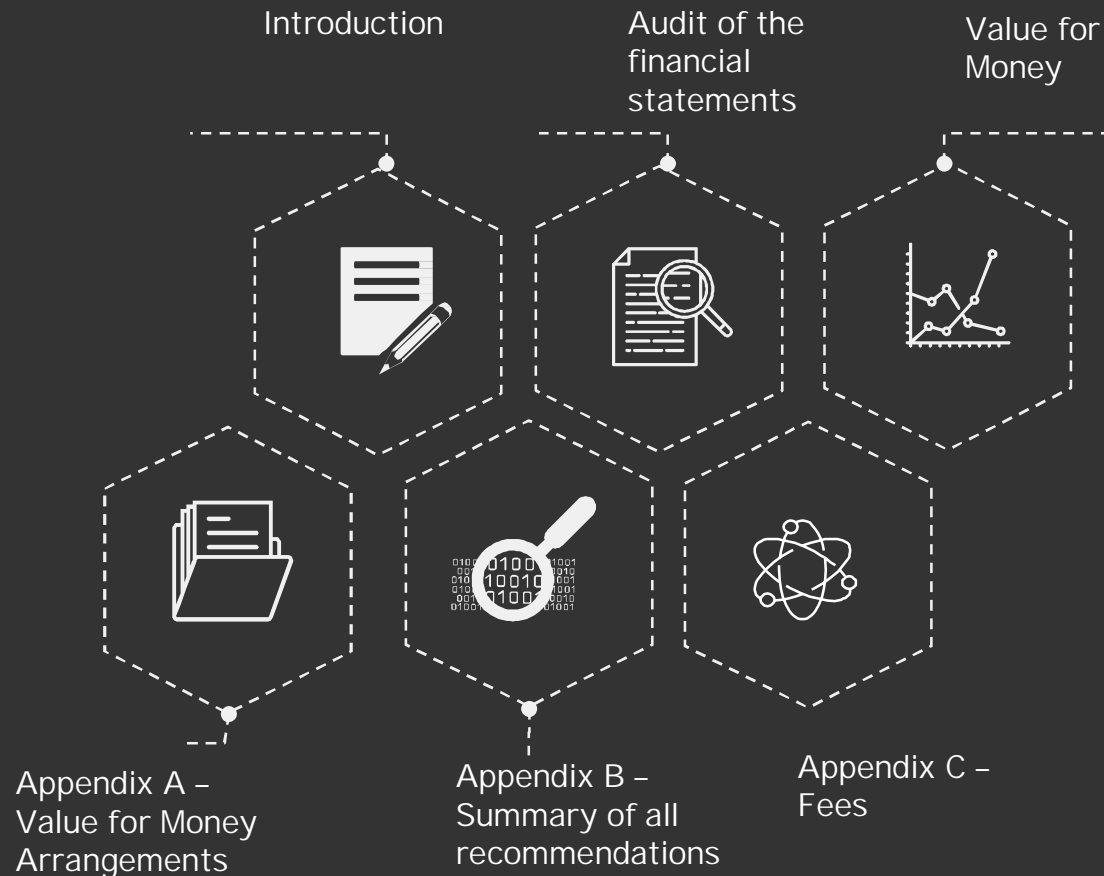




Gosport Borough  
Council  
Auditor's Annual  
Report

Year ended 31 March 2022

# Contents



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 July 2021)” 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 and 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 Policy and 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 and 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.



# Introduction

## 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 value for money (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 2021/22 audit work in accordance with the Audit Plan that we issued on 17 November 2022. We have complied with the National Audit Office's (NAO) 2020 Code of Audit Practice, other guidance issued by the NAO and International Standards on Auditing (UK).

As auditors we are responsible for:

Expressing an opinion on:

- The 2021/22 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the narrative statement.

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, narrative statement and annual governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



## Introduction (continued)

### 2012/22 Conclusions

Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2022 and of its expenditure and income for the year then ended. We issued our auditor's report on 19 March 2024.
Going concern	We have concluded that the Borough Treasurer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the other information published with the financial statement	Financial information in the narrative statement and published with the financial statements was consistent with the audited accounts.
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 03.
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.
Whole of government accounts	We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission.
Certificate	We will be able to issue our certificate once the NAO have confirmed whether there are any additional group audit procedures required as part of the Whole of Government Accounts submission.

# Audit of the financial statements

## Key findings

The Narrative Statement and 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 19 March 2024, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the 13 March 2024 Policy and 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. We reported two areas for improvement in the control environment in the Audit Results Report.

