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

10 June 2016

Dear Committee Members

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Governance and Audit Committee with a basis to review our proposed audit approach and scope for the 2015/16 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

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

We welcome the opportunity to discuss this plan with you on 26 June 2016 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Kevin Suter
For and behalf of Ernst & Young LLP
Enc

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and 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 from 1 April 2015’ issued by 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 statute, and covers matters of practice and procedure which are of a recurring nature.

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

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

1. Overview

Context for the audit

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

- ▶ our audit opinion on whether the financial statements of Colchester Borough Council give a true and fair view of the financial position as at 31 March 2016 and of the income and expenditure for the year then ended; and
- ▶ a statutory conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

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

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

- ▶ strategic, operational and financial risks relevant to the financial statements;
- ▶ developments in financial reporting and auditing standards;
- ▶ the quality of systems and processes;
- ▶ changes in the business and regulatory environment; and
- ▶ management's views on all of the above.

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

In parts two and three of this plan we provide more detail on the above areas and we outline our plans to address them. Our proposed audit process and strategy are summarised below and set out in more detail in section four.

We will provide an update to the Governance and Audit Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery on 26 July 2016.

2. Financial statement risks

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

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

Significant risks (including fraud risks)	Our audit approach
Risk of fraud in revenue recognition	
<p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p>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.</p> <p>For local authorities the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of fraud in revenue recognition.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ reviewing and testing revenue and expenditure recognition policies; ▶ reviewing and testing revenue cut-off at the period end date; and ▶ reviewing capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.
Risk of management override	
<p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; ▶ reviewing accounting estimates for evidence of management bias; and ▶ evaluating the business rationale for significant unusual transactions.

Other financial statement risks

Significant national appeals which may impact the Council's business rates appeals provision	
<p>The Council's brought forward provision for business rates appeals is significant, totalling £5m and is predicted to increase to £7m at year end. This provision is subject to significant estimation techniques as well as precedent set by rate payers who may have successfully appealed in other parts of the country.</p> <p>Significant national appeals are currently in progress, mainly affecting GP surgeries and NHS trusts, which may result in the need for the Council to recognise additional provision for the 2015-16 financial year.</p> <p>As appeals are made to the Valuation Office (VOA), the Council may not be aware of the level of claims lodged in the year, as well as those claims successfully lodged elsewhere, and there is therefore a risk that the provision could be materially misstated or incomplete.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ reviewing the Council's methodology underpinning the provision for business rate appeals to ensure it has been calculated on a reasonable basis in line with IAS37; ▶ ensuring the provision is supported by appropriate evidence and that the level of estimation uncertainty is adequately disclosed; and ▶ reviewing the completeness and valuation of the provision, taking into account information held by the VOA.

Respective responsibilities in relation to fraud and error

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

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

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

- ▶ identifying fraud risks during the planning stages;
- ▶ enquiry of management about risks of fraud and the controls to address those risks;
- ▶ understanding the oversight given by those charged with governance of management's processes over fraud;
- ▶ consideration of the effectiveness of management's controls designed to address the risk of fraud;
- ▶ determining an appropriate strategy to address any identified risks of fraud; and
- ▶ performing mandatory procedures regardless of specifically identified fraud risks.

3. Value for money risks

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

For 2015-16 this is based on the overall evaluation criterion:

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

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

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

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

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines 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 sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the following significant VFM risk which we view as relevant to our value for money conclusion.

Significant value for money risks	Our audit approach
Sustainable resource deployment: Achievement of savings needed over the medium term	
<p>To date the Council has responded well to the financial pressure resulting from the continuing economic downturn.</p> <p>However, the Council continues to face significant financial challenges over the next three to four years, with a forecasted underlying budget gap of £2.7m by 2019-20.</p> <p>Given the scale of the savings needed, there is a risk that savings plans to bridge this gap are not robust and/or achievable.</p>	<p>Our approach will continue to focus on:</p> <ul style="list-style-type: none"> ► 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.

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

4. Our audit process and strategy

4.1 Objective and scope of our audit

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

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

We issue an audit report that covers:

i Financial statement audit

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

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

ii Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

4.2 Audit process overview

Our intention is to carry out a mainly substantive audit in 2015/16 and placing reliance on the controls over payroll as we believe this to be the most efficient audit approach. The overarching control arrangements of the council form part of our assessment of your overall control environment and will form part of the evidence for your Annual Governance Statement. We will review the work completed by internal audit as part of this element of our work.

Analytics

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

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

Internal audit

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

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Property, plant and equipment	Norfolk Property Services (the Council's property advisor)
Pensions	EY Pensions Advisory, PwC (Consulting Actuary to the PSAA) and Barrett Waddingham (Essex Pension Fund actuary)

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council environment and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the expert to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

4.3 Mandatory procedures required by auditing standards

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

Procedures required by standards

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

Procedures required by the Code

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement.
- ▶ Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

Finally, we are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014.

