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15 June 2011

S U M M O N S

MEETING: Standards and Governance Committee
DATE: 23 June 2011
TIME: 6.00 p.m.
PLACE: Committee Room 1, Town Hall, Gosport
Democratic Services contact: Geoff Rawling

LINDA EDWARDS
BOROUGH SOLICITOR

MEMBERS OF THE COMMITTEE

Mr R V Perry
(Independent Member)

Mr G A Lidgley
(Independent Member)

Councillor Chegwyn
Councillor Forder
Councillor Jessop

Councillor Philpott
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 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. ELECTION OF CHAIRMAN FOR THE MUNICIPAL YEAR 2011/12
2. ELECTION OF VICE-CHAIRMAN FOR THE MUNICIPAL YEAR 2011/12
3. APOLOGIES FOR NON-ATTENDANCE
4. 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.

5. MINUTES

To approve as a correct record the Minutes of the Committee meeting held on 17 March 2011 (copy attached)

6. 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, 21 June 2011. The total time for deputations in favour and against a proposal shall not exceed 10 minutes).

7. 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, 21 June 2011).

8. AUDIT COMMISSION'S AUDIT PLAN

Part II

The purpose of this document is to set out the Audit Commission's audit work to address the opinion audit risks identified for 2010/11. The audit plan has been discussed and agreed with officers in the Finance department.

Contact Officer:
Rose Coates
Audit
Commission

9. AUDIT COMMISSION'S AUDIT FEE 2011/12

Part II

To inform the Committee of the proposed audit work and fees for 2011/12 financial year. The Audit Commission set the scale fee for each audited body. This represents the minimum fee expected for delivering a Code of Practice audit. Officers agreed this fee in April 2011.

Contact Officer:
Rose Coates
Audit
Commission

Standards and Governance Committee
23 June 2011

- | | | |
|-----|---|---|
| 10. | UPDATED ANTI FRAUD AND CORRUPTION POLICY | Part I |
| | <i>The need to update the Council's Anti Fraud & Corruption Policy (Constitution: Part 5 – Schedule 22), in line with updated legislation (Bribery Act 2010). The Act will come into force on the 1st July 2011.</i> | Contact Officer:
Chris Davis
Ext 5306 |
| 11. | AMENDED FINANCIAL PROCEDURE RULES | Part I |
| | <i>The need to update the Council's Financial Procedure Rules (formerly known as Financial Regulations), previous version dated April 2006, in line with updated legislation, codes of practices, a revised democratic process, Council restructure and reducing bureaucracy to improve and streamline decision making.</i> | Contact Officer:
Chris Davis
Ext 5306 |
| 12. | ANNUAL GOVERNANCE STATEMENT 2010/11 | Part II |
| | <i>To bring to the attention of the Members the Annual Governance Statement (AGS) that will be presented to Policy & Organisation Board in conjunction with the Council's Annual Accounts for 2010/11.</i> | Contact Officer:
Chris Davis
Ext 5306 |
| 13. | INTERNAL AUDIT ANNUAL REPORT 2010/11 | Part II |
| | <i>In accordance with the national Code of Practice on Internal Audit, the Head of Internal Audit is required to present an annual report to the appropriate body that has responsibility for the Internal Audit function.</i> | Contact Officer:
Chris Davis
Ext 5306 |
| 14. | TRANSPARENCY – PUBLICATION OF ADDITIONAL DATA REGARDING MEMBER INTERESTS, ATTENDANCE ETC | Part II |
| | <i>To provide a cost breakdown of the work required to include on the GBC website the member information that HCC currently displays on its website – Councillor attendance at meetings, claims and recorded interests.</i> | Contact Officer:
Ian Lycett
Ext 5201 |
| 15. | STANDARDS AND GOVERNANCE COMMITTEE WORKPLAN | Part II |
| | <i>Workplan attached.</i> | Contact Officer:
Linda Edwards
Ext 5401 |
| 16. | ANY OTHER ITEMS
<i>-which by reason of special circumstances the Chairman considers should be considered as a matter of urgency</i> | |

AGENDA ITEM NO 8

Meeting:	Gosport Borough Council Standards and Governance Committee Meeting
Item no:	
Date:	June 2011
Author:	Rose Coates
Subject:	Audit Plan for 2010/11

1. **Purpose and Rationale**

The purpose of this document is to set out my planned audit work to address the opinion audit risks identified for 2010/11. The audit plan has been discussed and agreed with officers in the Finance department.

2. **Summary**

I issued my audit fee letter for my 2010/11 audit in June 2010. This was in advance of completing the 2009/10 audit. Since setting this fee the Audit Commission has announced fee rebates totalling £7,585 (see page 5).

This audit plan sets out the audit risks I have identified (pages 8 and 9) and my proposed testing strategy (page 11).

It also includes the planned audit work to support my VFM conclusion (pages 13 and 14).

The planned audit outputs are set out on page 17.

My work to date has included:

1. Monitoring progress of your preparations for IFRS (see page 9) and
2. A review of your IT controls. My audit findings and the Council's response is set out in page 11 and Appendix 5.

3. **Recommendations**

None.

4. Link to Assurance Framework

Strengthening governance, financial reporting and internal controls at the Council.

5. Action for Standards and Governance Committee

The Committee is asked to approve the Audit Plan.

Audit plan

Gosport Borough Council

Audit 2010/11

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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Introduction

This plan sets out the audit work that I propose to undertake for the audit of financial statements and the value for money conclusion 2010/11.

1 The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:

- audit work specified by the Audit Commission for 2010/11;
- current national risks relevant to your local circumstances; and
- your local risks.

Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.

2 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

3 I comply with the statutory requirements governing our audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

Fee for the audit

The fee for the audit is £122,500 as indicated in my letter of 8 April 2010.

4 The Audit Commission scale fee (or minimum fee expected) for the Council is £111,446. For 2010/11, my audit fee at £122,500 is almost 10 per cent above the minimum level expected. It was set at this level to address the following audit risks:

- the introduction of International Reporting Standards;
- the introduction of new financial systems; and
- the proposals to award significant service contracts by the Council during the year.