## Significant risk

## Conclusion

Risk of fraud in revenue and expenditure recognition - inappropriate capitalisation of revenue expenditure

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.

From our risk assessment, we have assessed that the risk manifests itself through the potential to inappropriately capitalise revenue expenditure to improve the financial position of the general fund.

We have not identified any material weaknesses in controls or evidence of material management override. We tested a sample of PPE additions and confirmed they met the capitalisation requirements under IAS16. We tested a sample of REFCUS items and confirmed they were appropriately classified. We have not identified any instances of inappropriate judgements being applied.

Misstatements due to fraud or error - management override of controls

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.

We have not identified an unusual or unsupported journals, or other adjustments made in preparing the financial statements.

# Audit of the financial statements

## Key findings

Other risks / areas of audit focus	Conclusion
Valuation of Land & buildings	<p>The value of land &amp; buildings in PPE under EUV and in IP under FV represent significant balances in the Council's accounts and are subject to valuation changes and impairment reviews. Management is required to make a high degree of material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p> <p>We identified 1 property, plant and equipment assets which was misstated. The asset was understated by £73k due to an incorrect income value and yield being used. Management have not adjusted for this within their accounts.</p> <p>We identified 5 investment property assets which were misstated. The first was overstated by £120k caused by the income used being based on budgeted figures compared to actuals and incorrectly including the income from sales commission. Management have not adjusted for this within their accounts.</p> <p>The remaining 4 assets contained smaller misstatements which were caused by differences in rental values and yields. We have extrapolated these differences across the remaining untested population which results in an extrapolated difference of £152k being identified as an understatement of the Investment Property balance. The Council did not adjust for this extrapolated value.</p> <p>We further completed testing over the valuation of garages, and identified an unadjusted misstatement of £305k, resulting in an understatement of the asset value. This was a judgemental misstatement relating to the yield adopted.</p>
Pension Liability valuation	<p>The Code of Accounting Practice requires extensive disclosures regarding the Council's pension liability balances. The accounting requires significant estimation and judgement, with management engaging an actuary to undertake the calculations on their behalf.</p> <p>As the audit was not completed by 31 March 2023, management needed to take account of the completed 2022 triennial valuation.</p> <p>The Council are required to consider the potential impact of this, and commissioned an updated IAS 19 report from their actuary. Management have processed this change within the financial statements, being a decrease in the pension liability of £3,835k.</p> <p>Due to the material movement these figures we have had to perform additional procedures. This work includes additional membership testing (being completed at the Pension Fund level) and obtaining updated assurances from PWC as the consulting actuaries. We have received the updated assurances, and are satisfied that the updated assumptions within the revised report are supportable.</p>

We identified one risk of significant weakness in the Council's VFM arrangements for 2021/22.

## Scope

We are required to report on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have complied with the guidance issued to auditors in respect of their work on value for money arrangements (VFM) in the 2020 Code of Audit Practice (2020 Code) and Auditor Guidance Note 3 (AGN 03). We presented our VFM risk assessment to the March 2023 Policy and Organisation Board meeting which was based on a combination of our cumulative audit knowledge and experience, our review of Council committee reports, meetings with the Head of Benefits, Procurement and Insurance and evaluation of associated documentation through our regular engagement with Council management and the finance team.

## Reporting

We identified a significant risk related to 'Governance' and 'Improving Economy, Efficiency & Effectiveness' as part of our risk assessment procedures. We set out our planned response in our Audit Plan. We reported this matter by exception in the audit report on the financial statements and provided further details in the Audit Results Report. We include within the VFM commentary below the associated recommendation we have agreed with the Council.

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

Our commentary for 2021/22 is set out over pages 8 to 10. The commentary on these pages summarises our conclusions over the arrangements at the Council in relation to our reporting criteria (see below) throughout 2021/22. Appendix A includes the detailed arrangements and processes underpinning the reporting criteria. These were reported in our 2020/21 Annual Auditors Report and have been updated for 2021/22.

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

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

Reporting criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services	No significant risks identified	No significant weaknesses identified
Governance: How the Council ensures that it makes informed decisions and properly manages its risks	Significant risk identified	Significant weakness identified
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	Significant risk identified	Significant weakness identified



## Value for Money (continued)

### Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

The Council has appropriate arrangements in place to ensure financial sustainability.

The Council has a Corporate Plan in place which outlines its service delivery objectives for the short-term and forms the basis of its strategic planning, including its short-term and medium term financial plans.

