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8 September 2010

## **S U M M O N S**

**MEETING:** Standards and Governance Committee  
**DATE:** 16 September 2010  
**TIME:** 6.00 p.m.  
**PLACE:** Committee Room 1, Town Hall, Gosport  
**Democratic Services contact:** Chris Wrein

LINDA EDWARDS  
BOROUGH SOLICITOR

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## **MEMBERS OF THE COMMITTEE**

Mr R V Perry  
(Independent Member)  
(Chairman)

Mr G A Lidgley  
(Independent Member)  
(Vice-Chairman)

Councillor Burgess  
Councillor Chegwyn  
Councillor Forder

Councillor Kimber  
Councillor Scard  
Councillor Wright

## **FIRE PRECAUTIONS**

(To be read from the Chair if members of the public are present)

**In the event of the fire alarm (single continuous sound) being activated, please leave the room immediately.**

**Proceed downstairs by way of the main stairs or as directed by GBC staff, follow any of the emergency exit signs. People with disability or mobility issues please identify yourself to GBC staff who will assist in your evacuation of the building.**

**IMPORTANT NOTICE:**

- If you are in a wheelchair or have difficulty in walking and require access to the Committee Room on the First Floor of the Town Hall for this meeting, assistance can be provided by Town Hall staff on request

If you require any of the services detailed above please ring the Direct Line for the Democratic Services Officer listed on the Summons (first page).

**NOTE:**

- i. Councillors are requested to note that, if any Councillor who is not a Member of the Committee wishes to speak at the meeting, then the Borough Solicitor is required to receive not less than 24 hours prior notice in writing or electronically and such notice shall indicate the agenda item or items on which the member wishes to speak.
- ii. Please note that mobile phones should be switched off for the duration of the meeting.

## **AGENDA**

RECOMMENDED  
MINUTE  
FORMAT

### **PART A ITEMS**

1. APOLOGIES FOR NON-ATTENDANCE

2. DECLARATIONS OF INTEREST

*All Members present are required to declare, at this point in the meeting or as soon as possible thereafter, any personal or personal and prejudicial interest in any item(s) being considered at this meeting.*

3. MINUTES

*To approve as a correct record the Minutes of the Committee meeting held on 15 July 2010 (copy attached)*

4. DEPUTATIONS – STANDING ORDER 3.5

*(NOTE: The Committee is required to receive a deputation(s) on a matter which is before the meeting of the Committee provided that notice of the intended deputation and its object shall have been received by the Borough Solicitor by 12 noon on Tuesday, 14 September 2010. The total time for deputations in favour and against a proposal shall not exceed 10 minutes).*

5. PUBLIC QUESTIONS – STANDING ORDER 3.6

*(NOTE: The Committee is required to allow a total of 15 minutes for questions from Members of the public on matters within the terms of reference of the Committee provided that notice of such Question(s) shall have been submitted to the Borough Solicitor by 12 noon on Tuesday, 14 September 2010).*

6. REPORT TO THOSE CHARGED WITH GOVERNANCE

Part II

*Report to follow.*

Contact Officer:  
Peter Wilson  
Ext 5301

7. INTERNAL AUDIT - MONITORING STATEMENT FOR QUARTER ONE  
2010/11 (APRIL 2010 TO JUNE 2010)

Part II

*To table the performance of the Internal Audit Section in the first three months of 2010/11 (1<sup>st</sup> April 2010 – 30<sup>th</sup> June 2010) against the agreed audit plan to the Members with responsibility for governance and to provide Members with an update on other key internal audit business within that same period.*

Contact Officer:  
Chris Davis  
Ext 5306

Standards and Governance Committee  
16 September 2010

- |     |  |   |
|-----|--|---|
| 8.  | UPDATE ON CONTRACT PROCEDURE RULES   | Part II                                       |
|     | <i>To provide a summary of significant variations to the revised Contract Procedure Rules (formerly known as Contract Standing Orders) agreed at Council on the 14<sup>th</sup> July 2010.</i> | Contact Officer:<br>Chris Davis<br>Ext 5306   |
| 9.  | STANDARDS AND GOVERNANCE COMMITTEE WORKPLAN  | Part II                                       |
|     | <i>Workplan attached.</i>  | Contact Officer:<br>Linda Edwards<br>Ext 5400 |
| 10. | ANY OTHER ITEMS<br><i>-which by reason of special circumstances the Chairman considers should be considered as a matter of urgency</i>   |   |

# Annual Governance Report

Gosport Borough Council

Audit 2009/10

**September 2010**

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## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
  - any third party.
-

Ladies and Gentlemen

## **2009/10 Annual Governance Report**

I am pleased to present the final version of my report on the results of my audit work for 2009/10.

