



**Gosport Borough Council**

**Auditor's Annual Report  
Year ended 31 March 2021**

May 2022



**EY**

Building a better  
working world

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). 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.

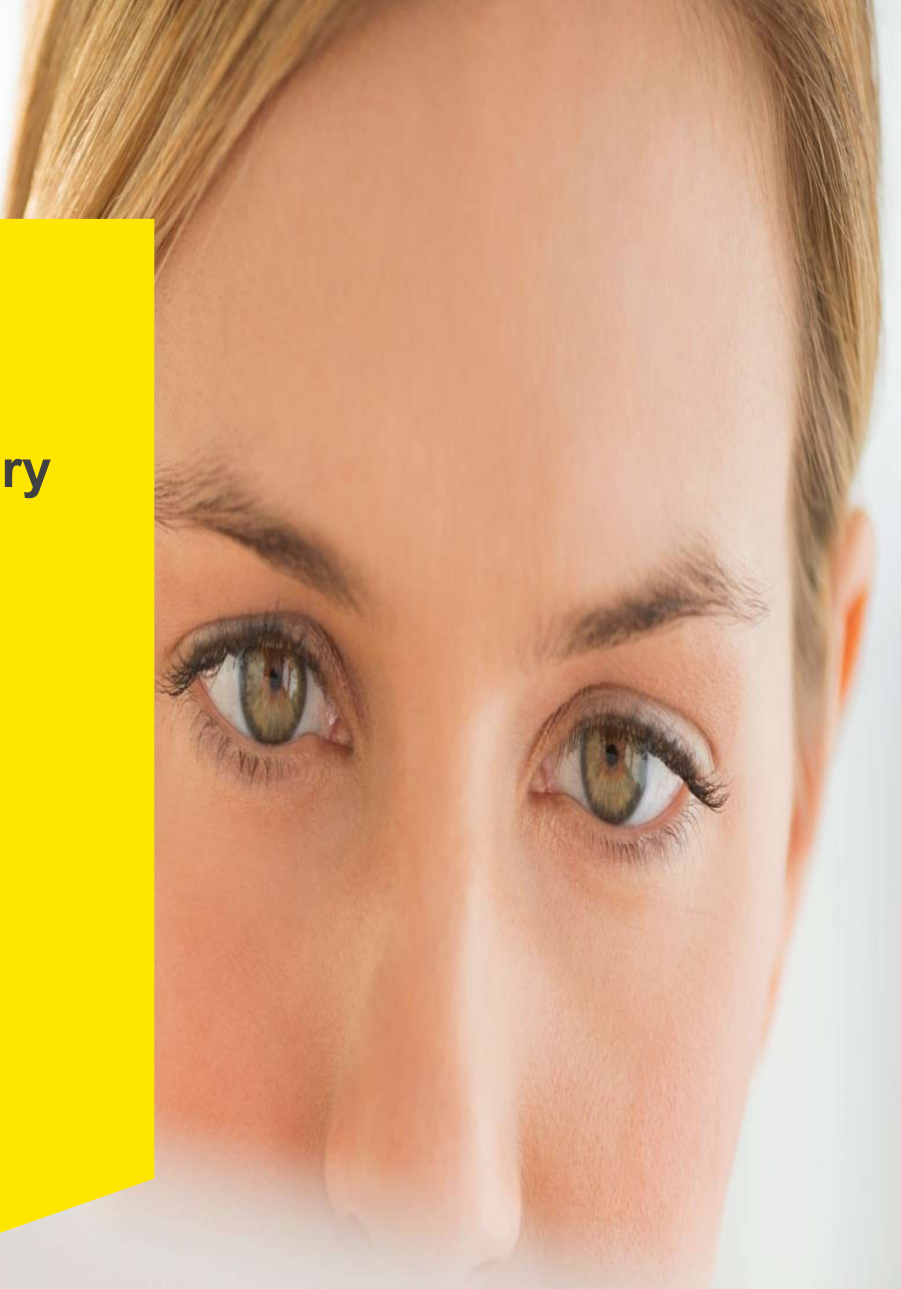
The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

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

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 Hywel Ball, 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.

Section 1

# Executive Summary



## Executive Summary: Key conclusions from our 2020/21 audit

Area of work	Conclusion
<b>Opinion on the Council's:</b>	
Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2021 and of its expenditure and income for the year then ended. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21. We issued our auditor's report on 18 March 2022.
Going concern	We have concluded that the Borough Treasurer & Section 151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the Statement of Accounts 2020/21 and other information published with the financial statements	Financial information in the Statement of Accounts 2020/21 and published with the financial statements was consistent with the audited accounts.

Area of work	Conclusion
<b>Reports by exception:</b>	
Value for money (VFM)	We identified a significant weakness in relation to the 'Governance' and 'Improving Economy, Efficiency & Effectiveness' criteria and therefore reported by exception on the Council's VFM arrangements in the audit report on the financial statements. We have included our VFM commentary in Section 04.
Consistency of the annual governance statement	We were satisfied that the annual governance statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We had no reason to use our auditor powers.

# Executive Summary: Key conclusions from our 2020/21 audit

As a result of the work we carried out we have also:

Outcomes	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	We issued an Audit Results Report dated 8 March 2022 to the Policy & Organisation Board.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2020 Code of Audit Practice.	We have not yet issued our certificate for 2020/21 as we have not yet performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. The guidance for 2020/21 is delayed, and is not expected until later in 2022.