The main vehicle used by the Council to deliver financial sustainability is through the budget process, with the budget prepared using forward projects that costing known cost pressures.

A balanced revenue budget was set for 2021/22 and a general fund balance and other earmarked reserves are held to mitigate any risks. The Council identified various key reductions in spending and additional income to meet these challenges resulting in an underspend of £0.691m during 2021/22.

A three-year revenue budget is also prepared as part of the medium-term financial planning. Significant budget reductions have been identified over the period 2022/23 to 2024/25 to address the forecast deficit for the three financial years of:


- 2022/23: £1.117m
- 2023/24: £1.783m
- 2024/25: £2.161m

The Council has set a savings target of £0.720m per year which will need to be addressed.

All reports rightly recognise the uncertainty in Local Government finances, and notes the further ahead looked, the less certain forecasts can be. However, in our judgement, the Council remains well placed to address future financial challenges.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.





## Value for Money (continued)

### Governance: How the Council ensures that it makes informed decisions and properly manages its risks

In the prior year, two recommendations were raised under 'Governance' and 'Improving economy, efficiency and effectiveness'.

- 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
- 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

We continue to recognise the first recommendation listed above (as detailed later in this report) as the extent of progress within the 2021/22 financial year has not been as we would have expected for an issue of this significance to allow us to conclude the arrangements were in place during the year.

We recognise the Council's continued progress against the action plan, including the completion of training to address recommendation two, such that it is not identified as a recommendation in 2021/22.

Aside from these recommendations, the Council has an effective risk management framework, guiding the development of risk and opportunity management at a strategic and operational level and to ensure that they are appropriately managed and controlled. Risks are identified as a routine process and are regularly reviewed and updated with significant risks being logged within a Corporate Risk Register. Updates to the Risk Register are reported to the Standards and Governance Committee and Policy and Organisation Board.

The Council has a number of arrangements in place to ensure that appropriate decisions are made. The decision-making process is detailed within the Council's Constitution and sets out how different decisions are made.

Conclusion: Based on the work performed, 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 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).

Recommendation: The 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.



## Value for Money (continued)

### 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

Gosport Borough Council implement a Corporate Plan which sets out the Council's future delivery objectives and priorities. The Plan works alongside the Financial Plan to ensure that staffing and financial resources are allocated appropriately.

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, Deputy 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.

Partnerships allow the Council to work with organisations, other local authorities and groups to aid in the deliver of the Council's services and objectives. The Council has strong links with Hampshire County Council, Fareham Borough Council and Portsmouth City Council, which includes an arrangement with Portsmouth City Council in relation to the sharing of senior management and services such as HR, Communications and Internal Audit.

The Council has set Contract Standing Orders which detail how they procure services as part of the Constitution.

During 2019/20, the Council put significant focus on improving procurement processes within the organisation which has 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 was a change in process for the Authority and required 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 and continued to be actioned through 2021/22 and into 2022/23.

These findings provide evidence of a significant weakness in arrangements during 2021/22 and the Council's procurement process at risk of being challenged by external suppliers, residents and the public.

**Conclusion:** Based on the work performed, 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.

**Recommendation:** The 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.

# Appendices



Building a better  
working world

## Appendix A – Summary of arrangements

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### Financial Sustainability

#### Reporting Sub-Criteria

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

#### Findings

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 strategic priorities for 2022/23:

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

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.

The Council set an annual balanced revenue budget for 2021/22 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 pay inflation, cost of financing the approved capital scheme, increases in the costs of waste contracts and reductions in waste recycling income. 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 2022/23 to 2024/25 plan approved by Council on 3 February 2021 identified significant budget reductions of £2.2m over this period which highlighted the strategic challenges facing the Council due to the Covid-19 pandemic and lack of opportunity to fully develop and implement a savings plan.

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## Appendix A – Summary of arrangements (continued)