5 The agreed audit fee for 2010/11 is in line with the range of fees expected by the Commission.

6 However, the Commission has announced the following fee rebates for 2010/11:

- a rebate of 1.5 per cent of the scale fee as a result of introducing a revised value for money audit approach (£1,772); and
- a rebate of 6 per cent of the scale fee for the additional audit costs relating to the transition to International Financial Reporting Standards (£6,913).

This means that your 2010/11 fee is subject to rebates totalling £7,585.

7 In setting the fee, I have assumed that:

- good quality, accurate working papers are available at the start of the financial statements audit;
- the Council will supply good quality working papers to support the restatement of 2009/10 balances to comply with International Financial Reporting Standards (IFRS); and
- Internal Audit undertakes appropriate work on all material systems and this is available for our review by 30 April 2011.

8 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, I will discuss this first with the Deputy Chief Executive and Borough Treasurer and I will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

9 Further information on the basis for the fee is set out in Appendix 1.

Specific actions Council could take to reduce its audit fees

10 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. These are detailed below. As in previous years, I will continue to work with staff to identify any further actions the Council could take, and to provide ongoing audit support.

- Liaise closely with the auditors during the year and at year-end, particularly if there is any significant slippage in the proposed plans for the accounts preparation.
- Implement robust quality assurance processes in the preparation and review of the financial statements. This should include an overall review by the Deputy Chief Executive and Borough Treasurer to confirm the financial statements are in line with expected results (evidenced by signing the draft financial statements). In addition the accounts and all working papers supporting the financial statements should be reviewed and sign off by the Financial Services Manager to ensure the financial statements agree with and are clearly cross referenced to the ledger and supporting evidence. (This check could be evidenced by signing each page of a draft set of financial statements).
- Ensure that the financial statements are supported by a detailed summary of the financial position for the year along with the actions taken during the year to deliver efficiencies and manage the financial pressures arising in-year.
- Prepare a robust analytical review of the key financial statements with previous year and providing supporting evidence for significant variations.
- Prepare for the auditor detailed papers explaining any unusual accounting transactions and any changes in accounting policy which clearly explain the reasons why these changes have been adopted, along with an explanation of the impact of them on your financial targets if applicable.
- Maintain a log of all accounting amendments highlighted during the audit and agree with the auditor when to correct them. This will minimise the number of financial statements provided to the auditor for checking.

Auditors report on the financial statements

I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).

11 I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Council as at 31 March 2011.

Materiality

12 I will apply the concept of materiality in both planning and performing the audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

Identifying opinion audit risks

13 I need to understand fully the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. I do this by:

- identifying the business risks facing the Council, including assessing your own risk management arrangements;
- considering the financial performance of the Council
- assessing internal control - including reviewing the control environment, the IT control environment and Internal Audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Council information systems.

Identification of specific risks

I have considered the additional risks that are appropriate to the current opinion audit and have set these out in the tables below.

14 I consider the additional audit risks arising each year and carry out specific audit procedures to address them. Significant risks are those that relate to significant material non-routine transactions, events or judgemental matters. Significant risks therefore occur infrequently. If I identify a significant risk I must:

- assess any management controls put in place to mitigate the significant risk;
- review the operating effectiveness of system and management controls; and
- undertake some substantive testing .

15 A specific risk occurs where I identify a specific issue related to a particular item in the financial statements.

Table 1: **Significant opinion risk**

Risk area	Audit response
<p>First time implementation of IFRS</p> <p>This is a significant opinion risk as it impacts on the full set of accounts and may lead to financial mis reporting if the Council fails to implement IFRS correctly.</p> <p>The Council has to prepare its 2010/11 accounts in accordance with International Financial Reporting Standards (IFRS). The Council has to adopt appropriate accounting policies, and restate balances and transactions as at the transition date (1 April 2009) in accordance with IFRS to determine the appropriate comparatives for the 2009/10 year. This represents a significant change in financial reporting.</p>	<p>I will carry out specific audit procedures to ensure that all elements of IFRS have been correctly implemented by the Council. This will include reviewing opening balances and comparative information, the Council's accounting policies and the detailed entries in the 2010/11 accounts.</p>

Table 2: **Specific opinion risks**

Risk area	Audit response
<p>The introduction of new financial systems</p> <p>In 2010/11 new financial systems will be in use. The COA e-financials went live from 1st of April 2010. COA e-financials provides the general ledger, accounts receivable and accounts payable systems. The risks to my opinion are two fold:</p> <ul style="list-style-type: none"> - opening balances are not completely or accurately transferred; and - income and expenditure during the year is not recorded with the result that the income and expenditure is mis reported in the financial statements. 	<p>I will understand and document the system changes and assess the impact on my audit. This will include tests of the accuracy and completeness of opening information transferred and transactions processed during the year.</p> <p>I am also carrying out an Information Technology (IT) risk assessment to assess general IT controls.</p>
<p>Management restructure costs</p> <p>The risk is that the Council will fail to account for redundancy and exit packages accurately or completely in its 2010/11 accounts.</p>	<p>I will review your accounting treatment and assess its compliance with recommended accounting requirements.</p>
<p>Debtors</p> <p>The system controls in the new system have operated effectively for part of the year only. I need assurance over the full year.</p>	<p>I need to carry out additional audit work to gain assurance that debtors values are correctly stated in the accounts.</p>

First time implementation of IFRS

16 The Audit Commission has been following the progress of IFRS implementation in local authorities since November 2009 in its Countdown to IFRS series of reports. The Commission published the final "Countdown to IFRS" report in March 2011 which reported on the findings from the January 2011 auditor survey on implementation of IFRS.

17 Auditors were required to make an overall assessment of the local authority's ability to produce IFRS-compliant accounts for 2010/11 using the following ratings:

- RED - not 'on track' or major issues to resolve
- AMBER - minor issues to resolve; or
- GREEN - 'on track' to produce IFRS compliant accounts.