## Fees

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)". As outlined in the Audit Results Report we were required to carry out additional audit procedures to address audit risks in relation to valuation of property, plant and equipment, the valuation of pension fund liabilities and determining the appropriateness of the actuarial model design, reviewing the accuracy and appropriateness of the Council's accounting for Covid-19 related grant funding, and the VFM arrangements for 'Governance' and 'Improving Economy, Efficiency & Effectiveness'. Consequently, we intend to agree an associated additional fee with the Borough Treasurer & Section 151 Officer, which will then be presented to the PSAA for determination. We include details of the final audit fees in Appendix 1.

We would like to take this opportunity to thank the Council staff for their assistance during the course of our work.

Kevin Suter

Associate Partner  
For and on behalf of Ernst & Young LLP



Section 2

## Purpose and responsibilities



# Purpose and responsibilities

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This report summarises our audit work on the 2020/21 financial statements.

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## **Purpose**

The purpose of the auditor's annual report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on VFM arrangements, which aims to draw to the attention of the Council or the wider public relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

## **Responsibilities of the appointed auditor**

We have undertaken our 2020/21 audit work in accordance with the Audit Plan that we issued on 16 July 2022. We have complied with the NAO's 2020 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO.

As auditors we are responsible for:

Expressing an opinion on:

- The 2020/21 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the annual report.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

## **Responsibilities of the Council**

The Council is responsible for preparing and publishing its financial statements and governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

# Financial Statement Audit





# Financial Statement Audit

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We have issued an unqualified audit opinion on the Council's 2020/21 financial statements.

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## Key issues

The Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

On 18 March 2022, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the 17 March 2022 Policy & Organisation Board meeting. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk	Conclusion
<p><b>Misstatements due to fraud or error - management override of controls</b></p> <p>An ever present risk that management is in a unique position to commit 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.</p>	<p>We have not identified any material weaknesses in controls or evidence of material management override, instances of inappropriate judgements being applied; or any other transactions during our audit which appear unusual or outside the Council's normal course of business.</p>
<p><b>Inappropriate capitalisation of expenditure</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund.</p>	<p>Our sample testing of additions to PPE:</p> <ul style="list-style-type: none"><li>• Found costs had been correctly classified as capital and included at the correct value.</li><li>• Did not identify any revenue items that were incorrectly classified as capital.</li></ul> <p>Our review of judgements taken by management found them to be reasonable.</p>

Continued over.

## Financial Statement Audit (continued)

Significant Risk	Conclusion
<b>Valuation of land and buildings under Existing Use Value (EUV) and Investment Properties (IP) under Fair Value (FV)</b> Land and buildings is the most significant balance in the Council's balance sheet. The valuation of land and buildings under EUV and IP under FV is complex and is subject to a number of assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements.	We are satisfied that the valuation of land & buildings in PPE under EUV and IP under FV are fairly stated and appropriately disclosed.

In addition to the significant risks above, we also concluded on the following areas of audit focus.

Other area of audit focus	Conclusion
<b>Valuation of land and buildings under Depreciated Replacement Cost (DRC) and Housing Revenue Account (HRA) properties</b> Land and buildings is the most significant balance in the Council's balance sheet. The valuation of land and buildings under DRC and HRA requires a lesser degree of material judgemental inputs and apply estimation techniques to calculate these balances held in the balance sheet and HRA notes. Although there is still risk in the valuation of these assets, we believe it to be less than for the properties under EUV and FV as listed above.	We are satisfied that the valuation of land & buildings in PPE under DRC and HRA properties are fairly stated and appropriately disclosed.

Continued over.

## Financial Statement Audit (continued)

Other area of audit focus	Conclusion
<p><b>Pension Asset and Liability valuation</b></p> <p>The Pension Fund asset and liability is a material balance in the Balance Sheet. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We modified our planned approach to address the requirements of the revised auditing standard on accounting estimates by testing the method of measurement of accounting estimates to determine whether the model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model.</p> <p>We have identified a misstatement in the pension fund assets of £1.6m which was subsequently corrected by management. Consequently, we are satisfied that the pension liability and asset valuation is fairly stated and appropriately disclosed.</p>
<p><b>Going concern disclosures</b></p> <p>The Council is required to carry out an assessment of its ability to continue as a going concern for the foreseeable future, being at least 12 months after the date of the approval of the financial statements. There is a risk that the Council's financial statements do not adequately disclose the assessment made, the assumptions used and the relevant risks and challenges that have impacted the going concern period.</p>	<p>We have reviewed management's going concern assessment and confirm their conclusion that the Council remains a going concern is based on reasonable and supportable assumptions.</p> <p>We have also reviewed management's going concern disclosure and confirmed it is sufficiently detailed, transparent and accurately reflects management's underlying going concern assessment.</p>
<p><b>Accounting for Covid-19 related grant funding</b></p> <p>The Council received government funding in relation to Covid-19. Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in 2020/21.</p>	<p>Based on our work, we are satisfied that the accounting treatment adopted for Covid-19 related government grants accorded with the Council's assessment of whether it was acting as agent or principal, the underlying conditions of the grant and whether those conditions had been met.</p>

Continued over.

## Financial Statement Audit (continued)

### Audit differences

We identified a small number of misstatements in disclosures which management corrected.

We have furthermore identified one material audit difference in the financial statements which has been corrected by management. This difference pertains to the valuation of pension fund assets which were misstated by £1.6m.

We have also identified differences in property valuations of £168k, resulting in the overstatement of land and buildings in PPE. These differences were not corrected by management as these are immaterial which resulted from differences in opinion between two qualified valuers and are judgemental in nature.