### Financial Sustainability

Reporting Sub-Criteria	Findings
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	<p>The revenue budget and capital investment proposals of the Council include a range of potential actions that can be taken to generate savings or grow income. The Council's financial strategy aims to:</p> <ul style="list-style-type: none"><li>• Continue to pursue efficiency by operating zero based budgeting and undertaking regular contract reviews</li><li>• Develop partnership working to realise savings and service resilience</li><li>• Enhance income generation from existing or new investments such as the property portfolio and financial investments; the Council's Capital Investment in the Alver Valley and the introduction of advertising sponsored media through the Gosport Commercialisation programme</li><li>• Invest in the Borough for regeneration to stimulate employment and also to increase funding by improving the Business Rate Base and the Council Tax Base for the Council</li></ul> <p>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 2021/22, the Council contained expenditure to within original budget levels despite facing continued financial pressures resulting in an underspend of £772k against a budget of £11,057k.</p>
How the body plans to bridge its funding gaps and identifies achievable savings	<p>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. The savings required for the 3 years commencing 2022/23 are £2.2m across the 3-year period as detailed above.</p> <p>The forecast 3-year deficit are largely attributable to the forecast funding reductions of £0.7m from the potential introduction of the Fair Funding Review and the Business Rate Reset which accompanies the introduction of the 75% Business Rate Retention Scheme.</p> <p>The proposed Fair Funding Review and 75% Business Rates Retention Scheme create a degree of uncertainty in the Council's future forecasts. The Fair Funding Review (a "needs based review"), is aimed at re-distributing funding across Local Authorities to where it is most needed based on the cost drivers of services and the demand for those services. It has the potential to both withdraw any Business Rate growth received from 2013/14 (which for Gosport amounts to £0.7m) and increase the "tariff" on business rates paid over to the Government.</p>

## Appendix A – Summary of arrangements (continued)

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### Financial Sustainability

Reporting Sub-Criteria	Findings
How the body plans to bridge its funding gaps and identifies achievable savings	<p>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. The estimated 3-year savings requirement of £2.2m is therefore recommended to be phased evenly over the 3 years commencing in 2022/23.</p> <p>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.</p> <p>The overall deficit budget over the 3-years commencing 2022/23 at £2.2m means that if the Council were to take no further action in relation to the required savings (£0.720m per annum), both the Revenue Financing Reserve and the Stability and Resilience Reserve would be depleted part way through 2024/25. The Council have therefore generated a medium-term financial strategy which includes budget reviews, partnership working, income generation and a commercialisation programme which has been established to address the need to maintain reserves at levels which maintain the Council's financial resilience.</p>
How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities	<p>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.</p> <p>Progress towards achieving these objectives is monitored by the Council Management Team throughout the year with remedial actions identified and actioned where necessary.</p> <p>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.</p> <p>Any new service investment made must meet either objectives within the Corporate Plan or be a new statutory obligation.</p>

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## Appendix A – Summary of arrangements (continued)

### Financial Sustainability

#### Reporting Sub-Criteria

#### Findings

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 which was approved by the Council on 31 March 2021 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.

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 21/22 onwards, the Capital Programme comprises a balanced set of proposals which seek to:

- Ensure the medium term resilience of essential core and essential services
- Continue to improve Council Housing, maintaining the affordability of good quality homes for residents, including investment in building new housing stock
- Provide substantial investment into the Borough Economy to:
  - Re-develop the Waterfront and stimulate economic activity
  - Enhance the Town Centre and associated heritage assets in the Town Centre area
  - Promote the visitor economy
  - Stimulate employment
- 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 set financial plans to the Council as discussed above; and
- Risk management processes to identify, monitor and address risks.

## Appendix A – Summary of arrangements (continued)

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### Financial Sustainability

#### Reporting Sub-Criteria

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

#### Findings

The Council has established a Risk Management Policy which serves as a 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, Chief Internal Auditor and Monitoring Officer. A risk relating to continue 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. The Council has continued to implement remedial actions that lead to the setting of a balanced budget in 2022/23 and an overall underspend of £0.7m in 2021/22.

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## Appendix A – Summary of arrangements (continued)

### Governance

#### Reporting Sub-Criteria

#### Findings

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.

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 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.

## Appendix A – Summary of arrangements (continued)

### Governance

#### Reporting Sub-Criteria

#### Findings

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

The process and systems in place to ensure budgetary control have been set out within Chapter 4 of the Constitution of the Council which 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 current financial performance shortly after the month end. The accountants meet with the budget managers to review the 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 which identifies 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 this control is evidenced by the overall outturn position of the Council being a £691k underspend for the 2021/22 financial year.

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 the Policy and Organisation Board and Standards and Governance Committee. These committees meet on a regular basis during which key issues are raised and addressed with effective challenge from 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 advice needed to make 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 and Organisation Board.

## Appendix A – Summary of arrangements (continued)

### Governance

#### Reporting Sub-Criteria

#### Findings

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

To allow for transparency, the Council also ensures that it:

- 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 its established accountability mechanisms;
- Prepares an Annual Governance Statement; and
- Prepares a Corporate Plan.