18 The assessment for Gosport Borough Council was 'RED- not on track or major issues to resolve'. The key reasons for this assessment were the slippage in the IFRS implementation plans at the Council and concerns over staff capacity within the Finance department to implement such a major change in accounting.

19 It is pleasing to report that good progress has been made since this assessment in January 2011. On the 8 April 2011, the Council provided its accounting policies under IFRS, and on 15 April 2011, the Council provided me with its draft of the 2010/11 statement of accounts which includes the 2009/10 IFRS adoption figures. I carried out a high level review and fed back my comments to the Council. I will review the financial statements in detail as part of my post statements visit in July 2011.

Testing strategy

I have produced a testing strategy, informed by the risks I have identified. This comprises testing key controls and substantive tests of transactions and material account balances at year-end.

20 My audit work covers the whole of the financial year. I carry out my audit testing both before and after the draft financial statements have been produced (pre- and post-statement testing).

21 The auditing standards require that I carry out some substantive procedures on all material account balances. Wherever possible, I will complete some substantive testing earlier in the year before the financial statements are available for audit. I have identified the following areas where substantive testing could be carried out early:

- review of accounting policies;
- IFRS implementation.

22 Where I identify other possible early testing, I will discuss it with officers.

23 Wherever possible, I will seek to rely on the work of Internal Audit to help meet my responsibilities.

24 I will also seek to rely on the work of other auditors and experts, as appropriate, to meet my responsibilities. I plan to rely on the work of experts in the following areas:

- Valuation of fixed assets.
- Pensions disclosures.

25 The new clarified international standards of auditing place new requirements on me as your auditor. I am required to seek specific information from you. This information is set out in Appendix 4. I request management provide this information by 30 May 2011.

Review of general information technology (IT) controls

26 International Standards on Auditing (United Kingdom and Ireland) 315 requires auditors to understand the key elements of the IT control environment.

27 My review of general IT controls has been redesigned for 2010/11 to meet the requirements of the clarified international standards of auditing. The assessment is more rigorous and must be carried out by IT trained audit staff.

28 My initial review of IT controls for 2010/11 identified a number of issues related to the small size of the Council's IT department. My audit findings are set out in Appendix 5 along with the response and agreed action plan from officers.

Value for money conclusion

I am required to give a statutory VFM conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

29 The Audit Commission has introduced a new approach to support my VFM Conclusion. This is based on two criteria, specified by the Commission, related to your arrangements for:

- securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

30 I have discussed the new approach with officers. More details of this approach can be found in my earlier report '2010/11 audit: Changes you can expect to see'.

31 My audit strategy is informed by my risk assessment summarised in Table 3:

Table 3: **Specific risks impacting on my VFM conclusion**

Risk area	Audit response
Financial Resilience The expected scale of the budget reductions following the government's spending review will have a significant impact on councils. Councils will have to manage the impact of budget cuts back at a time of increasing demand for their services. The robustness the Council's financial planning will be critical if it is to prevent unexpected budgetary pressures or deficits from occurring.	I will use the following audit commission tools to assess the Council's processes to manage its financial risks and opportunities effectively, and to secure a stable financial position. <ul style="list-style-type: none">■ Financial resilience survey■ VFM profile tools;■ financial ratios tool.

Risk area	Audit response
<p>Securing economy, efficiency and effectiveness</p> <p>Significant reductions in the level of central government funding mean that services may no longer be affordable, or have to be delivered in different ways.</p>	<p>I will assess the Council's processes to manage its financial risks and opportunities effectively, and to secure a stable financial position.</p> <p>I will also consider relevant messages from the Audit Commission study "Back to Front: efficiency of back office functions in local government".</p>
<p>Management restructure costs</p> <p>The Council has to deliver significant efficiencies in 2010/11 and going forward and has been reducing its costs.</p> <p>The risk for my VFM conclusion is that the Council will fail to comply with proper practices or secure VFM in its redundancy and severance packages.</p>	<p>Using the Audit Commission severance checklist I will assess the Councils arrangements.</p>
<p>Procurement of service contracts</p> <p>During 2010/11 the Council is procuring £10m of service contracts. The risk to my VFM conclusion is the Council will not follow proper processes to ensure probity and achieve value for money.</p>	<p>I will review the Council's procurement arrangements to inform my value for money conclusion.</p>

Key milestones and deadlines

The Council is required to prepare the financial statements by 30 June 2011. I am required to complete my audit and my opinion and value for money conclusion by 30 September 2011.

32 The key stages in producing and auditing the financial statements are in Table 4.

33 My team will agree with you a schedule of working papers required to support the entries in the financial statements. The agreed fee is dependent, in part, on the timely receipt of fully complete and accurate working papers.

34 Every week, during the audit, the audit team will meet with your key contact and review the status of all queries. I can arrange meetings at a different frequency depending on the need and the number of issues arising. In short, we will tailor our arrangements to meet your needs as far as possible.

Table 4: **Proposed timetable**

Activity	Date
Control and early substantive testing	March/April 2011
Receipt of accounts	By 30 June 2011
Sending audit working papers to the auditor	By 30 June 2011
Start of detailed testing	July 2011
Progress meetings	Weekly (or as necessary)
Present report to those charged with governance at the audit committee	September 2011
Issue opinion and value for money conclusion	By 30 September 2011

The audit team

Table 5 shows the key members of the audit team for the 2010/11 audit.

Table 5: Audit team		
Name	Contact details	Responsibilities
Patrick Jarvis Engagement Lead	p-jarvis@audit- commission.gov.uk 0844 798 8986	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Rose Coates Audit Manager	r-coates@audit- commission.gov.uk 0844 798 4662	Manages and coordinates the different elements of the audit work. Key point of contact for the Deputy Chief Executive and Borough Treasurer.
Alan Gregory Team Leader	a-gregory@audit- commission.gov.uk 0844 798 8985	Manages the day to day audit work and audit staff on site and liaises with the Audit Manager. Key point of contact for Head of Accountancy.