4.4 Materiality

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition.

We have determined that overall materiality for the financial statements of the Council is £2.9 million based on 2% gross operating expenditure. We will communicate uncorrected audit misstatements greater than £146k to you.

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

4.5 Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The indicative fee scale for the audit of Colchester Borough Council is £62,582 (£ 83,113 2014-15).

We have also undertaken non-audit work outside of the Code requirements on claims work on the Housing Pooling return. Further information is provided in Appendix A.

4.6 Your audit team

The engagement team is led by Kevin Suter, who has significant experience of local government audits, leading the audit on a number of Council's across the east of England. Kevin is supported by Francesca Palmer who is responsible for the day-to-day direction of audit work, and who is the key point of contact for the finance team.

4.7 Timetable of communication, deliverables and insights


We have set out below a timetable showing the key stages of the audit, including the value for money work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the Governance and Audit Committee's cycle in 2015/16. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

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

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

Appendix A

Our audit process and strategy

Audit phase	Timetable	Deliverables
High level planning, including understanding routine processes and controls	December	
Risk assessment and setting of scopes	January - February	
Early testing	February - April	
Year-end audit and completion of audit	June - July	
Conclusion of reporting	October	
		Annual Audit Letter

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

5. Independence

5.1 Introduction

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

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

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

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

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

5.2 Relationships, services and related threats and safeguards

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

Self-interest threats

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

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

We believe that it is appropriate for us to undertake permissible non-audit services, and we will comply with the policies that the Council has approved and that are in compliance with the PSAA Terms of Appointment.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 3.9%. No additional safeguards are required.

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

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

Self-review threats

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

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

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions based on that work.

There are no management threats at the date of this report.

Other threats

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

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

Overall Assessment

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

5.3 Other required communications

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

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended June 2015 and can be found here:

<http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2015>

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2015/16 £	Scale Fee 2015/16 £	Outturn fee 2014/15 £	Explanation
Opinion Audit and VFM Conclusion	62,582	62,582	83,113	The reduction in both the opinion and certification scale fees reflects the reduced overheads of the PSAA compared to the Audit Commission.
Total Audit Fee – Code work	62,582	62,582	83,113	
Certification of claims and returns	12,557	12,557 ¹	25,940 ²	
Non-audit work	2,350	-	2,850	Relates to the review of the Housing Pooling return.

All fees exclude VAT.

^{*1}The planned fee for the certification of housing benefit subsidy is likely to increase as a result of additional work required as a result of errors found in the 2014/15 claim. Any additional fee will require approval by the PSAA

^{*2} The final outturn fee for 2014/15 is still subject to approval by the PSAA for the additional fee of £1,991 in relation to work carried out in March 2016 to respond to DWP request.

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

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ The level of risk in relation to the audit of accounts is consistent with that in the prior year;
- ▶ We can rely on the work of internal audit as planned;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.

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

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

Appendix B UK required communications with those charged with governance

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

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

Appendix A

UK required communications with those charged with governance

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

Appendix C Detailed Scopes

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

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

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

Group audit scope	Entity	% of GRE
Full	Colchester Borough Council (single entity)	89.4
Specific	Colchester Borough Homes	10.3
On site limited	-	-
Off-site limited (desktop)	Colchester Community Stadium Limited-	0.3
Other procedures		

- ▶ Full scope: locations deemed significant based on size and those with significant risk factors are subject to a full scope audit, covering all significant accounts and processes using materiality levels assigned by the Group audit team for the purposes of the consolidated audit. Procedures are full-scope in nature, but may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements (as materiality thresholds support to the consolidated audit).
- ▶ Specific scope: locations where only specific procedures are performed by the local audit team, based upon procedures, accounts or assertions identified by the Group audit team.
- ▶ Limited Scope: limited scope procedures primarily consist of enquiries of management and analytical review. On-site or desk top reviews may be performed, according to our assessment of risk.
- ▶ Other procedures: For those locations that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations. Individually, these components do not exceed more than 15% of the Group's gross revenue expenditure.

These other procedures will include:

- ▶ Obtaining the final accounts of the component to ensure the disclosure held in the Council's group accounts in respect of the investment in associate is fairly stated.
- ▶ Obtaining the component auditor's ISA260 report to ensure there are no findings or uncorrected errors in the component accounts, which could materially impact the Council's group accounts.

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

Appendix A

Detailed Scopes

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

Appendix A

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

[ey.com](https://www.ey.com)

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

18 April 2016

Ref: CBC/Annual audit fee 16-17

Email: KSuter@uk.ey.com

Dear Sean

Annual Audit and Certification Fees 2016/17

We are writing to confirm the audit and certification work that we propose to undertake for the 2016/17 financial year at Colchester Borough Council.

Indicative audit fee

For the 2016/17 financial year the PSAA has set the scale fee for each audited body, following consultation on its Work Programme and Scale of Fees.