The Council is also 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 and Governance Committee. Internal audit progress reports are presented on a regular basis throughout the year to monitor implementation of recommendations by internal audit and to implement corrective actions where necessary.

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 of both members and officers of the Council are outlined in the Code of Conduct included within Part 4 and Part 5 of its Constitution. The updated Code of Conduct for Members was approved in the February 2022 Standards and Governance Committee.

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 the party group for consideration and should be reported to the Chief Executive and 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

## Appendix A – Summary of arrangements (continued)

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### Governance

#### Reporting Sub-Criteria

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)

#### Findings

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 from the Council as detailed on the Council's website.

Regular training is provided to members on standards issues, so all members are aware of the requirements. Each member and officer are expected to complete a return on any gifts or hospitality.

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

The Council also 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 Operation – Limited Assurance

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.

Therefore, in our judgement the report provided clear evidence of a lack of appropriate arrangements to ensure compliance with internal procedures during the 2020/21 year.

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## Appendix A – Summary of arrangements (continued)

### Governance

#### Reporting Sub-Criteria

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)

#### Findings

Action plans were developed after publication of the report and progress has continued to be made against these actions. However, the extent of progress within the 2021/22 financial year has not been as we would have expected for an issue of this significance to allow us to conclude the arrangements were in place during the year.

The action plan includes the lead officer responsible for each action, alongside a completion date and has been graded to show progress: not yet started, in progress and complete.

From our review of the thirteen action points identified, it is clear that some of the actions which will have the most impact on compliance have not been addressed as of September 2022, which was 6 months after the end of the year we are assessing:

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

The three 'Not Yet Started' had been subject to various delays between the action plan updates.

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

Of these identified priorities:

- The Procurement Strategy was identified as 'Complete' in February 2022 with staff training 'Complete' as at July 2022.
- The remaining two actions remained 'In Progress' as at September 2022.

Of these actions, only the Procurement Strategy was prepared prior to the financial statement date of 31 March 2022.

As at the completion of our audit work in January 2023, the CPRs have been prepared, approved by the Standards and Audit Sub Board on 17th November 2022, and by Council on 15th December 2022. The further investigations have also been completed.

Training was provided in July 2022, to avoid any delays until final CPRs were produced and approved. This meant that the training was completed prior to their publication and therefore, further training has been identified as required, due to be held in March 2023.

## Appendix A – Summary of arrangements (continued)

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### Governance

#### Reporting Sub-Criteria

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)

#### Findings

Internal Audit have undertaken further testing of the procurement arrangements in place between January 2022 and July 2022, including reviewing progress against the identified action plan, and identified that improvements have been made. It concluded a 'Reasonable Assurance' rating based on the audit.

Whilst progress has continued to be made against the action plan, we have concluded that the risk of not adhering to the procurement process was still prevalent during the 2021/22 financial year. As such, the Council remained at risk of challenge by external suppliers, residents and the public.

In the prior year we reported that this issue is evidence of weaknesses in proper arrangements for where the Council procures services, and whether 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 that the significant weakness in arrangements continues during 2021/22. We recognise the Council is making progress, but the actions were not sufficiently progressed by 31 March 2022.

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## Appendix A – Summary of arrangements (continued)

### Improving economy, efficiency and effectiveness

Reporting Sub-Criteria	Findings
<p>How financial and performance information has been used to assess performance to identify areas for improvement</p>	<p>As discussed above, organisation performance management is undertaken regularly through regular in-year monitoring and review of the targets, outputs and outcomes by the Council leadership team.</p> <p>Performances against strategic objectives are reviewed by the Section 151 Officer, and areas of improvement implemented through multidisciplinary and directorate teams that oversee the deliver of council activities under each strategic objective. The Council's leadership team takes overall accountability at an officer level for delivery of its strategic objectives through regular performance meetings.</p> <p>Each Head of Service works within the above arrangements and is responsible for assisting in the process of 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 described above are integrated with financial management and budget forward planning arrangements,</p> <p>Furthermore, any issues identified by internal audit are monitored via internal audit and reported to the Standards and Governance Committee on a regular basis. Officers not taking sufficient action on these service improvements may be requested to report to the Committee.</p>
<p>How the body evaluates the services it provides to assess performance and identify areas for improvement</p>	<p>The Council's service delivery objectives are detailed in its Corporate Plan. Subsequent short and medium-term financial and performance plans are then aligned to the corporate plan to ensure achievement of set service delivery and performance targets.</p> <p>Achievement of these strategic objectives is further monitored in year by the Council's management team. The Leader of the Council holds frequent meetings with the Chief Executive, Assistant Chief Executive and Monitoring Officer to review the progress in achieving the Council's strategic priorities for action, performance management and forward planning for major issues and projects.</p> <p>The Council management team also meets periodically to develop policy and strategic issues commensurate with the Council's strategic priorities. Members of the Council management team meet collectively and individually with the Leader of the Council and other leading members of the Council's administration to consider policies and strategies as well as managing, monitoring, and reviewing existing policy and strategy.</p> <p>As discussed above, in-year reporting by Internal Audit to the Standards and Governance Committee also ensures that findings raised by internal audit are monitored.</p>