Independence and objectivity

35 I am not aware of any relationships that may affect the independence and objectivity of the Engagement Lead and the audit staff, which I am required by auditing and ethical standards to communicate to you.

36 I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in Appendix 2.

Meetings

37 The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers.

Quality of service

38 I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

39 If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Planned outputs

40 My team will discuss and agree reports with the right officers before presenting them to the Standards and Governance Committee.

Table 6: **Planned outputs**

Planned output	Indicative date
Annual governance report	September 2011
Auditor's report giving an opinion on the financial statements	September 2011
Annual audit letter	November 2011

Appendix 1 Basis for fee

The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.

The risk assessment process starts with the identification of the significant financial and operational risks applying to the Council with reference to:

- my cumulative knowledge of the Council;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
- interviews with Council officers; and
- liaison with Internal Audit.

Assumptions

In setting the fee, I have assumed that:

- you will inform me of significant developments impacting on the audit;
- Internal Audit meets the appropriate professional standards;
- Internal Audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that I can place reliance for the purposes of our audit;
- you provide:
 - good quality working papers and records to support the financial statements;
 - information asked for is provided within agreed timescales;
 - prompt responses to draft reports; and
- there is no allowance for extra work needed to address questions or objections raised by local government electors.

Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee.

Appendix 2 Independence and objectivity

Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Standards and Governance Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.

The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

The Standing Guidance for Auditors includes a number of specific rules.

The key rules relevant to this audit appointment are as follows.

- Appointed auditors should not perform additional work for an audited body (i.e. work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being 'additional work' and charged for separately from the normal audit fee.
- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional safeguards in the last 2 years.
- The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.

The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

Appendix 3 Glossary

Annual audit letter

Report issued by the auditor to an audited body that summarises the audit work carried out in the period, auditors' opinions or conclusions (where appropriate) and significant issues arising from auditors' work.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by auditors in accordance with the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'Members' and 'Those charged with governance'.)

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and other guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB, which contain basic principles and essential procedures with which auditors are required to comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts or accounting statements that audited bodies are required to prepare, which summarise the accounts of the audited body, in accordance with regulations and proper practices in relation to accounts.

Internal control

The whole system of controls, financial and otherwise, that is established in order to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality (and significance)

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only in relation to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, in addition to their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements.

Significance has both qualitative and quantitative aspects.

Members

The elected, or appointed, members of local government bodies who are responsible for the overall direction and control of the audited body. (See also ‘Those charged with governance’ and ‘Audited body’.)

Regularity (of expenditure and income)

Whether, subject to the concept of materiality, the expenditure and income of the audited body have been applied for the purposes intended by parliament, and whether they conform with the authorities that govern them.

Remuneration report

Audited bodies are required to produce, and publish with the financial statements, a remuneration report that discloses the salary and pension entitlements of senior managers.

Annual Governance Statement

Local government bodies are required to publish a statement on internal control (SIC) with their financial statements. The disclosures in the SIC are supported and evidenced by the body's assurance framework. At local authorities the SIC is known as the Annual Governance Statement and is prepared in accordance with guidance issued by CIPFA. Police authorities also produce a SIC in accordance with relevant CIPFA guidance. Local probation trusts are required to prepare a SIC in accordance with the requirements specified by HM Treasury in Managing Public Money.

Those charged with governance

Those charged with governance are defined in auditing standards as 'those persons entrusted with the supervision, control and direction of an entity'.

In local government bodies, those charged with governance, for the purpose of complying with auditing standards, are:

- for local authorities – the full council, audit and risk management committee or any other committee with delegated responsibility for approval of the financial statements;

Audit committees are not mandatory for local government bodies, other than police authorities and local probation trusts. Other bodies are expected to put in place proper arrangements to allow those charged with governance to discuss audit matters with both internal and external auditors. Auditors should satisfy themselves that these matters, and auditors' reports, are considered at the level within the audited body that they consider to be most appropriate.

Whole of Government Accounts

The Whole of Government Accounts initiative is to produce a set of consolidated financial accounts for the entire UK public sector on commercial accounting principles. Local government bodies, other than probation boards and trusts, are required to submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, their statutory accounts.

Appendix 4 Gosport Borough Council: Audit Information request 2010/11

Information request in relation to the audit of Gosport Borough Council financial statements for the year ended 31 March 2011. Management are requested to provide this information by 30 May 2011.

Existing requirements

The following requirements have not changed as a result of the introduction of 'clarified' auditing standards. I am required to obtain an understanding of the following:

- 1) Managements' processes in relation to:
 - undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud;
 - identifying and responding to risks of fraud in the organisation;
 - communicating to employees views on business practice and ethical behaviour; and,
 - communicating to those charged with governance processes for identifying and responding to fraud.
- 2) Managements' awareness of any actual or alleged instances of fraud.
- 3) How Management gains assurance that all relevant laws and regulations have been complied with and details of any non-compliance with such laws and regulations that may have occurred.
- 4) Whether there is any potential litigation or claims that would affect the financial statements.

A brief response to the above issues, and how they are addressed either by management or by yourself in your capacity as the section 151 officer, will suffice.

New Clarified requirements

The following relate to amended or new requirements on external auditors to seek information from management:

Internal Control

Please provide me with a summary that describes how management;

- identifies risks;
- estimates the significance of the risks;
- assesses the likelihood and frequency of their occurrence;
- decides on actions to manage them and monitors controls (in particular monitoring internal controls over financial reporting).

In relation to this, I am happy to accept any reports prepared for Members or other management forums that cover these issues.

Related parties

Please provide me with a summary that describes the controls you have established to identify, account for and disclose related party transactions and relationships. This should include how you authorise, record and agree such transactions.

Use of Experts

I would be grateful if you could list those areas of your accounts where you plan to use experts in establishing true and fair values.

In particular, I need to understand the processes you have in place to evaluate the competence, capabilities and objectivity of each expert used in your accounts preparation process. In this context an 'expert' refers to a person or a firm possessing specialist skills or knowledge in a field other than auditing and accounting. They are usually members of another profession such as surveyors, actuaries or valuers.