### Our application of materiality

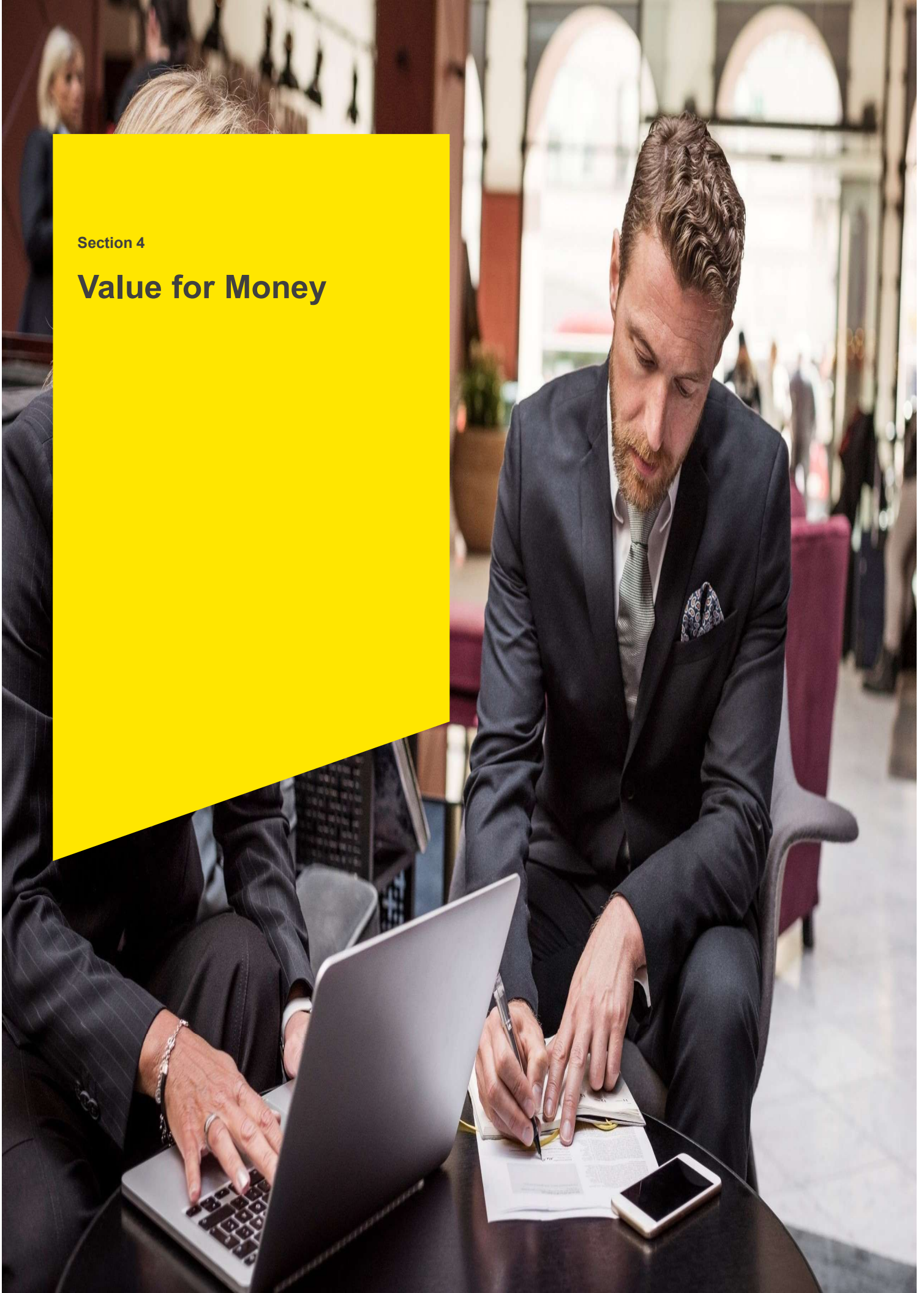
When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
<b>Planning materiality</b>	We determined planning materiality to be £1.24m as 2% of gross revenue expenditure reported in the accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
<b>Reporting threshold</b>	We agreed with the Policy & Organisation Board that we would report to the Board all audit differences in excess of £62k.



Section 4

## Value for Money



# Value for Money (VFM)

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We identified risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

## Scope and risks

We have complied with the NAO's 2020 Code and the NAO's Auditor Guidance Note in respect of VFM. We presented our final VFM risk assessment to the 17 March 2022 Policy & Organisation Board meeting which was based on a combination of our cumulative audit knowledge and experience, our review of Council and committee reports, meetings with the senior officers and evaluation of associated documentation through our regular engagement with management and the finance team. We reported that we have identified risks of significant weakness in the Council's VFM arrangements in relation to the 'Governance' and 'Improving Economy, Efficiency & Effectiveness' criteria, specifically the arrangements where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.

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We had matters to report by exception in the audit report.

## Reporting

We completed our VFM arrangements work on 17 March 2022 and identified a significant weakness in the Council's VFM arrangements in relation to the 'Governance' and 'Improving Economy, Efficiency & Effectiveness' criteria. We reported this matter by exception in the audit report on the financial statements. Further details were provided in the Audit Results Report. We include within the VFM commentary below the associated recommendations we have agreed with the Council.

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Our VFM commentary highlights relevant issues for the Council and the wider public.

## VFM Commentary

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

- Financial sustainability  
How the Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance  
How the Council ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness:  
How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

## Introduction and context

The 2020 Code confirms that the focus of our work should be on the arrangements that the audited body is expected to have in place, based on the relevant governance framework for the type of public sector body being audited, together with any other relevant guidance or requirements. Audited bodies are required to maintain a system of internal control that secures value for money from the funds available to them whilst supporting the achievement of their policies, aims and objectives. They are required to comment on the operation of their governance framework during the reporting period, including arrangements for securing value for money from their use of resources, in a governance statement.