The fee reflects the risk-based approach to audit planning set out in the National Audit Office's Code of Audit Practice for the audit of local public bodies. The audit fee covers the:

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

For Colchester Borough Council, the indicative audit fee is set at the scale fee level.

The 2016/17 scale fee is based on certain assumptions, including:

- The overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year;
- We are able to place reliance on the work of internal audit to the maximum extent possible under auditing standards;
- The financial statements will be available to us in line with the agreed timetable;
- Working papers and records provided to us in support of the financial statements are of a good quality and are provided in line with our agreed timetable; and
- Prompt responses are provided to our draft reports.

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

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

As we have not yet completed our audit for 2015/16, our audit planning process for 2016/17 will continue as the year progresses. Fees will be reviewed and updated as necessary, within the parameters of our contract.

Certification fee

The PSAA has set an indicative certification fee for housing benefit subsidy claim certification work for each audited benefits authority. The indicative fee is based on actual 2014/15 housing benefit certification fees, and incorporating a 25 per cent reduction.

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

The indicative certification fee for 2016/17 relates to work on the housing benefit subsidy claim for the year ended 31 March 2017. We have set the certification fee at the indicative fee level. We will update our risk assessment after we complete 2015/16 benefit certification work, and to reflect any further changes in the certification arrangements

Summary of fees

	Indicative fee 2016/17 £	Planned fee 2015/16 £
Total Code audit fee ^{*1}	60,332	60,332
Certification of housing benefit subsidy claim	17,962	12,557

^{*1} The planned and indicative fee's for the Code audit do not include the proposed additional fee for the direct testing carried out on Colchester Borough Homes. This is this pending PSAA approval following consultation with the Council.

Billing

The indicative audit fee will be billed in 4 quarterly instalments.

Audit plan

We aim to issue our 2016-17 audit plan early in 2017. This will communicate any significant financial statement risks identified, planned audit procedures to respond to those risks and any changes in fee. It will also set out the significant risks identified in relation to the value for money conclusion. Should we need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with the Head of Financial Control and, if necessary, prepare a report outlining the reasons for the fee change for discussion with the Audit Committee.

Audit team

The key members of the audit team for the 2016/17 financial year are:

Kevin Suter
Executive Director

KSuter@uk.ey.com

Tel: 07876 397986

Francesca Palmer
Assistant Manager

FPalmer1@uk.ey.com

Tel: 07876 217967

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

Yours faithfully



Kevin Suter
Executive Director
For and on behalf of Ernst & Young LLP
United Kingdom

28 June 2016

Report of	Assistant Chief Executive	Author	Steve Heath ☎ 282389
Title	Draft Annual Statement of Accounts 2015/16		
Wards affected	Not applicable		

This report sets out the arrangements for the audit and approval of the Draft Statement of Accounts for 2015/2016

1. Decisions Required

- 1.1 To consider this report relating to the pre-audit Statement of Accounts for 2015/16.
- 1.2 To consider the proposal for a separate internal briefing session for the Committee prior to the scheduled meeting for approval of the audited accounts of 26 July 2016.

2. Statement of Accounts 2015/16

- 2.1 The Accounts and Audit (England) Regulations 2015 have made a number of changes relating to the audit of local public bodies, including the following:
 - The deadline for the draft accounts to be certified by the Responsible Financial Officer to be brought forward from 30 June to 31 May.
 - The deadline for approving and publishing the audited accounts to be brought forward from 30 September to 31 July.
- 2.2 Both changes will be effective from the accounts for 2017/18. The advanced notice was intended to give authorities time to make the necessary changes in their processes, but it was hoped that they would move to the new timetable as soon as they could. Accordingly, we have worked towards achieving the new deadlines for the 2015/16 accounts.
- 2.3 The draft accounts for 2015/16 have now been compiled, and they were certified by the Responsible Financial Officer on 27 May 2016, which is in advance of the current statutory deadline of 30 June. It is suggested good practice to publish the draft Statement of Accounts on the Council's website, in line with the Government's policy of increased transparency. This took place on 31 May, and the accounts can be accessed via the link below:

<http://www.colchester.gov.uk/article/11907/Statement-of-Accounts---Colchester-Borough-Council>
- 2.4 The Statement of Accounts for 2015/16 has been prepared using the International Financial Reporting Standards (IFRS) based Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and the Service Reporting Code of Practice 2015/16. The key areas of the Statement of Accounts, including the main financial statements are explained in the annex to this report.
- 2.5 The final accounts audit commenced on 6 June, and the External Auditor will report to the meeting of this Committee on 26 July. The report will detail the findings of the final

accounts audit, address any matters arising out of the audit and comment on the proposed audit opinion on the accounts. The Responsible Financial Officer must re-certify the presentation of the annual accounts before Member approval is given.