Please also provide any letters of instruction that have been sent to such experts in relation to the financial year 2010/11.

Accounting estimates

I would be grateful if you could list those areas of your accounts which will be compiled using accounting estimates (including those areas valued at fair value). Please highlight if there have been any changes in circumstances which led you to review or compile new accounting estimates, or estimation processes.

For each estimate, please set out:

- The method, and where applicable, the model used to determine the value of the estimate;
- Relevant controls;
- Whether an expert has been used;
- The assumptions underlying the estimate;
- Whether, and if so, how management has assessed the effect of estimation uncertainty (this may include consideration of alternative assumptions, sensitivity analysis and comparison of the accuracy of prior period estimates.).

Confirmation of audit knowledge

Finally, I would be grateful if you would;

- Identify where service organisations are used in the processing or preparation of entries in your accounts. In this respect, I am trying to identify those organisations that have a significant effect on your financial statements in relation to;
 - information processing;
 - maintenance of accounting records;
 - facilities management;
 - maintenance of safe custody of assets, such as investments; and,
 - initiation or execution of transactions on behalf of the Council.
- Identify if there are any areas in your accounts where you are, or will be, adopting unusual accounting or income recognition policies.

Appendix 5 Information Technology Risk Assessment

Scope of my review

41 My Information Technology Risk Assessment considers the following areas:

- **IT Entity level controls** - i.e. controls over the operating responsibilities of the IT department. Weaknesses in this area could impact on the validity and accuracy of financial reporting.
- **Access security controls.** These are the mechanisms that specify what users on a system can and cannot do. Weaknesses in these controls can compromise the integrity of the data through unauthorised access, malicious intent or fraud;
- **Data centre and network controls.** These controls protect the computers, system programmes and communications equipment that stores and processes the data necessary to support business operations. Insufficient controls over processing accuracy may result in inaccurate financial results and loss of integrity, confidentiality and availability of the business critical IT systems and data.
- **Program change controls, new systems acquisition and development:** These controls reduce the risk of introducing errors to financial systems and data.
- **End user computer (EUC)** End user computing is the term applied to small scale office-system developments by user departments, e.g. spreadsheets developed by the Finance department as part of the financial reporting process. An assessment of the general controls applied to end user computing is required to gain assurance that there will be no adverse impact on the financial statements.

42 The review covered the following key financial systems:

Material financial systems supplier	Name of system/module
COA e-financials	General Ledger
COA e-financials	Accounts Receivable
COA e-financials	Accounts Payable
Northgate (Aurora)	Payroll
Civica	NNDR
Northgate	Council Tax

The Council has the following:

No of PCs	IT department staffing	Servers (virtual or physical)	Network and main operating systems
More than 500	5 – 25	More than 100	Windows and UNIX / Linux

Audit findings

43 My audit work revealed the following issues which have been discussed with officers. The Council has taken my audit findings seriously and an action plan is in place to address the issues arising.

Table 7: Findings

Area	Key issues	Council response	Implementation date
IT Entity level controls	Due to the small size of the IT department there is high dependency on individuals and no succession plan is in place. Many tasks and responsibilities are shared amongst the team and most of the IT officers have privileged / administrator level access on network operating system, DB and network devices.	The Council shares knowledge and back up between two staff, and applications knowledge is shared between two different staff. The Council accepts that due to the size of the department many tasks are shared. This risk is due to resource pressure.	In place June 2011
	There is no vetting process in place for the IT staff.	All council staff are vetted at time of recruitment. Some IT staff are also covered by the Government Connect Code of Connection (Co-Co) standards vetting procedures. This could be rolled out to cover all IT staff.	June 2011
	Adequate policies and procedures are in place meeting the government connect requirements but there is scope to extend these policies further to make them more comprehensive.	The Council meets the Government Connect Code of Connection.	
	Incident and problem management processes are not formally documented.	Problem management is covered by the use of Track-it and vendor supported Helpdesk system, IT Security Incidents are covered	

		by IT Security policy in place as part of Co-Co compliance	
	There is no formal process of IT risk management. No IT risk register is maintained.	Awaiting development of the risk module on Covalent.	July 2011
Access security controls.	<p>Most of the IT officers have privileged / administrator level access on network operating system, DB and network devices. There is a risk unauthorised changes can be made.</p> <p>A number of IT officers have access to COA e-financials production environment. Whilst for COA e-financial there have been no significant changes to the system since its implementation there is a risk that any changes made may go undetected in the absence of formal procedures and stringent controls.</p> <p>Access control procedures are not documented.</p> <p>Whilst reviewing a list of network (Active Directory) users, we found that 105 of 932 users have non-expiring passwords. This includes both system IDs (agents etc.) as well as named IDs - this is a high number and should be justified for named IDs.</p>	<p>There are limited staff resources so unauthorised changes could be traced back to the originator using other means.</p> <p>2/7 is the minimum we need to continue to provide support to the end user.</p> <p>Under implementation COA project team are making changes.</p> <p>Accepted under review. Note that some ID's are required for system processes. The IT Auditor needs to forward evidence from this test to the Head of ICT so that he can review.</p>	<p>In progress</p> <p>June 2011</p>
Data centre and network controls.	<p>Data centre key physical and environmental controls could be improved.</p> <p>Visitors log is not maintained.</p> <p>Smoke detector is installed but there is no automatic fire suppression system. One fire extinguishing cylinder is placed near the server rack.</p>	<p>Will review on a cost versus risk basis.</p> <p>Will implement. All visitors are escorted currently.</p> <p>Accepted risk. The previous gas solution was removed because it was a health and safety concern.</p>	<p>August 2011</p> <p>June 2011</p>