I discussed and agreed a draft of the report with the Chief Executive and Borough Treasurer on 8 September 2010 and updated it as issues have been resolved.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 7 to 10);
- take note of the adjustments to the financial statements set out in this report (Appendix 2); and,
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3).

Yours faithfully

Patrick Jarvis  
District Auditor

16 September 2010

# Key messages

This report summarises the findings from the 2009/10 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements	Results	Page
Unqualified audit opinion	Yes	7
Financial statements free from material error	Yes	7
Value for money	Results	Page
Adequate arrangements to secure value for money	Yes	11

## Audit opinion

- 1 The work on Gosport Borough Council's Statement of Accounts is now substantially complete and I have not identified any material unadjusted errors. Subject to clearance of outstanding items, I expect to issue an unqualified audit opinion by 30 September 2010. If any more matters arise between the date of this report and signing the audit opinion that require reporting to those charged with governance, I will communicate these directly to the Chairman of the Standards and Governance Committee.

## Financial statements

- 2 The Council has prepared a good set of financial statements supported by comprehensive working papers. I did not identify any material errors, although a number of more minor errors are reported to you here and these have now been adjusted. More information is shown in the appendices to this report.

## Value for money

- 3 My work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources is now substantially complete. Once my work is finalised, I expect to issue an unqualified value for money conclusion by 30 September 2010.



## Key messages

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### Independence

- 4 I can confirm the audit has been carried out under the Audit Commission's policies on integrity, objectivity and independence.

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# Next steps

**This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.**

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**5** I ask the Standards and Governance Committee to:

- consider the matters raised in the report before approving the financial statements (pages 7 to 10);
- take note of the adjustments to the financial statements that are set out in this report (Appendix 2); and,
- approve the letter of representation for the Council before I issue my opinion and conclusion (Appendix 3).

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# Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

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## Opinion on the financial statements

- 6 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

---

## Adjustments to the financial statements

- 7 The following adjustments were made as a result of my audit:

### In your principal statements:

- **Income recognition:** The Council deferred recognition of £631k grant income which is not conditional on performance or achievement of targets in any particular accounting period, so an adjustment was made to recognise it on an accruals basis.

### In your disclosure notes:

- **Note 7: Officers' emoluments**
  - Minor amendments were made to the new statutory statement of senior officer's emoluments.
- **Note 13: Tangible Fixed Assets:**
  - Presentation of accrued depreciation on the disposal of Priddy's Hard (£964,000) was adjusted to improve clarity;
  - Brought forward opening balances for Assets under construction; Council Dwellings and Other Land and Buildings do not agree to audited entries for 2008/09. The Council added a note explaining this.
- **Note 24: Financial Instruments**
  - Trade Payables were added to this note;
  - A number of minor disclosures were added to comply with the SoRP. These included disclosing more details about the sensitivity analysis undertaken and details of financial instruments that are part due but not impaired.
- **Note 31: Retirement Benefits:** The total employers' contributions expected to be paid by the Council was added to this note. Other minor wording changes were made to comply with the SoRP.

- **Housing Revenue Account:**

Statement of movement on Housing revenue balance:

- An unnecessary disclosure of contributions from capital receipts to the government pool (£154,000) was removed;
- Mandatory disclosures for the Major Repairs Reserve were added.

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### Uncertainty in your accounts

- 8** My testing also identified two invoices within a sample of expenditure items that had not been posted to the correct year, although it is unlikely that this reflects an issue that is material. The balancing entry to this would be to the opening revenue balance for 2009/10 and there would be no effect on your final General Fund surplus.
- 9** As this is an estimated value, I have not asked the Council to adjust for this sum.

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### Important weaknesses in internal control

- 10** I reported the results of my audit of your internal control system in June. The key weakness that I identified related to authorisation of Journals. Officers have informed me that, following the adoption of CEDAR DATA financial systems from 2010/11 onwards, new procedures are already in place for this area.
- 11** I have not made a specific recommendation as you have introduced a new accounting system, but Members may wish to seek assurance that this issue has been addressed within the design of the new accounting system.