- 2.6 For the 2015/16 accounts the Council aims to have secured Member approval and published the accounts with the audit opinion and certificate prior to the revised deadline of 31 July, which is two months in advance of the current statutory deadline of 30 September. The published statement, including the Auditors' opinion, would then be reported to the meeting of the Committee on 13 September 2016.
- 2.7 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 Committee of 26 July 2016 where Members will be asked to approve the certified accounts. It is important that all Members sitting on the Committee on this date attend this briefing. The 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 those 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 in advance so they can be addressed within the session.

3. Strategic Plan References

- 3.1 The objectives and priorities of the Strategic Plan informed all stages of the budget process for 2015/16.

4. Publicity Considerations

- 4.1 The accounts are open for public inspection from Monday 6 June to Friday 15 July to meet our legal duties. These dates are shown on the Council's website and can be accessed via the link below:

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

- 4.2 Staff will be available to provide information and respond to questions during this period. The local press also usually take the opportunity to view the accounts and information will be provided as appropriate.

5. Financial Implications

- 5.1 The approval of the Statement of Accounts meets a statutory requirement for financial reporting and is an important part of the process to demonstrate accountability in the use of public funds.
- 5.2 The Scrutiny Panel received periodic financial reports during the course of the financial year. The pre-audit revenue and capital outturn results for the financial year 2015/16 were considered by the Scrutiny Panel on 21 June 2016.

6. Other Standard References

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

Background Papers

None

Key Areas of the Statement of Accounts

Movement in Reserves Statement

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

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

Comprehensive Income and Expenditure Account

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

Balance Sheet

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

Cash Flow Statement

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

Housing Revenue Account Income and Expenditure Statement

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

Collection Fund Accounts

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

Group Accounts

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

28 June 2016

Report of	Assistant Chief Executive	Author	Hayley McGrath 508902
Title	Year End Internal Audit Assurance Report 2015/16		
Wards affected	Not applicable		

This report summarises the performance of internal audit, and details the audits undertaken, between 1 October 2015 and 31 March 2016.

1. Decision Required

1.1 To review and comment on:

- Internal audit activity for the period 01 October 2015 – 31 March 2016
- Performance of internal audit by reference to national best practice benchmarks.

2. Reason for Decision

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

3. Key Messages

- An effective internal audit service was provided during the 2015/16 financial year.
- The assurance ratings for the Creditors and Museums audits have increased from ‘substantial’ to ‘full’.
- The assurance rating for the Payroll and Parking Services Partnership audits have decreased from ‘substantial’ to ‘limited’.
- Seven priority 1, 51 priority 2 and 10 priority 3 recommendations have been made. All recommendations have been accepted by management.
- There continues to be good progress made in implementing and verifying outstanding recommendations.

4. Supporting Information

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

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

5. Internal Audit Performance

5.1 Summary of Audits Finalised During the Period

During the period 1 October 2015 to 31 March 2016 a total of 25 audits have been finalised. No audit opinion was given for four of these audits (Waste Management Follow Up, Markets, Helpline - Mobile Response Services audit checklist and the pre-audit review of Health and Safety). There was no previous audit against which a change of level could be assessed in three of the audits. The assurance rating, for the remaining audits, improved in 11% of the audits, declined in 11% of the audits carried out and remained the same in 78%.

Audit	Assurance Level	Change in Level	Priority of Recommendations			Agreed
			1	2	3	
105 – Animal / Pest Control	Limited	►	0	9	0	9
109 – Council Tax	Substantial	►	0	1	0	1
110 – NNDR	Substantial	►	0	3	0	3
111 – Housing Benefit / Local Tax Support Scheme	Substantial	►	0	2	0	2
113 – Management of Expenditure	Substantial	►	0	3	1	4
114 – S106 Monies	Substantial	►	0	3	0	3
116 – IT Inventories	Limited	N/A	2	3	0	5
123 – Payroll	Limited	▼	1	1	0	2
124 – Creditors	Full	▲	0	0	1	1
125 – Risk Management	Substantial	►	0	2	0	2
126 – Treasury Management	Substantial	►	0	0	2	2
127 – Housing Rents	Substantial	►	0	1	1	2
128 – Debtors	Full	►	0	0	0	0
129 – Parking Services Partnership including Income	Limited	▼	1	5	0	6
130 – Corporate Governance	Substantial	►	0	1	1	2
132 – General Ledger	Substantial	►	0	4	0	4
133 – Museums	Full	▲	0	0	0	0
134 – Leisure World – Core Functions	Substantial	►	0	4	1	5
135 – Leisure World – Other Functions	Substantial	N/A	0	3	2	5
141 – Contract Management	Limited	►	3	6	1	10
143 – Health & Safety Follow Up	Substantial	N/A	0	0	0	0

5.2 Whilst the follow-up audit of Waste Management did not receive a formal audit opinion the auditor commented as follows:

‘Although, it is not usual to provide an audit opinion for follow up work, providing the controls introduced / implemented as a result of our previous audits continue to operate effectively coupled with the outcomes of our follow up work, if we were undertaking an audit with similar coverage and the testing supported the improved controls environment, we would consider that our overall audit opinion would be “Substantial Assurance”.’