	<p>Network and backup controls are adequate.</p> <p>No Business Continuity Plan or Data Recovery Plan was provided to the auditor.</p> <p>No record that operating system software and key application systems have been fully restored from backup media in the current accounting period.</p>	<p>Agree</p> <p>IT do have a BCP plan that acts as their DR Plan. In addition, GBC have a contract with ICM to restore key systems from the Wilmott Lane Depot.</p> <p>This is correct but the recovery mechanism works as IT have restored data from back up tapes in this period.</p>	
Program change controls, new systems acquisition and development:	Program Change procedures are not formally documented though all changes / problems are logged on to the supplier support system as well as the Council's internal help desk system.	IT use the Track-it system (problem/fix system). IT application support team have their own diaries.	
End user controls	<p>Notification of leavers using the e-financials system.</p> <p>There is scope to strengthen controls further in this area by automatically sending a copy of each leaver form from HR to IT. Currently leavers are identified from salary monitoring prints reviewed on an ad hoc basis. There can be a delay between the actual leaving date and removal of leavers from the system.</p>	Strengthen the leaver notification process from HR to ensure all key system administrators (set up a local group) are notified through a formal email once the leaver has terminated their employment.	August 2011
Overall assessment	Overall there is a risk that weaknesses in the IT general controls environment could reduce the effectiveness of system level automated controls.		

Impact on audit approach

44 Introduction of new ledger system (COA e-financials) and issues identified from the IT risk assessment impact on the audit work I need to undertake.

45 Our audit approach allows us to roll forward controls assurance from previous accounting periods where key controls have not altered. Introducing COA e-financial may have fundamentally changed the Key controls within the main financial systems. Therefore controls assurance cannot be rolled forward. I will carry out the following additional audit processes to examine the controls within the COA e-financial system:

- Review of system documentation to identify key controls.
- Discussions with Head of IT and Head of Accountancy to assess impact of IT risk assessment issues on key financial processes.
- Review of Internal Audit reports to identify implementation problems with COA e-financials; and
- Testing the adequacy of COA e-financials user access controls.

Impact on audit fee

46 The planned procedures fall within the normal scope of my audit. However, if this work confirms there are weaknesses in the access controls or that key system controls are not working, I will carry out additional processes to obtain the audit assurance I need. Additional audit fees will be required to cover this additional work. If this is the case I will first discuss the impact on my audit fee with the Deputy Chief Executive and Borough Treasurer.

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0844 798 7070

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- any third party.



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AGENDA ITEM NO 9

Meeting:	Gosport Borough Council Standards and Governance Committee Meeting
Item no:	
Date:	June 2011
Author:	Rose Coates
Subject:	Audit fee 2011/12

1. **Purpose and Rationale**

To inform the Committee of the proposed audit work and fees for 2011/12 financial year. The Audit Commission set the scale fee for each audited body. This represents the minimum fee expected for delivering a Code of Practice audit. Officers agreed this fee in April 2011.

2. **Summary**

The scale fee for your Council is £116,375. This represents a reduction compared to £122,500 in 2010/11.

The scale fee reflects proposed decreases in the total audit fee, as follows:

- no inflationary increase in 2011/12 for audit and inspection scales of fees and the hourly rates for certifying claims and returns;
- a cut in scale fees resulting from our new approach to local Value for money audit work; and
- a cut in scale audit fees of 3 per cent for local authorities, police and fire and rescue authorities, reflecting lower continuing audit costs after implementing IFRS.

The audit fee element will be billed in monthly instalments

Certification of grant claims: The Audit Commission Act 1998 requires me to charge fees for certification work that cover the costs of the work undertaken. The quoted fee for grant certification work is an estimate only and will be charged at published daily rates.

.

3. Recommendations

None.

4. Link to Assurance Framework

Strengthening governance, financial reporting and internal controls at the Council.

5. Actions for the Standards and Governance Committee

The Committee are asked to note the audit fee and raise any questions with officers or their auditor.

Our reference AR00112A/RC/PJ

15 April 2011

Ian Lysett
Chief Executive
Town Hall
High Street
Gosport
Hampshire
PO12 1EB
Dear Ian

Direct line 0844 798 8986

Email p-jarvis@audit-
commission.gov.uk

Annual audit fee letter- 2011/12

I am writing to confirm the audit work that we propose to undertake for the 2011/12 financial year at Gosport Borough Council. The fee reflects the risk-based approach to audit planning set out in the Code of Audit Practice and work mandated by the Commission for 2011/12. The audit fee covers the:

- the audit of your financial statements;
- the Value for money conclusion (VFM); and
- your Whole of Government accounts return.

As I have not yet completed my audit for 2010/11 the audit planning process for 2011/12, including the risk assessment, will continue as the year progresses.

Audit fee

The Audit Commission proposes to set the scale fee for each audited body for 2011/12, rather than providing a scale fee with fixed and variable elements. The scale fee reflects proposed decreases in the total audit fee, as follows:

- no inflationary increase in 2011/12 for audit and inspection scales of fees and the hourly rates for certifying claims and returns;
- a cut in scale fees resulting from our new approach to local Value for money audit work; and
- a cut in scale audit fees of 3 per cent for local authorities, police and fire and rescue authorities, reflecting lower continuing audit costs after implementing IFRS.

The scale fee for Gosport Borough Council is £116,375. The scale fee is based on the planned 2010/11 fee, adjusted for the proposals summarised above, shown in the table below. Variations from the scale fee will only occur where my assessments of audit risk and complexity are significantly different from those identified and reflected in the 2010/11 fee.

Audit Commission, Suite 2, Ground Floor, Bicentennial Building, Southern Gate,
Chichester, West Sussex, PO19 8EZ
T 0844 798 1717 F 0844 798 1705 www.audit-commission.gov.uk

Audit area	Scale fee 2011/12	Planned fee 2010/11
Audit fee	£116,375	£122,500
Certification of claims and returns	£ 50,000	£ 56,737

In setting the fee, I have assumed that the Council has responded to my previous audit recommendations.

I will issue a separate audit plan in June 2012. This will detail the risks identified to both the financial statements audit and the value for money conclusion. The audit plan will set out the audit procedures I plan to undertake and any changes in fee. If I need to make any significant amendments to the audit fee, I will first discuss this with the Deputy Chief Executive and Borough Treasurer. I will then prepare a report outlining the reasons the fee needs to change for discussion with the audit committee.