We have previously reported the VFM work we have undertaken during the year including our risk assessment. The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

For 2020/21, the significant impact that the Covid-19 pandemic has had on the Council has shaped decisions made, how services have been delivered and financial plans have necessarily had to be reconsidered and revised.

We have reflected these national and local contexts in our VFM commentary.

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## Financial sustainability

*How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them*

The Council's Corporate Plan outlines its short-term service delivery objectives and informs its strategic planning, including its short-term and medium-term financial plans, under the following five key priorities and functions:

- Raise aspirations
- Enhance the environment
- Develop the economy
- Empower our residents
- Deliver effective services

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The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

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The main vehicle for the council to deliver its financial sustainability is through its budget process as part of its short-term planning process. The Council prepares its revenue and capital budget through forward projections that consider known cost pressures arising from in-year service changes or from manager inputs during revised budget setting. These projections relate to council tax and business rates and are subject to multiple scenarios using both internal and external information.

## Financial sustainability (continued)

The Council set an annual balanced revenue budget for 2020/21 which considered the context of the Government's Comprehensive Spending Review, the Chancellor's Budget, and the local government settlement. There has been a decline in overall government income in recent years with increasing amounts of income being generated locally through Council Tax, Business Rates, fees and charges, and income from commercial property. The revenue budget also considered financial pressures arising from increased inflationary costs and loss of income due to Covid-19. These pressures were mitigated by the Council's available working balance, other earmarked reserves and identified cost-efficiencies.

The Council also prepared a three-year revenue budget as part of its medium-term financial strategy (MTFS) to deliver its service delivery objectives over the medium term. This plan is further updated annually as part of the budgeting process to give a clear view of forthcoming financial challenges facing the Council. The 2021/22 – 2023/24 plan approved by Council on 5 February 2020 identified significant budget reductions of £1.7m over this period which highlighted the strategic challenges facing the Council due to the loss of income from the decision by Hampshire County Council to withdraw recycling income from collection authorities, and the potential outcome of the Fair Funding review and Business Rate "reset" then assumed to be implemented in 2021/22 which will likely result in reduced Government funding generally for District Councils as well as the removal of retained business rates growth (i.e. the annual uplift in business rate income retained since 2013/14).

Revenue and capital budgets are monitored throughout the financial year by the Service Unit Managers with the support of the Financial Services Unit. Service Unit Managers provide feedback during regular section meetings that feed into budget monitoring reports by the Borough Treasurer to the Council Management Team and Council Members. These reports aim to identify changes in trends and resource requirements that culminate into the revenue and capital outturn reported in the Council's financial statements and reflect the efficiency of in-year monitoring. For 2020/21, the Council contained expenditure to within original budget levels despite facing continued financial pressures resulting in an underspend of £1,500k against a budget of £11,946k.

### *How the body plans to bridge its funding gaps and identifies achievable savings*

The Council continues to face financial pressures that require it to identify significant savings or deliver income growth over the next 4 years to balance the budget and achieve set service delivery objectives.

For 2020/21 the revenue budget was prepared to accommodate savings of £0.5m identified in the MTFS of the prior year due to further funding reductions from Government and inflationary and other cost pressures.

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The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

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## Financial sustainability (continued)

For 2021/22 – 2023/24, the MTFS forecast a deficit of £1.7m over this period which is largely attributable to the financial impacts from the potential introduction of the Fair Funding Review and the Business Rate Reset, the loss of the Council's waste recycling income, and inflationary costs which includes pension increases that are not fully offset by increases in funding.

The MTFP aims to match in-year spending with its in-year income and funding over the medium term using the Revenue Financing Reserve and the Stability and Resilience Reserve to "smooth out" necessary savings required to meet the forecast budget deficit over the next 3 years, thereby allowing for a managed reduction in spending and a measured approach to achieving savings. To this end, annual savings of £0.57m have been identified in the MTFS to meet the estimated savings requirement of £1.7m over this period. This savings strategy is however dependant on the Council's ability to retain appropriate levels of reserves over the medium term. The flexibility afforded by these reserves will further ensure that if the 3-year forecast improves, the Council did not prematurely make service reductions to achieve saving requirements that could have reasonably been avoided. Conversely, if the forecast deteriorates, the Council will have made good progress towards achieving its savings requirement whilst having sufficient reserves to avoid significant future spikes in its savings requirements in any single year.

This forecast deficit of £1.7m represents circa 14% of the Council's General Fund budget. Against a backdrop of significant reductions in Government funding and associated savings over the past 8 years, this will prove challenging for the Council. However, the proposed even profile of £0.57m in annual savings over the medium term will provide opportunities for the MTFS to be achieved through measures that stimulate both the Business Rate Base and Council Tax Base, additional income opportunities, service reviews and further integrated working with partners.

### *How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities*

As discussed above, the Council has detailed its service delivery objectives in its Corporate Plan. This forms the basis for its strategic and statutory priorities which informs its short-term and medium-term financial plans.

Progress towards achieving these objectives is monitored by the Council Management Team throughout the year with remedial actions identified and actioned where necessary.

These short- and medium-term financial plans detail the likely costs associated with the Council's strategic and statutory priorities; identifies any budget gaps that may arise from reduction in government funding; and planned savings strategies to bridge any gaps between available funding from taxation and the cost of services.