5.3 Use of Audit Resources:

	Days	%
Audit days delivered April – September 2015	100	26%
Audit days delivered October 2015 – March 2016	244	64%
Audit days remaining	40	10%
	384	100%

The 40 audit days remaining relate to the audits of the PSU, Accounting for Commercial Activities and the IT Civica Application, which have been carried over at the request of management.

The 40 days carried over from the 2014/15 period have been delivered in addition to the number of days detailed above and as a result Internal Audit have delivered 384 days during the 2015/16 period.

6. Status of all recommendations as at 31 March 2016:

- 6.1 Following the completion of each audit, a report is issued to management, incorporating recommendations for improvement in controls and management's response to those recommendations.
- 6.2 The table below provides a breakdown of the outstanding recommendations as at the 30 March 2016.

	Outstanding Recommendations That Are:			
Date	Implemented & Verified	Awaiting Verification	Not Due	Overdue
31/03/16	77	75	6	0

- 6.3 Progress in following up recommendations has continued throughout the period with revised lists of recommendations provided to Heads of Service to enable them to confirm that they have been implemented and for Internal Audit to verify.
- 6.4 Priority continues to be given to those awarded a higher priority rating and/or those that have been outstanding the longest, and work continues with management to arrange for them to be verified and cleared down.
- 6.5 Of the 75 recommendations that are awaiting verification 71 of them relate to IT audits. Internal audit have received updates from Corporate ICT and are currently working through the information with their Computer Audit Manager to ascertain whether recommendations can be closed down.

7. Performance of Internal Audit 2015/16 to date – Key Performance Indicators (KPIs):

KPI	Target	Actual
<i>Efficiency:</i>		
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	3
Average days between receipt of management response and issue of final report	10 max	1
<i>Quality:</i>		
Meets CIPFA Code of Practice – per Audit Commission	Positive	Positive
Results of Client Satisfaction Questionnaires (Score out of 10)	7.8	9.3
Percentage of all recommendations agreed	96%	100%

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

8. Colchester Borough Homes Limited

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

9. Internal Audit Contract

- 9.1 The Internal Audit contract was renewed on 31 March 2016 following a tender exercise, for a period of three years with an option to extend for a further two. The delivery of the audit service was reviewed as part of the tender and as a result the number of contracted audit days has been slightly reduced to 360 to enable flexibility to allocate specialist support for specific projects.

10. Proposals

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

- Internal Audit activity during the second half of 2015/16.
- Performance of Internal Audit by reference to national best practice benchmarks.

11. Strategic Plan Implications

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

12. Risk Management Implications

- 12.1 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

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

Key to Assurance Levels

Assurance Gradings

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

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

Recommendation Gradings

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

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

Summary of Audits with a Limited Assurance Rating:

105 – Animal / Pest Control	Days	Assurance Limited	Priority of Recommendations			Agreed
			1	2	3	
	10		0	9	0	9

Scope of Audit: This review examined the following areas:

- Policies and Procedures;
- Scheduling of Work;
- Collection of Income;
- Raising of Sundry Debtor Accounts;
- Monitoring of Contractors Works Undertaken;
- Stock Control and Ordering;
- Vehicle Usage;
- Health and Safety; and
- Management Information.

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

- The Pest / Animal Control procedures should be regularly reviewed and a version control page should be added to confirm when: - they were reviewed; the date of the next review; and who completed the review. (2)
- Job-sheets should be scanned and attached to the Civica record so that they can be easily referred to in the event of a query over the work undertaken. (2)
- Management should investigate as to whether a report can be produced which details the expected income for each case, so that this can be reconciled with actual income. If a report cannot be produced, then random sample checking should be undertaken to confirm that income is being received and coded to the ledger. (2)
- Stray dog's forms should be attached to the Civica record to provide a full audit trail of action taken. (2)
- Fees should be charged for all stray dogs recovered. Where cash is received, the receipt number issued to the customer should be recorded to enable payments to be traced back to the individual case. (2)
- Management should consider actively seeking customer feedback, so that issues and potential areas for improvement can be identified. (2)
- Vehicle usage information should be reviewed by management on a regular basis. (2)
- Risk and COSHH assessments should be completed annually to identify potential risks and actions to mitigate them. (2)
- Consideration should be given to implementing and monitoring key performance indicator (KPI) e.g. jobs completed within the target timescale, to enable management to monitor service delivery. (2)

116 – IT Inventories	Days	Assurance Limited	Priority of Recommendations			Agreed
			1	2	3	
	8		2	3	0	5

Scope of Audit: This review examined the following areas:

- Policies and Procedures;
- Maintenance of Inventories;
- Security Arrangements;
- Asset Loss Management Procedure; and
- Disposal Procedures.