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### Letter of representation

- 12** Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation.

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### Key areas of judgement and audit risk

- 13** In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. These are repeated in table 1 below together with the results of my work on these areas.

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**Table 1      Key areas of judgement and audit risk**

Issue or risk	Finding
National changes in accounting requirements: <ul style="list-style-type: none"> <li>• Identifying and Accounting for service</li> </ul>	All changes to national accounting

Issue or risk	Finding
<p>concessions under IFRIC12.</p> <ul style="list-style-type: none"> <li>Accounting for the Collection Fund on an 'agency' basis.</li> <li>Accounting for VAT reclaims following the Fleming judicial ruling.</li> </ul>	<p>requirements have been successfully implemented.</p>
<p>Local service developments having a potential accounting impact. These include:</p> <ul style="list-style-type: none"> <li>Transferring the Explosion museum to Portsmouth Naval base property Trust</li> <li>Recognising grant in the correct accounting period.</li> <li>Accounting for disposals made to promote the regeneration of Rowner.</li> <li>Accounting for costs of the Council's debt restructuring</li> </ul>	<p>For Priddy's Hard, I have asked the Council to provide me with a short summary of the procedures adopted to ensure that the disposal was made at best obtainable value.</p> <p>I identified a number of specific grants that had not been recognised in accordance with accounting rules for income recognition.</p> <p>Testing of general disposals was satisfactory. No disposals have been made for Rowner.</p> <p>You accounted for a discount of £169,000 appropriately.</p>
<p>Areas identified by CIPFA as commonly presenting challenges for all Councils:</p> <ul style="list-style-type: none"> <li>Using correct valuation basis for fixed assets.</li> <li>Classifying and accounting for prior period adjustments.</li> <li>Inconsistencies between the statutory accounts and explanatory foreword.</li> <li>Defining trade payables properly within financial instruments</li> </ul>	<p>The Council applied the correct valuation basis for fixed assets</p> <p>The prior period adjustment relating to the collection fund was correctly shown.</p> <p>Other than for investment income, the your explanatory foreword and statutory accounts were consistent</p> <p>You did not properly recognise trade payables as financial instruments. An adjustment was made to your accounts.</p>
<p>The financial resilience of the Housing revenue account.</p> <p>Balances are below target levels, although the Borough Treasurer expects them to have improved by year-end 2009/10.</p>	<p>To account for this, I employed a lower testing threshold for my audit of your HRA. I will return to this issue as part of my value for money conclusion in 2010/11.</p>

## Accounting practice and financial reporting

- 14** I consider the non-numeric content of your financial reporting. Table 2 contains the issues I that I wish to raise in this report.

**Table 2**

Issue or risk	Finding
Working papers supporting accounting records.	Your accounts were well supported by working papers and accounting records.
General presentation	The links between your statement of movement on general funds and other statements were not clear. Readers of the accounts may find it difficult to determine how this statement links to the other accounting records.
Annual Governance Report	Your Annual Governance Report did not disclose the weakness in your journal authorisation procedures that existed throughout 2009/10.

## Preparation for International Financial Reporting Standards (IFRS)

- 15** In June Members received an update on this subject from officers. This update set out a timetable to implement IFRS, but concluded that 'there is a considerable amount of work to be completed'. I share this view.
- 16** I have so far undertaken two assessments of the Council's progress towards meeting this challenge. On both occasions, in common with many others, your overall progress was insufficient. Significant progress now urgently needs to be made if you are to reduce the risk that your 2010/11 statements will not comply with IFRS. This progress must be driven by a strong commitment by both Members and senior officers to adequately resource this process.

# Value for money

**I am required to decide whether the Council put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.**

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## Value for money conclusion

- 17** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my conclusions on each of the areas in Appendix 5.
- 18** I intend to issue an unqualified conclusion stating the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains my draft report.

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# Glossary

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## Annual governance statement

- 19** A statement of internal control prepared by an audited body and published with the financial statements.

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## Audit closure certificate

- 20** A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the certificate.

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## Audit opinion

- 21** On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:
- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
  - whether they have been prepared properly, following the relevant accounting rules; and
  - for local probation boards and trusts, on the regularity of their spending and income.

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## Qualified

- 22** The auditor has some reservations or concerns.

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## Unqualified

- 23** The auditor does not have any reservations.

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## Value for money conclusion

- 24** The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.