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The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

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## Financial sustainability (continued)

Any new service investment made must meet either objectives within the corporate plan or be a new statutory obligation.

*How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system*

During its short-term and medium-term financial planning process, the Council develops an annual capital investment strategy as part of its revenue budget. This capital investment strategy follows on the Council's Capital Programme for 2019/20 to 2022/23 which was approved by the Council on 6 February 2019 and serves as a key mechanism for the Council to achieve its strategic objectives and enhance services for Borough residents with the strategic core aims of supporting a medium-term outlook, maximising the capital resources available and flexing their application, and targeting capital investment.

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The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

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Officers review existing projects and the potential for new projects during the budget preparation process. This capital plan also determines the cost of financing required for these projects, along with any other financial impacts. These costs are within the annual revenue budget to reflect the latest information regarding the delivery of the capital programme.

For 2020/21 onwards, the capital programme comprises a balanced set of proposals which seek to ensure the medium-term resilience of essential core services; continued improvement to Council Housing and maintaining the affordability of good quality homes for residents (including investment in building new housing stock); to provide substantial investment into the economy of the Borough; and to continue investment in digital technology to support the customer experience with the Council.

*How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.*

The Council manages its financial resilience risk through the following implemented measures:

- The Council publishes detailed short-term and medium-term financial plans that are aligned to its Corporate Plan and includes actions to ensure financial sustainability as discussed above;
- In-year monitoring of these financial plans to identify and incorporate any unplanned changes in underlying assumptions of the Council's plans as discussed above;
- Reporting of financial performance against above set financial plans to the Council as discussed above; and

## Financial sustainability (continued)

- Risk management processes to identify, monitor and address risks.

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The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

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The Council has established a Risk Management Policy during the year which serves as framework for the delivery of the Risk and Opportunity management function and to provide guidance on developing risk and opportunity management as a routine process for all services.

Risk and Management Opportunities identified are monitored continuously throughout the year by the Risk Management Group and regularly discussed at a Corporate Governance Group level consisting of the Chief Executive, Deputy Chief Executive, Head Internal Auditor and Monitoring Officer. A risk relating to continued pressures on the Council's finances has been identified and included in the Council's risk register as a very likely risk with a major impact for the 2020-21 financial year. The Council continued to implement remedial actions that lead to the setting of a balanced budget in 2021-22 and an overall underspending of £1.5m in the 2020/21 financial year.

## **Governance**

*How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud*

The Council's Constitution sets out how it operates, how decisions are made, and the procedures which are followed to ensure that decisions are efficient, transparent and accountable to local people.

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The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks, except for those arrangements on how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests), and for example where it procures or commissions services

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The Council further has a risk management framework which guides the development of risk and opportunity management at a strategic and operational level to ensure that risks are appropriately managed and controlled. This aids the achievement of the Council's strategic priorities, supports decision-making processes, protects its reputation and other assets, and ensures that it is compliant with relevant statutory and regulatory obligations. These risks are identified as a routine process of all services and are regularly reviewed and updated. All significant risks (defined as something that may result in failure in service delivery, significant financial loss, non-achievement of key objectives, damage to health, legal action, or reputational damage) must be logged on a Corporate Risk Register, profiled (as high/medium/low through an assigned risk score), and mitigating measures/assurances must be put in place. These risks are monitored in-year by the Risk Management Group and Corporate Governance Group. Updates to the corporate risk register are also presented to the Standards & Governance Committee in-year for discussion.

The Council also has an internal audit service in place which provides the Council with information regarding the effectiveness of the internal control environment and its arrangements to prevent and detect fraud. Regular in-year reporting by internal audit to the Standards & Governance Committee is also in place to ensure that efficient and effective assurance arrangements have been implemented to assist in the management of risk and performance.

*How the body approaches and carries out its annual budget setting process*

The annual budgeting process including relevant responsibilities and procedures have been set out in Part 4 of the Council's Constitution.

As discussed above, the financial planning process of the Council seeks to reconcile corporate and business plans and strategies with the relevant resources, including the finance department. This process commences with a series of strategic initiatives with inputs from the various stakeholders. Similar to the establishment of the Council's MTFs and Medium-Term Capital Strategy, the Council also has an implemented budgeting system that allows for the alignment of its annual budget to the priorities and commitments in its Corporate Plan.

The Council refreshes the MTFs and agrees the budget strategy for the forthcoming year, whereby managers are then tasked to review their budgets for its appropriateness and to confirm details for additional income or savings plans



## Governance (continued)

through a detailed financial planning exercise. Subsequently, the overall savings plan is checked and consulted on prior to initial consideration by the Council in February each year, which also considers the options for Council Tax setting.

*How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed.*

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The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks, except for those arrangements on how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests), and for example where it procures or commissions services

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The processes and systems in place to ensure budgetary control have been set out in within Chapter 4 within the Council's Constitution, and stipulate that:

- Service Unit Managers are responsible for ensuring that expenditure and income budgets assigned to their staff are monitored and controlled against the Council's approved budget;
- the Financial Services Unit is responsible for providing other Service Unit Managers with financial information in order to enable them to monitor the performance of the operations and services under their control;
- Accountants are to attend Section meetings to provide input on the budget situation and resolve any budgetary queries;
- the Section 151 Officer shall submit regular budget monitoring reports to the Council Management Team and Council Members identifying changes in trends and resource requirements; and
- all Service Unit Managers should ensure that arrangements are in place for their staff to record time spent on appropriate projects and services.