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

- The ICT Hardware Asset Management Policy (the Policy) should be formally approved by senior management and then communicated to all staff. (2)
- Assets should be reviewed annually in-line with the Policy and any amendments required should be reported to ICT so that issues with lost items / items that have been transferred but where Capita have not been informed etc. can be identified and appropriate action taken. The issues identified from the audit testing completed should also be investigated and resolved. (1)
- Following completion of the asset verification exercise management should consider whether to introduce a reconciliation of the Inventory. The reconciliation should monitor the IT stock plus the purchases minus any disposals. The Inventory detail recorded should be further improved to include, for example: the value of the assets; and the date of their acquisition. (1)
- All returned signify tokens should be removed from the user in the Signify service within two days of return to either ICT or Capita; or alternatively the user account deleted. (2)
- Capita should be requested to obtain detailed lists, showing the asset numbers, of all items destroyed on their behalf by a third party provider. (2)

123 – Payroll	Days	Assurance Limited	Priority of Recommendations			Agreed
			1	2	3	
	5		1	1	0	2

Scope of Audit: This review examined the following areas:

- Compliance with Policy, Procedures and Legislation, including Submission of HMRC Returns;
- Starters and Leavers;
- Deductions;
- Variations and Adjustments to Pay;
- Changes of Circumstances;
- System Security; and
- Payroll Checks and Management Information.

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

- A User Access Request form should be put in place for staff requiring access to the Payroll system. All user requests should be approved by the member of staff line manager to help ensure that there is an appropriate independent approval process to help ensure that segregation of duties is enforced. (2)
- An officer independent of the payroll processing should review the monthly exception reports and also approve the payroll prior to it being run. The Council should agree a set of exception reports to be produced and reviewed every month. (1)

			Priority of Recommendations			
129 – Parking Services Partnership including Income	Days	Assurance Limited	1	2	3	Agreed
	15		1	5	0	6

Scope of Audit: This review examined the following areas:

- Parking Partnership;
- Policies and Procedures;
- Accounting for Income;
- Season Tickets;
- Partnership Costs;
- Joint Committee;
- Management Information;
- Procedures for the Collection of Car Park Fees;
- Security and Accuracy of Car Park Income Collection;
- Production and Review of Management Information including Variance Reporting;
- Access to Car Park Pay Point Keys; and
- Debt Management including Bailiffs and Write Offs.

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

- Documentation in support of the Business Manager's monthly reconciliations of PCN and season ticket income should be retained as evidence of the completed reconciliation and subsequent independent review. (2)
- Documentation in support of the Parking Business Officer's daily reconciliations of car park income should be signed and dated as evidence of completion and be subject to an independent review. (2)
- Arrangements should be made to re-introduce the matching of car park income received in the bank account with the amounts advised by G4S on a daily basis as soon as possible. (1)
- The approval method for parking write-offs should be formally agreed to help ensure that a standard approach is adopted in writing-off debts. This issue was raised as part of the previous audit. (2)
- Confirmation of the Council's membership of the Rotherham Framework Agreement should be obtained and retained by the Partnership. (2)
- Documentation in support of the Parking Systems Team Leader's daily allocation of funds received from bailiffs to the relevant PCN accounts should be retained in evidence of the work carried out. (2)

141 – Contract Management	Days	Assurance Limited	Priority of Recommendations			Agreed
			1	2	3	
	15		3	6	1	10

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:

- The Procurement Strategy should be updated to include the details of when and who it was approved by and the date of the next review. (3)
- Guidance should be developed which clearly specifies what information should be obtained when undertaking a procurement process, making reference to standard pro-formas which are available on the Hub. Once developed the Procurement Team should attend service team meetings across the Council to provide training where appropriate, to help ensure that staff are aware of the processes and who to contact for procurement queries. (1)
- In accordance with the CPR, tender exercises should be undertaken where the total expenditure with the supplier exceeds or could reasonably have been foreseen to exceed £50k. In addition, lower value contracts should be subject to ongoing review to enable the Council to identify jobs and/or the supply of services that subsequently breach the limits. In these circumstances, future work should be subject to a formal tender to help ensure that the Council is seen to be open and transparent in the tender process and also receives best value for money. (1)
- Contracts let should be reviewed to verify that the process has been conducted in accordance with the CPR and that sufficient information / records has been retained. (2)
- The Framework Supplier List should be updated to include current details of preferred suppliers. Once this has been completed, staff should be advised that this information is available to assist in identifying appropriate suppliers. The List should then be reviewed and updated periodically to help ensure that it contains up to date information. (2)
- The Quotation Record of Decision form should be completed for all cases where the procurement process is through the quotation process. (2)
- Tender Opening Forms should be fully completed and retained on file for all contracts let by tender. (2)
- Tender evaluation documentation should be retained for all tenderers / successful tenderer. In addition a Summary Report covering the bid should be completed detailing the member(s) of staff who were involved in the evaluation process and have completed the scoring. The Summary Report should confirm the reasoning for selecting the preferred supplier and be signed by each member of staff involved with the tender evaluation, including an appropriate member of staff authorising the selection and expenditure. (2)
- A central file should be created on the shared drive for staff to file documentation relating to goods / services procured via a quotation or tender process. A separate file should be created for each contract, which includes all of the relevant documentation (i.e. quotes / tenders submissions received, evaluation forms, tender opening documents etc.). (2)
- The Contracts Register should be updated with the details of all contracts in place at the Council. Staff should be reminded to inform the Procurement Team of any contracts so that the Register can be updated. (1)

Governance Committee

Item
11

28 June 2016

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 2015/16

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 2015/16.