# Appendix 1 – Independent auditor's report to Members of Gosport Borough Council

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## Opinion on the accounting statements

I have audited the Authority accounting statements and related notes of Gosport Borough Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The Authority accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies

This report is made solely to the members of Gosport Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

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## Respective responsibilities of the Chief Finance Officer and auditor

The Chief Finance Officer's responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice of the financial position of the Council and its income and expenditure for the year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by

CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures

I read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements. My responsibilities do not extend to any other information.

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### Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Council in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

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### Opinion

In my opinion the accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Council as at 31 March 2010 and its income and expenditure for the year then ended.

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### Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

### Council’s Responsibilities

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

### Auditor’s Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Council for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Council has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance, I am satisfied that, in all significant respects, Gosport Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

Patrick Jarvis  
Officer of the Audit Commission

Collins House,  
Bishopstoke Road  
Eastleigh  
Hampshire

# Appendix 2 – Amendments to the draft accounts

I identified the following misstatements during my audit and managers have made the necessary adjustments. I bring them to your attention to aid you in fulfilling your governance responsibilities.

**Table 3**

		Income and Expenditure Account		Balance sheet	
Adjusted misstatements	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Grant Income	Income deferred incorrectly		631		631
Depreciation	Priddy's Hard disposal		964		964

# Appendix 3 – Draft letter of representation

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To:  
Patrick Jarvis  
Audit Commission  
Collins House  
Bishopstoke Road  
Eastleigh  
Hampshire  
SO50 6AD

## **Gosport Borough Council - Audit for the year ended 31st March 2010**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Gosport Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31st March 2010.

## **Compliance with the statutory authorities**

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which present a true and fair view of the financial position and financial performance of the Council and for making accurate representations to you.

## **Supporting records**

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council meetings, have been made available to you.

## **Irregularities**

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;

- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

### Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

### Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

### Contingent liabilities

All contingent liabilities have been disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation; and,
- there are no material commitments or contractual issues other than those already disclosed in the financial statements;
- no financial guarantees have been given to third parties.

### Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

### Post balance sheet events

Since the date of approval of the financial statements by Council, other than in respect of the disclosed changes to pension scheme estimated liabilities, no additional

## Appendix 3 – Draft letter of representation

significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

### Specific representations:

There are no other material amounts relating to unfunded liabilities, curtailments or settlements of past service costs relating to pension provision other than those which have been properly recorded and disclosed in the financial statements.

The Council currently has the ability and intention to hold the assets disclosed as long term investments on its balance sheet on a long-term basis

The system of internal control was in place for the duration of the financial year and remained so until the date of approval of the annual accounts

The use of the major repairs allowance as a proxy measure for depreciation in respect of the Council's housing stock is suitable and appropriate

I have reviewed the Council's contracts with the private sector and confirm that there are no public to private service concession arrangements

Signed on behalf of Gosport Borough Council

I confirm that the this letter has been discussed and agreed by the Standards and Governance Committee on [date]

Signed

Name

# Appendix 4 – Value for money criteria

KLOE	Met
<b>Managing finances</b>	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
<b>Governing the business</b>	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
<b>Managing resources</b>	
Natural resources	Yes



## Appendix 4 – Value for money criteria

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# The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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## AGENDA ITEM NO. 7

<b>Board/Committee:</b>	<b>Standards &amp; Governance Committee</b>
<b>Date of Meeting:</b>	<b>16 September 2010</b>
<b>Title:</b>	<b>Internal Audit – Monitoring Statement for Quarter One 2010/11 (April 2010 to June 2010)</b>
<b>Author:</b>	<b>Head of Internal Audit &amp; Risk Assurance</b>
<b>Status:</b>	<b>For Decision</b>

### **Purpose**

To table the performance of the Internal Audit Section in the first three months of 2010/11 (1<sup>st</sup> April 2010 – 30<sup>th</sup> June 2010) against the agreed audit plan to the Members with responsibility for governance.

Secondly, to provide Members with an update on other key internal audit business within that same period.

### **Recommendation**

That the Committee reviews the performance of Internal Audit from April 2010 to June 2010.

That the Committee note the Head of Internal Audit's other key business in that period.

### **1 Background**

- 1.1 To enhance the Council's corporate governance arrangements, in line with the good practice, the report outlines the performance of the Internal Audit Section against its overall agreed annual plan for 2010/11.
- 1.2 In addition, the early work performed in 2010/11 by the Internal Audit section allows an early indication on the Council's overall internal control environment that supports the annual governance statement.