Furthermore, each budget line has an assigned budget manager who is responsible for managing the budget. Monthly budget monitoring packs are produced and shared with managers to assess the current financial performance shortly after the month end. The accountants further meet with the budget managers to review these budgets and identify both areas of financial pressure and underspend. If required, the Council will also hold a series of contingency budgets which are available to meet pressures identified.

The Council Management Team also produces and evaluates monthly reports on the financial performance of the Council to identify emerging issues. This management process is also subject to regular internal audit review to ensure that the system is fit for purpose.

As discussed above, the efficiency of these control is evidenced by the overall outturn position of £1.5m underspent for the 2020-21 financial year

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The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks, except for those arrangements on how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests), and for example where it procures or commissions services

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## **Governance (continued)**

*How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee.*

Primary oversight is the responsibility of the Council with some delegated to Policy & Organisation Board and Scrutiny & Governance Committee. These committees meet regularly throughout the year during which key issues are raised and addressed with effective challenge from its members.

All decisions of the Council and these Committees are accompanied by a detailed report which details the rationale for the decision, the options considered, legal advice and financial advice. A set corporate template is also used to ensure that all of advice needed to reach a decision is provided. Under the constitution, all decisions may be called in by members for review prior to implementation on specific grounds. These reviews are the purview of the Policy & Organisation Board.

To allow for transparency, the Council also ensures that:

- Publishes relevant information relating to salaries, business interests and performance data on its website;
- Has a procurement team who provide advice and issue clear guidelines for procuring goods and services;
- Publishes information to the Council and its Panels as part of established accountability mechanisms;
- Prepares an Annual Governance Statement; and
- Prepares a Corporate Plan.

The Authority is furthermore committed to the publication of transparent performance information on its website, which includes:

- Budget reports;
- a Medium-Term Financial Plan;
- a Corporate Plan;
- Statement of Accounts;
- Annual Governance Statement; and
- Information as required under the Local Government Transparency Code.

There is also evidence of good arrangements in place to monitor the implementation of internal audit recommendations by the Standards & Governance Committee. Internal audit progress reports are presented regularly throughout the year to monitor the implementation of internal audit's recommendations and corrective actions where necessary.

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The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks, except for those arrangements on how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests), and for example where it procures or commissions services

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## **Governance (continued)**

*How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).*

The roles and responsibilities of both members and officers of the Council are outlined in the Code of Conduct in Part 5 of its Constitution.

Serious breaches of this protocol by officers should be dealt with under the Council's disciplinary procedures. Breaches by councillors may be referred to the relevant Group Leader or Whip for relevant party group consideration, should be reported to the Chief Executive and the Monitoring Officer, and will be reported to the Standards and Governance Committee.

The Council is transparent about how decisions are taken and recorded by:

- ensuring that decisions are made in public and recorded. Those decisions and relevant information are publicly available (except where that information is exempt under the provisions of the Local Government Act or determined as being confidential by Government) and
- having rules and procedures which govern how decisions are made.

The Council has implemented systems to ensure conflicts of interest are identified, recorded, and acted upon accordingly, excluding anyone from decision-making where a conflict arises, and making public declaration of interests through its Register of Interests which can be requested on the Council's website and covers employees, governing body members, and members of panels/committees and sub-committee.

Regular training is also provided to members on standards issues to ensure awareness of relevant requirements. Each member and officer are furthermore expected to complete a return on any gifts of hospitality.

The Council also has a published Whistleblowing Policy and provides protection to individuals raising concerns. This policy is reviewed annually in line with guidance.

The Council furthermore ensures that effective, transparent, and accessible arrangements are in place for dealing with complaints. The website contains guidance for submitting complaints against the Council by the public and processes are in place to progress any complaints that are made.

However, Internal Audit's Procurement Report for 2020/21 concluded a 'No Assurance' rating over the Council's overall procurement process based on the audit of the following two control areas:

- Compliance with Policies, Laws and Regulations - No Assurance
- Effectiveness and Efficiency of Operations - Limited Assurance

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The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks, except for those arrangements on how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests), and for example where it procures or commissions services

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## Governance (continued)

Internal Audit assessed compliance across three predominant controls:

- All procurement spend which occurred in three financial years (2018/19, 2019/20 and the period April 2020 to December 2020) has been in accordance with procurement regulations;
- All procurement spend for the financial year 2020/21 has been undertaken using the Council's electronic procurement solution to ensure all bids (quotations and tenders) and supporting information are stored for management and transparency purposes; and
- Where applicable, all contract spend has been recorded on the Council's contract register to enable the Council to comply with the Public Contracts Regulations 2015.

All three tests resulted in significant findings, driving the 'No Assurance' rating assigned to compliance.

It is therefore our judgement that the report provides clear evidence of a lack of appropriate arrangements to ensure compliance with internal procedures during the year under audit. The audit work was completed during the year, and the report finalised in July 2021.

Action plans have been developed since the publication of this report. However, the extent of progress has not been as we would have expected for an issue of this significance. Whilst it appears progress is being made to address compliance and contract management within its procurement process, the supporting evidence is still somewhat limited.

The Council's draft Procurement Strategy makes specific and consistent reference to the use of Contract Procedure Rules (CPRs) with an emphasis to "ensure compliance with all public sector legislative requirements and the Council's own CPRs". Therefore, the draft Strategy does suggest an improved focus to be made on compliance with the Constitution and the CPRs. The CPRs are currently under review at the Council, expected to be approved in March 2022.

In regard to contract management, the Council's actions to improve the completeness and transparency of its contract register appear to be in their initial stages. The contracts register is published on the Proactis system as required, and is controlled by the Procurement team. As procurements are completed, the Council acquires the signed contract from the officer responsible and the details are uploaded to Proactis. Officers provided copies of the emails sent to staff, by the Chief Executive, including lists of projects per department which had not been input onto the Proactis system, with instructions to officers on next steps to ensure inclusion on the register.