I propose to review 2012/13 financial plans and strategy to support the value for money conclusion. I will issue a project plan before work begins.

I will issue several reports over the course of the audit. I have listed these at Appendix 1.

The fee excludes work the Commission may agree to undertake using its advice and assistance powers. We will negotiate each piece of work separately and agree a detailed project specification.

The Audit Commission Act 1998 requires me to charge fees for certification work that cover the costs of the work undertaken. The quoted fee for grant certification work is an estimate only and will be charged at published daily rates. Certification work may vary depending on the requirements of grant paying bodies.

Audit team

Your audit team must meet high specifications and must:

- understand you, your priorities and provide you with fresh, innovative and useful support;
- be readily accessible and responsive to your needs, but independent and challenging to deliver a rigorous audit;
- understand national developments and have a good knowledge of local circumstances; and
- communicate relevant information to you in a prompt, clear and concise manner.

The key members of the audit team for 2011/12 are:

Name	Contact details	Responsibilities
Patrick Jarvis Engagement Lead	p-jarvis@audit-commission.gov.uk 0844 798 8986 07771 997283	Patrick is responsible for the overall delivery of the audit including the quality of outputs, liaison with the Chief Executive and Chair of Standards and Governance Committee and issuing the auditor's report.
Rose Coates Engagement Manager	r-coates@audit-commission.gov.uk 0844 798 1771 07810 152333	Rose manages and coordinates the different elements of the audit work. Key point of contact for the Deputy Chief Executive and Borough Treasurer
Alan Gregory Team Leader	a-gregory@audit-commission.gov.uk 0844 798 6167	Alan has experience of auditing the financial statements of local authorities. He will lead the on-site team in delivering the audit.

I am committed to providing you with a high-quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me. Alternatively you may wish to contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk)

Yours sincerely

Patrick Jarvis

Appointed Auditor

cc Peter Wilson - Deputy Chief Executive and Borough Treasurer

Appendix 1- Planned outputs

We will discuss and agree our reports with officers before issuing them to the audit committee.

Table 1

Planned output	Indicative date
Audit plan	June 2012
Annual governance report	September 2012
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2012
Annual audit letter	November 2012
Annual claims and returns report	February 2013

Agenda item no. 10

Board	Standards & Governance Committee
Date of meeting:	23rd June 2011
Title:	Updated Anti Fraud & Corruption Policy
Author:	Head of Internal Audit & Risk Assurance
Status:	For Decision to Council

Purpose

The need to update the Council's Anti Fraud & Corruption Policy (Constitution: Part 5 – Schedule 22), in line with updated legislation (Bribery Act 2010). The Act will come into force on the 1st July 2011.

Recommendation

Members are requested to:-

Review and support the amended Anti Fraud & Corruption Policy (Appendix 1) and recommend their adoption to Council, including the associated policies attached:

- Anti Money Laundering Policy (Appendix 2);
- Anti Bribery Policy (Appendix 3);
- Whistleblowing Policy (Appendix 4);

1. Background

- 1.1** All public and private sector organisations, including Gosport Borough Council, are affected in some way or another by fraudulent or corrupt activities committed either within the organisation or externally.

It has been some time (previous Policy was dated 2008) since the current policy document was reviewed and updated. With the imminent enactment of the Bribery Act this was an ideal time to review and update this document.

2. Report

2.1 The Anti Fraud and Corruption Policy states the Council's position with regard to fraud and corruption, building on the content of a number of corporate policy statements incorporated in the Council's Constitution namely:

- Member's Code of Conduct
- Officer's Code of Conduct
- Whistleblowing Policy
- Anti Money Laundering policy (new)
- Anti Bribery Policy (new)
- Financial Procedure Rules
- Contract Procedure Rules

2.2 It is imperative that anti fraud and corruption policies reflect the "tone at the top" of an organisation, making clear that fraud and corruption will not be tolerated.

2.3 Furthermore, the Council must reduce its exposure to the new legislation under the Bribery Act 2010. The Council must have a procedure in place to prevent acts of bribery. This is covered under the new Anti Bribery Policy.

The Act provides:

- A general offence of bribery, which is defined as giving someone a financial or other advantage to induce them to perform their functions or activities improperly, or to reward them for having already done so;
- an offence of bribing a foreign public official in order to win business, keep business or gain a business advantage for the organisation;
- an offence relating to failure by a business to prevent a person associated with it from committing the above offences on its behalf in order to win business, keep business or gain a business advantage for the organisation.

2.4

It is key to ensure the Council has adequate procedures in place to prevent bribery. A series of short workshops will be conducted to all staff, through team meetings, to ensure the new policies are disseminated throughout the organisation and the new policies will be posted on both the Council's intranet and web site.

2.5

The Internal Audit Section will be reviewing the overalls Council's exposure to bribery and will also be adding this new legislation to the Council's Strategic Risk Register. It is key that a risk assessment is performed, put in place procedure proportionate to the risk, show clear

commitment to the prevention of bribery and communicate to all as mentioned in the previous paragraph.

3. Risk assessment

- 3.1 The updated Anti Fraud and Corruption Policy is a key governance policy that reduces the Council's exposure to both internal and external fraud and corruption.

4. Conclusion

- 4.1 The updated Anti Fraud and Corruption Policy is another area under review as part of the Council's corporate governance arrangements.