### **2 Report**

#### **2.1 Position after three months**

- 2.1.1 The current position of internal audit workload is on target against its projected plan as at the 30th June 2010. All fundamental work had been completed within the previous year for inspection by our External Auditors (late March 2010). Some minor work did slip into April 2010 but all this has now been fully reviewed and duly signed off by senior management. This work was covered using an element of the contingency factored into the 2010/11 audit plan (60 days). Additional work in supporting the development of strategic risk

management and procurement has also meant that the section has 40 days of contingency available for the remaining nine months of the year. Advisory work on system and process development and completion the updated Contract Procedure Rules was also resource intensive for quarter one.

- 2.1.2 All planned fundamental reviews have been allocated and the team are beginning preliminary planning work in advance of the audit fieldwork beginning later in the year.

I propose to bring a detailed half year position statement to the Committee January 2011. The sections early status against the annual plan (as at 30<sup>th</sup> June 2010) places some degree of assurance that the agreed audit plan will be delivered in 2010/11.

- 2.1.3 Additional audit resource in quarter one has been allocated to support the strategic procurement, risk management, performance monitoring and advising on new systems and processes.

## **2.2 Section Improvements**

- 2.2.1 The section has had a settled team for the first three months with the new Principal Auditor settling in extremely well to the audit working environment. Furthermore, the stability and experience of the new member of the team has meant the section has been able to review their current processes and make minor adjustments to become more productive with a view on future fiscal challenges (producing more with the same). The eventual uniformity of process and working practices across the partnership are now beginning to take shape and we are currently reviewing the sections' mission, charter incorporating the terms of reference. Audit programs and how we plan our workloads (short, medium and long term) across each authority are tasks for this year to bring a consistent approach to assist audit management and to supply key local performance indicators at both a strategic and operational level. Finally, with the development of the performance management software (Covalent) will be become normal practice to post all audit recommendations onto the system to allow on-line tracking by both management and internal audit.

## **2.3 Eastleigh Partnership**

- 2.3.1 The continued partnership arrangement has progressed extremely well over the first three months of 2010/11. A further meeting has been planned, for early October, between the respective Chief Financial Officers (CFO's), to discuss general operational arrangements and the future of partnership beyond 2010/11.

## **3 Risk Assessment**

- 3.1 The report has a minimal direct impact on the overall risk of the

Council.

#### **4 Conclusion**

- That the Committee notes the strong performance of the Internal Audit Section in the first three months of 2010/11 to the 30<sup>th</sup> June 2010.
- That the Committee note the quarterly update and current status of the internal audit partnership with Eastleigh Borough Council.

<b>Financial Services comments:</b>	Nil
<b>Legal Services comments:</b>	None for the purposes of this Report.
<b>Service Improvement Plan implications:</b>	The information provided within the report has a direct link to improving the overall governance arrangements within the Council. The performance of the Internal Audit section is a key operational indicator monitored closely against the agreed Annual Audit Plan.
<b>Corporate Plan:</b>	Internal Audit's work supports all Council Services in pursuit of their overall corporate and strategic priorities.
<b>Risk Assessment:</b>	See Section 3
<b>Background papers:</b>	Nil
<b>Appendices/Enclosures:</b>	Nil
<b>Report author/ Lead Officer:</b>	Chris Davis 023 9254 5306

## AGENDA ITEM NO. 8

<b>Board/Committee:</b>	<b>Standards &amp; Governance Committee</b>
<b>Date of Meeting:</b>	<b>16 September 2010</b>
<b>Title:</b>	<b>Update on Contract Procedure Rules</b>
<b>Author:</b>	<b>Head of Internal Audit &amp; Risk Assurance</b>
<b>Status:</b>	<b>For Information</b>

### **Purpose**

To provide the Chairman and other Members of the Committee with a summary of significant variations to the revised Contract Procedure Rules (formerly known as Contract Standing Orders) agreed at Council on the 14<sup>th</sup> July 2010. The background for why these rules were amended appears in that report.

### **Recommendation**

That the Committee note the significant variations to the revised Contract Procedure Rules.

#### **1.0 Background**

- 1.1 The Chairman requested at the previous Committee meeting (15<sup>th</sup> July 2010) that he would like a summary of significant amendments against the previous Contract Standing Orders (dated 2002).
- 1.2 The revised Contract Procedure Rules were passed through Council on the 14<sup>th</sup> July 2010.