In order to address the findings of Internal Audit, the Council compiled an Action Plan to document the progression of proposals. The Action plan includes the lead officer responsible for each action, alongside a completion date and has

## Governance (continued)

been graded to show progress: not yet started, in progress, complete

Overall, from our review of the thirteen action points were noted, however it is clear that the actions which will have the most impact on compliance have not yet been addressed. In summary, as at the completion of our work in January 2022:

- Two were rated 'Complete'
- Seven were 'In Progress'
- Four had 'Not Yet Started'

A number have been subject to delays between action plan updates.

In our view prioritisation should centre on the further recommended investigations, staff training and the publication of Contract Procedure Rules and Procurement Strategy, in order to see significant improvement in the Council's procurement process.

Whilst there are still measures being taken to ensure completeness of contract registers and publication of strategies, these remain in progress and in draft. The Council's training tracker indicates that of the 42 officers listed, only six are categorised as confident in leading projects. Training has been delayed until the CPRs and Procurement Strategy are finalised. It is understandable that training cannot progress until guidelines and procedures are finalised, but this represents a continuing risk of inconsistent practices. The dependency of other actions from the Procurement Strategy and the Contract Procedure Regulations is a critical path where we would have anticipated earlier prioritisation and completion.

We have attempted to follow-up other aspects of the action plan, including from the Chief Executive's emails relating to the population of the contract register and instruction on the next steps to ensure their inclusion. We have not received evidence that the contracts has been uploaded, and there is a lack of identifiable referencing to enable a comprehensive check through to the system. This limited our ability to sample transactions and assess both compliance and value for money.

Therefore, we have concluded that the risk of not adhering to the procurement process is still prevalent, given the Council's delay in completing actions against the Internal Audit findings. As such, the Council is still at risk of challenge by external suppliers, residents and the public

Once the revised arrangements have been put in place, the Council needs to ensure that all procurement follows the rules. Procurement rules are not a bureaucratic inconvenience to be circumvented in the drive to 'get something done'. They are designed to protect all parties involved and provide an evidenced based process to mitigate any potential or perceived conflicts. This needs to be understood throughout the organisation, by both officers and councillors, and include adherence to proper separation of duties within those

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The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks, except for those arrangements on how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests), and for example where it procures or commissions services

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## **Governance (continued)**

arrangements which is critical to ensuring the appropriate processes. The Council would then have the evidence available be able to demonstrate value for money, which is it currently unable to consistently do, and reduce any risk of legal challenge.

The issue is evidence of weaknesses in proper arrangements for where the Council procures services, it can demonstrate how it ensures that this is done in accordance with relevant legislation, standards and internal policies, and how the council assesses whether it is realising the expected benefits.

These findings provide evidence of a significant weakness in arrangements during 2020/21.

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The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks, except for those arrangements on how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests), and for example where it procures or commissions services

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## **Improving economy, efficiency and effectiveness**

*How financial and performance information has been used to assess performance to identify areas for improvement.*

The Council Leadership Team takes overall accountability at an officer level for organisational performance management through in-year monitoring and review of the targets, outputs and outcomes during regular performance meetings. Performances against strategic objectives and targets are further reviewed by the Section 151 Officer with areas of improvement implemented by directorate teams that oversee the delivery of council activities under each of its strategic objectives.

Each head of service operates within these arrangements and is responsible for assisting in both identifying and addressing areas of improvement within their service areas. Where services are linked and have shared strategic outcomes, officers deliver performance improvements through multidisciplinary arrangements. These performance arrangements are integrated with financial management and budget forward planning arrangements.

Furthermore, any issues identified by internal audit are monitored via the internal audit and reported to the Governance and Standards Committee on a regular basis. Officers not taking sufficient action on these service improvements may be requested to report to the Committee.

*How the body evaluates the services it provides to assess performance and identify areas for improvement*

The Council's service delivery objectives are detailed in its Corporate Plan. Subsequent short- and medium-term financial plans are also aligned to this corporate plan to ensure that achievement towards the Council's strategic objectives are adequately funded.

The Council Management Team regularly monitors and reviews in-year progress towards achieving these strategic objectives. The Leader of the Council holds frequent meetings with the Chief Executive Officer, Assistant Chief Executive and Monitoring Officer to review this progress in achieving the Council's strategic priorities for action, performance management and forward planning for major issues and projects.

The Council Management Team also meets periodically to develop policy and strategic issues that commensurate with the Council's strategic priorities. Members of Council Management Team meet collectively and individually with the Leader of the Council and other leading members of the Council's administration to consider new policies and strategies as well as managing, monitoring, and reviewing existing policy and strategy.

As discussed above, in-year reporting by Internal Audit to the Governance and Standards Committee also ensures that findings raised by both Internal Audit are monitored.

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The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services, except for those arrangements on How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.

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## **Improving economy, efficiency and effectiveness (continued)**

*How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve*

### Partnerships:

Partnerships allow the Council to work with organisations, other local authorities and groups to aid in the delivery of the Councils services and objectives. The Council has strong links with Hampshire County Council in relation to education within the city and highways management and a formal partnership agreement with Fareham Borough Council in relation to Environmental Health, Licensing and Building Control Engagement.