2. Reasons for Decision(s)

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

3. Alternative Options

- 3.1 None.

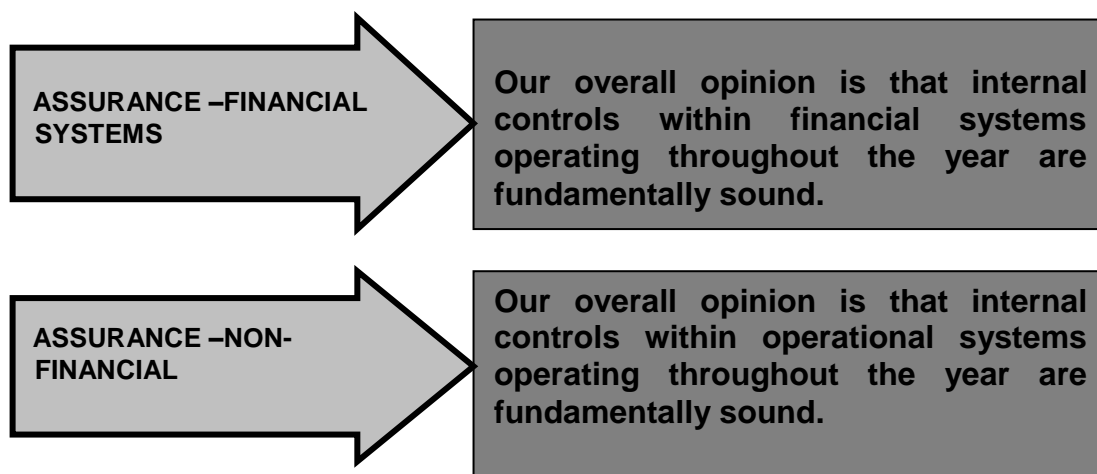
4. Supporting Information

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

2015/16 Year Opinion

Internal Control

From the Internal Audit work undertaken in compliance with the PSIAS (Public Sector Internal Audit Standards) in 2015/16 it is our opinion that we can provide **Substantial Assurance** that the system of internal control in place at Colchester Borough Council for the year ended 31st March 2016 accords with proper practice, except for the significant control environment issues as documented in the detailed report. The assurance can be further broken down between financial and non-financial systems, as follows:



4.4 The overall summary from the report states:

'We have noted a change in Colchester Borough Council's control environment during the audit year. During the 2015/16 year, 29 (81%) of internal audit projects were rated 'full/substantial assurance' compared with 32 (97%) in the prior year (although the number of full assurance ratings increased to seven from one the previous year). We have also noted an increase in the number of internal audit projects rated 'limited assurance' up from one (3%) to seven (19%). There were no 'nil assurance' audits this year.'

4.5 It is recognised that the reduction in substantial assurance ratings is due in part to managers raising concerns themselves and asking for assistance in improving processes.

4.6 In addition, the further steps taken in producing the AGS have been as follows:-

- 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 2014/15.
- 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).

4.7 The AGS for 2015/2016 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.

4.8 The AGS includes a table showing significant internal control issues and planned actions to address these. A more detailed action plan is set out within this report at Appendix 2. The AGS should be an ongoing assessment and therefore a review of the progress against the recommendations will be reported to the Committee later on in the financial year.

4.9 As stated earlier the Governance Committee is required to approve the AGS, which will then be signed and included within the Statement of Accounts.

5. Proposals

5.1 That the committee consider the review of governance and internal control arrangements and approve the Annual Governance Statement for 2015/16.

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 2016 by Mazars.

DRAFT
COLCHESTER BOROUGH COUNCIL
ANNUAL GOVERNANCE STATEMENT
FOR THE YEAR ENDED 31 MARCH 2016

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 2016 and up to the date of approval of the annual accounts.

Elements of the Framework

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

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

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

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

DELIVERING GOOD GOVERNANCE IN LOCAL GOVERNMENT:

Review of effectiveness

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

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

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

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

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Effectiveness of Other Organisations

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

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

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

The Council is the lead partner in a joint museum service with Ipswich Borough Council. Due to the nature of the arrangement, the joint museum service conducts its own annual governance review 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 conducts its own annual governance review 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 2015/16, 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 2016 accords with proper practice. This is excepting any details of significant internal control issues as documented hereafter. It is also the opinion of Internal Audit that the Council's corporate governance framework complies with the best practice guidance on corporate governance issued by CIPFA/SOLACE.