#### **2.0 Report**

##### **Contract Procedure Rules – significant variations to Contract Standing Orders.**

- 2.1 Contract standing orders last reviewed in 2002, they have been amended to accommodate the principles of the National Procurement Strategy, the Egan report and procurement legislation. They are intended to promote good procurement practices and public accountability/transparency.
  - Definitions appendix – clearly explains terminology.
  - Officer Responsibilities section: Clearer guidance reinforcing that Officers must ensure any Agents, Consultants and contractual partners comply with Contract Procedure Rules; states that Officers should check if a Corporate Contract already exists, Hampshire/National Framework agreements

(must be used unless justifiable reason not to).

- Refers to TUPE (Transfer of Undertaking) issues.
- Collaborative procurement opportunities and exemptions – approval from Chairman of Major Contract group for collaborative procurement with other LAs, government depts, statutory undertaker or public service purchasing consortium.
- Section on Records – what records must be kept depending on values.
- Section on Advertising, Approved Lists and Framework agreements:

Proposed contracts in excess of £50k a sufficiently accessible advertisement should be published – examples of where to advertise give such as Business Portal, GBC website etc.

States Officers are responsible for ensuring that all Candidates for a Relevant Contract are fully assessed to establish they have a sound economic and financial standing, sound technical ability and able to fulfil the Authority's requirements.

Contracts expected to exceed £50,000 – use approved lists maintained by the Authority or shortlists assessed.

Guidance on approved lists.

Framework agreements – Explains how framework agreements may be awarded.

- Clarifies award procedures and authorisations.
- The Borough Solicitor and Deputy Chief Executive & Borough Treasurer must be consulted where contracts to provide services or supply goods for external organisations are contemplated.
- Pre-tender market research – Officer may consult potential suppliers prior to issue of ITT in general terms provided this does not prejudice any potential candidate. Must not seek or accept technical advice on the preparation of the ITT from anyone with a commercial interest in the contract.
- Standards and award criteria section – clearly states rules regarding award criteria.

- Clarification procedures and post tender negotiation – provides guidance on what is allowed at ITT stage.
- Contract documents – minimum requirements.

Contract management – Gateway review process for contracts deemed high risk, high value or high profile.

### **3.0 Risk Assessment**

- 3.1 Procurement of all types is open for challenge. There is much legislation covering public procurement that governs what the Council must do to ensure strong principles and these Rules form part of the overall Council's Constitution. The Council has already adopted the new Contract Procedure Rules (Council 14 July 2010) and this report highlights only the significant amendments. Therefore the risk assessment has already been completed earlier in the democratic process.

### **4.0 Conclusion**

That the Committee notes the variations to the Council agreed Contract Procedure Rules

<b>Financial Services comments:</b>	Nil
<b>Legal Services comments:</b>	None for the purposes of this Report.
<b>Service Improvement Plan implications:</b>	Nil.
<b>Corporate Plan:</b>	Nil.
<b>Risk Assessment:</b>	See Section 3
<b>Background papers:</b>	<ul style="list-style-type: none"> <li>▪ Council 14<sup>th</sup> July 2010</li> <li>▪ Constructing Excellence – Contract Procedure Rules (CIPFA)</li> </ul>
<b>Appendices/Enclosures:</b>	Nil
<b>Report author/ Lead Officer:</b>	Chris Davis 023 9254 5306



**AGENDA ITEM NO. 9**

**STANDARDS AND GOVERNANCE COMMITTEE WORKPLAN**  
**AS AT 16 SEPTEMBER 2010**

<b>Work Area</b>	<b>Report To Committee</b>	<b>Lead Officer</b>
Internal Audit - Monitoring Statement for Quarter One 2010/11 (April 2010 to June 2010)	16 Sept 10	Chris Davis
Update on Contract Procedure Rules	16 Sept 10	Chris Davis
Fraud & Corruption Strategy update	28 Oct 10	Linda Edwards/ Chris Davis
High Risk Register	28 Oct 10	Chris Davis
Member/Officer Protocol	28 Oct 10	Linda Edwards
Member Development (20 January 2011)	20 Jan 11	Linda Edwards
Governance Improvement Action Plan	20 Jan 11	Ian Lycett
Review of Financial Regulations	20 Jan 11	Peter Wilson
Report on changes to or replacement of the Standards Board for England	When legislation announced	Linda Edwards