The Council also has also entered an arrangement with Portsmouth City Council in relation to the sharing of senior management and services such as HR, Communications, and Internal Audit. This primarily addresses future financial challenges faced by the Council. These arrangements have brought about costs savings and improved operational resilience with the ability to call on resources and expertise from Portsmouth City Council which otherwise were not readily available. The roles and responsibilities of these shared posts will continue to include those relating to the Governance of this Council in accordance with the policies and procedures of this Council.

Gosport also works with local organisations such as Citizens Advice and Gosport Voluntary Action to ensure further engagement with the local area.

### Consultations:

The Council frequently consults residents both where there is a legal duty to consult and on matters of particular interest including, but not limited to planned developments within the Borough.

The Authority responds to the views of stakeholders and the community in the following ways:

- Publishing a Corporate Plan that sets out the Council's purpose and commitments to the community and the outcomes the Council intends to achieve;
- An established business planning process, including the development of a published MTFS;
- Making decisions at public meetings of its boards and committees;
- Enabling members of the public to address the Council's boards and committees using the Council's process for public questions and deputations available in the Council's Constitution and on the Council's website; and

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The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services, except for those arrangements on How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.

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## Improving economy, efficiency and effectiveness (continued)

- The Council complies with the Freedom of Information Act (2000) and requests can be submitted electronically or in person to be considered by the service unit concerned within 20 working days.

### Complaints:

The Council has a clear and publicised 3 stage complaints procedure in place to allow the public an opportunity to raise an issue where they feel the Council has not performed the service(s) it should have. Should a complaint not be resolved within this process, the option to raise the issue with the Local Government Ombudsman is also advertised. The Council also reports statistical information on complaints relating to the Ombudsman.

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The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services, except for those arrangements on How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.

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*How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.*

The published Contract Standing Orders in Part 4 of the Council's Constitution detail how the Council is required to procure services. The Council also has a team of qualified procurement officers to ensure compliance with these requirements.

The Council placed significant focus on improving procurement processes within the organisation during 2019/20 which included the implementation of a new procurement electronic system, Proactis. Internal Audit was consulted on the system controls and process prior to implementation and provided assurance that, if used correctly, the procurement system would provide suitable controls to manage the associated risks. The use of the system is a change in process for the Authority and requires a significant culture change. As we reported in the 'Governance' section, Internal Audit assessed compliance over three predominant controls and identified significant findings which drove a 'No Assurance' rating. An action plan was subsequently developed to address these findings but a number of actions therein were delayed.

These findings provide evidence of a significant weakness in arrangements during 2020/21 and the Council's procurement process at risk of being challenged by external suppliers, residents and the public.

# VFM Commentary

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## Recommendations

The Council has agreed two recommendations which we will follow up as part of our 2021/22 VFM arrangements work.

As a result of the VFM procedures we have carried out we have agreed the following recommendations with the Council:

### Recommendation 1

Council needs to continue to implement the remaining items from the Action Plan in response to Internal Audit's procurement review, responding to the weaknesses identified.

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### Recommendation 2

Both Members and senior management should take a lead role promoting the updated procurement strategy and contract procedure rules, so that their application reinforces a change towards a compliance culture regarding procurement.

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## Forward look

The Council faces further challenge and change beyond 2021 which will form part of our 2021/22 VFM arrangements work.

Looking forward to 2021 and beyond, the Council needs to address identified weaknesses in its VFM arrangements. The Council also continues to face increased financial pressures due to increased inflationary costs.





Section 5

## Other Reporting Issues

## Other Reporting Issues

### **Governance Statement**

We are required to consider the completeness of disclosures in the Council's governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with relevant guidance.

We completed this work and did not identify any areas of concern.

### **Whole of Government Accounts**

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts consolidation pack submission. The guidance for 20/21 is yet to be issued. We will liaise with the Council to complete this work as required.

### **Report in the Public Interest**

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

### **Other powers and duties**

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

### **Control Themes and Observations**

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

Our audit did not identify any controls issues to bring to the attention of the Policy & Organisation Board.

Appendix A

## Audit Fees



# Audit Fees

Our final proposed fees for 2020/21 are set out in the table below:

Description	Final Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
Scale fee – Code work	40,844	40,844	40,844
Proposed scale fee rebasing (Note 1)	18,114	-	16,251
Scale fee variation (Note 2)	13,486		
Scale fee variation (Note 3)	13,544	6,000	-
Total fees	85,988*	49,344	57,095

\* this is our proposed figure that is to be submitted to the PSAA

Note 1 – This relates to our scale fee rebasing for the audit, to take into account changes in professional and regulatory requirements to that date. These have been raised in prior year audits and as these are ongoing requirements, we have included the resource impact again in our 2020/21 requested fees. This is the same request that has been submitted in the prior year and has been adjusted for the changes in rates.

Note 2 – This figure includes a variation to the scale fee for items specific to the 2020/21 audit year where additional audit work was undertaken by the audit team. We will be submitting a request for this additional work undertaken on:

- Accounting for Covid-19 grants;
- Work of EY expert to calculate an auditors estimate of the pension liability;
- VFM additional risks identified;

For 2019/20, PSAA determined the total of the above two categories at £16,251 and has accordingly been shown as a single comparative figure.

Note 3 – The fee impacts of the NAO's 2020 Code of Audit Practice, and the revised ISA540 on estimates were new during 2020/21. The PSAA communicated fee ranges for each type of auditee, and our assessed impact for Gosport Borough Council is that ISA540 is at the bottom of the ranges, whilst the VFM Commentary requirements are at the top of the range due to the significant risks and findings reported earlier in this report.

We will discuss the additional fee proposal with management and submit to the PSAA, providing an update to the Policy & Organisation Board when the final fee is determined.

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