Significant Governance Issues

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

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No.	Issue	Action
1.	<p>Payroll</p> <p>The internal audit review of the payroll function identified two areas for improvement:</p> <ul style="list-style-type: none"> • The process for approving new system users needs to be formalised and segregated – currently the main system user also sets up new users, and • Exception reports and the payroll run authorisation should be reviewed by an officer independent to the process. 	<p>From 31 March 2016 the payroll process has been moved to a new system. The system supplier is running the payroll service on a bureau basis for the first six months. The recommendations from the audit will be included in the new processes being developed and will be fully implemented when the Council resumes full control of the function.</p>
2.	<p>Contract Management</p> <p>The internal audit review of the contract management process identified several areas for improvement:</p> <ul style="list-style-type: none"> • Review and update of the procurement strategy and contract register. • Guidance needs to be updated and made available. • Evidence and review of tender exercises that are carried out. • Updating of preferred supplier details • Completion and retention of quotation details • Shared electronic record keeping. 	<p>The recommendations made in the report have been accepted and work has already started on developing corporate procedures, to ensure that all services manage contracts appropriately.</p>
3.	<p>Revenues & Benefits System</p> <p>The internal audit review of the revenues and benefits system identified several areas for improvement:</p> <ul style="list-style-type: none"> • Classification process for data • Reviewing of security violation reports • Documentation of processes and testing • Backup arrangements and testing • Development of a disaster recovery plan including recovery times • Supplier arrangement for breaches of the SLA. 	<p>Work is ongoing with the IT recommendations and the service is working in collaboration with the Computer Audit Manager, to ensure that the control environment is effective.</p>

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No.	Issue	Action
4.	Data Protection During the year there were two instances where the Council had to inform the Data Commissioner that personal data had not been appropriately managed. On both occasions this was as a result of actions of third party contractors, not failures of Council processes. On both occasions the Data Commissioner considered that no action needed to be taken against the Council, however the Council has a duty to ensure its data is appropriately protected at all times.	 A review will be undertaken to assess contracts where customer details need to be shared with suppliers. A formal protocol for data handling by third parties will be introduced and all identified suppliers will be required to sign it.

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

Signed:

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Leader of the Council

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& Chief Executive

on behalf of Colchester Borough Council

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Colchester Borough Council
Annual Governance Statement – Action Plan for 2016/17

Significant Internal Control Issues – Relating to 2015/16 Financial Year

No.	Issue	Action	Due Date	Responsible Officer	How this Issue was Identified
1.	Payroll The internal audit review of the payroll function identified two areas for improvement: <ul style="list-style-type: none"> • The process for approving new system users needs to be formalised and segregated – currently the main system user also sets up new users, and • Exception reports and the payroll run authorisation should be reviewed by an officer independent to the process. 	From 31 March 2016 the payroll process has been moved to a new system. The system supplier is running the payroll service on a bureau basis for the first six months. The recommendations from the audit will be included in the new processes being developed and will be fully implemented when the Council resumes full control of the function.	01 October 2016	Head of Professional Services	Internal Audit review
2.	Contract Management The internal audit review of the contract management process identified several areas for improvement: <ul style="list-style-type: none"> • Review and update of the procurement strategy and contract register. • Guidance needs to be updated and made available. • Evidence and review of tender exercises that are carried out. • Updating of preferred supplier details • Completion and retention of quotation details • Shared electronic record keeping. 	The recommendations made in the report have been accepted and work has already started on developing corporate procedures, to ensure that all services manage contracts appropriately.	31 December 2016	Head of Corporate & Financial Management	Internal Audit review

Appendix 2

No.	Issue	Action	Due Date	Responsible Officer	How this Issue was Identified
3.	Revenues & Benefits System The internal audit review of the revenues and benefits system identified several areas for improvement: <ul style="list-style-type: none"> • Classification process for data • Reviewing of security violation reports • Documentation of processes and testing • Backup arrangements and testing • Development of a disaster recovery plan including recovery times • Supplier arrangement for breaches of the SLA. 	Work is ongoing with the IT recommendations and the service is working in collaboration with the Computer Audit Manager, to ensure that the control environment is effective.	31 December 2016	Head of Corporate & Financial Management /Head of Customer Services	Internal Audit review
4.	Data Protection During the year there were two instances where the Council had to inform the Data Commissioner that personal data had not been appropriately managed. On both occasions this was as a result of actions of third party contractors, not failures of Council processes. On both occasions the Data Commissioner considered that no action needed to be taken against the Council, however the Council has a duty to ensure its data is appropriately protected at all times.	A review will be undertaken to assess contracts where customer details need to be shared with suppliers. A formal protocol for data handling by third parties will be introduced and all identified suppliers will be required to sign it.	31 December 2016	Head of Corporate & Financial Management	Governance Review Process