## Appendix A – Summary of arrangements (continued)

### Improving economy, efficiency and effectiveness

#### Reporting Sub-Criteria

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

#### Findings

##### Partnerships:

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

The Council has also entered into 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 faces by the Council. These arrangements have brought about cost 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 the Council in accordance with the policies and procedures of the 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 Council 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 medium-term financial plan;
- 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
- The Council complies with the Freedom of Information Act (2000) and request can be submitted electronically or in person to be considered by the service unit concerned within 20 working days



## Appendix A – Summary of arrangements (continued)

### Improving economy, efficiency and effectiveness

Reporting Sub-Criteria	Findings
<p>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</p>	<p><u>Complaints:</u></p> <p>Gosport Borough 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 it should have (see Complaints - Gosport Borough Council). In addition, should a complaint not be resolved within the process, the option to raise the issue with the Local Government Ombudsman is also advertised. Gosport Borough Council report statistical information on complaints relating to the Ombudsman.</p>
<p>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</p>	<p>The Council has published Contract Standing Orders which detail how the Council procure services as part of the Constitution in part 4. The Council also has a team of qualified procurement officers to ensure compliance with these requirements.</p> <p>During 2019/20, the Council put significant focus on improving procurement processes within the organisation which has 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 was a change in process for the Authority and required 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 and continued to be actioned through 2021/22 and into 2022/23.</p> <p>These findings provide evidence of a significant weakness in arrangements during 2021/22 and the Council's procurement process at risk of being challenged by external suppliers, residents and the public.</p>

## Appendix B – Summary of all recommendations

### Recommendations

The table below sets out all the recommendations arising from the financial statements and value for money audits in 2021/22. All recommendations have been agreed by management.

Issue	Recommendation	Management Response
<p>Value for Money: The Council has an action plan in place which addresses the issues raised from the Internal Audit review. The concern from our review has been the pace of the actions.</p>	<p>The 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.</p>	
<p>Financial Statements: The Receipt in Advance – Capital Grants balance in both the current and prior year financial statements was misstated as it incorrectly included a balance related to the Disabled Facilities Grant. Management did not appropriately consider the distinction between restrictions and conditions as detailed in the CIPFA Code and the impact on the various grants being recognised, and consequently did not identify that this should not be recorded as a liability in the financial statements and instead should be held within reserves.</p>	<p>In our view, management should put into place the following controls:</p> <ul style="list-style-type: none"> <li>• Personnel at the Council, who have sufficient knowledge grant accounting, should review the grant agreements to identify the relevant conditions and restrictions.</li> <li>• Personnel at the Council, should use these identified conditions and restrictions and the guidance set out within the CIPFA Code and associated Guidance Notes to determine the applicable accounting treatment, paying particular attention to the classification between liabilities and reserves.</li> <li>• Personnel should ensure that they state, and are able to support, any judgements made in making these determinations.</li> </ul>	
<p>Financial Statements: In order to appropriately report related party transactions in the financial statements, we expect the Council to maintain an up to date register of interests. This is achieved through members and senior officers submitting their declaration of interests annually. During our testing we noted instances of members not providing a submission in 2021/22, although it is noted the majority of members have made a timely submission.</p>	<p>While we have been able to obtain alternative evidence to satisfy ourselves the Related Parties Transactions note is accurate, in future years we request that annual submissions are completed in all cases. Prior to a member/senior officer leaving the Council mid year, their submission should be obtained prior to their departure.</p>	

## Appendix C – Fees

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### 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)".

Our proposed fees for 2021/22 are set out within Section 08 of the Audit Results Report presented to the Policy and Organisation Board on 13 March 2024.

## Appendix C – Fees Relationships, services and related threats and safeguards

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The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2021 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

We confirm that we have not undertaken non-audit work.

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