Financial Services comments:	None
Legal Services comments:	None for the purposes of this Report
Service Improvement Plan implications:	The Anti Fraud and Corruption Policy will be kept under review on a two year cycle within the Internal Audit Section.
Corporate Plan:	The updated Anti Fraud and Corruption Policy will support the Council's pursuit of excellence.
Risk Assessment:	Refer to paragraph no 3 in body of report
Background papers:	Nil
Appendices/Enclosures: Appendix 1 Appendix 2 Appendix 3 Appendix 4	Anti Fraud and Corruption Policy Anti Money Laundering Policy Anti Bribery Policy Whistleblowing Policy
Report author/Lead Officer:	Chris Davis (02392 545306)

GOSPORT BOROUGH COUNCIL

ANTI – FRAUD & CORRUPTION POLICY

JUNE 2011

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1. INTRODUCTION

- 1.1 Gosport Borough Council aims to set high standards of service provision and care for the community it serves and is committed to upholding the reputation of the Council and maintaining public confidence in its integrity.
- 1.2 In fulfilling its responsibilities to protect the public funds it administers against fraud and corruption both from within the Council and from external sources, the Authority recognises the responsibilities placed upon it by statute and will actively promote an Anti-Fraud and Corruption Policy designed to:
- Promote standards of honest and fair conduct ;
 - encourage prevention of fraud and corruption ;
 - encourage prevention of bribery;
 - promote detection ;
 - identify a clear process for investigation and remedial action ;
 - pursue a zero-tolerance policy and bring to justice all persons who commit acts of fraud or corruption against the Council ;
 - recover any losses incurred by the Council ; and
 - maintain strong systems of internal control.
- 1.3 The Council expects that Members and staff at all levels will adopt the highest standards of propriety and accountability and will lead by example by ensuring adherence to legal requirements, rules, regulations and agreed policies, practices and procedures.
- 1.4 The Council also expects that individuals and organisations that come into contact with the Authority e.g. the public, suppliers and contractors, will act with integrity and without intent or actions involving fraud and corruption.
- 1.5 Internal scrutiny of the Council's affairs occurs as a result of:
- The Deputy Chief Executive and Borough Treasurers' Section 151 Local Government Act 1972 responsibilities to ensure the proper administration of the Council's financial affairs and Section 114 Local Government Finance Act 1988 responsibilities ;
 - the establishment of sound internal audit arrangements in accordance with the Accounts and Audit Regulations 2003 and ;
 - the responsibilities placed on the Borough Solicitor as Monitoring Officer under Section 5 of the Local Government and Housing Act 1989.
- 1.6 External Scrutiny of the Council's affairs occurs as a result of involvement by:
- Local Government Ombudsman ;
 - External Auditor appointed by the Audit Commission ;
 - Central Government Department ;
 - HM Revenue & Customs ;
 - The Department for Work and Pensions ; and
 - the general public via the annual inspection of the accounts and the Council's complaints procedure.

Part of the external auditor's statutory duties require them to ensure that the Council has in place adequate arrangements for the prevention and detection of fraud and corruption.

1.7 Fraud and Corruption are defined by the Audit Commission as:-

Fraud - “the intentional distortion of financial statements or other records by persons internal or external to the authority which is carried out to conceal the misappropriation of assets or otherwise for gain”.

Corruption – “the offering, giving, soliciting or acceptance of an inducement or reward which may influence the action of any person”.

1.8 This policy document embodies a series of measures designed to frustrate any attempt of a fraudulent or corrupt act. These cover:

- | | |
|-------------------------------|-----------|
| ➤ Culture | Section 2 |
| ➤ Prevention | Section 3 |
| ➤ Detection and Investigation | Section 4 |
| ➤ Training | Section 5 |

1.9 The following list highlights the key documents (held within the Council's Constitution) which together form the overall framework for the proper conduct of business within this Council.

- Delegations to Officers
- Access to Information Rules
- Contract Procedure Rules
- Financial Procedure Rules
- Codes & Protocols
- Codes of Conduct – Members & Officers
- Money Laundering Policy (Appendix 1)
- Anti Bribery Policy (Appendix 2)
- Whistleblowing Policy (Appendix 3)

2. CULTURE

2.1 The Council has determined that the culture and tone of the Authority is one of honesty, openness, integrity, accountability and opposition to fraud and corruption. The prevention/detection of fraud and corruption and the protection of the public purse is everyone's responsibility.

2.2 The Council's Members and staff play an important role in creating and maintaining this culture. They are positively encouraged to raise any matters that concern them relating to the Council's method of operation.

2.3 Full details of the arrangements for reporting concerns internally can be found in the Fraud Response Plans and the Council's Whistleblowing Policy. Concerns can be raised knowing that they will be treated seriously and will be properly investigated in a confidential and impartial manner. In raising concerns staff can be assured that there will be no victimisation, anonymity will be respected and it will not affect their current employment situation or future prospects with the Council.

2.4 Concerns should be raised in the first instance directly with the line manager or if this is not appropriate then the Whistleblowing Policy outlines other appropriate channels. In addition to these channels, concerns can also be raised with any of the following:-

- any Trade Union representative ;
- any member of Internal Audit either directly or via the publicised 24 hour fraud hotline (023 9254 5308) ;
- the publicised benefit fraud hotline (02392 545545) in the case of suspected benefit fraud ;
- an external investigator such as the External Auditor.

The Council will ensure that any allegations received in any way including anonymously will be taken seriously and investigated in an appropriate manner.

2.5 There is an expectation and requirement that all members of the public, partners, organisations, suppliers and contractors associated in whatever way with the Council will act with integrity and they are encouraged to raise any issues that concern them through whichever channel they consider appropriate. The numbers of two direct dial telephone lines are publicised, one is for the receipt of benefit fraud information and the other is for any other suspected fraud and corruption information (see 2.4 above).

2.6 Senior management are required to ensure that the risks of fraud and corruption are effectively managed at strategic and operational levels, with competent and trained staff working within systems that incorporate effective anti-fraud and corruption controls. Senior management must act in accordance with the Council's Financial Procedure Rules when dealing with any allegations of fraud and corruption.

2.7 When it is found that fraud and corruption has occurred due to a breakdown in the Council's systems or procedures, senior management will ensure that appropriate improvements in systems of control are implemented in order to prevent a reoccurrence.

2.8 The Council will work in partnership with the Police and other public bodies and will maximise the use of internal and external data matching. A robust approach will be taken in all proven cases of financial malpractice, fraud or corruption including where appropriate, use of the Council's disciplinary procedures. A similar approach will be taken in relation to any allegations that are found subsequently to be malicious.

2.9 The Council will respect the Human Rights Act 1998 but it will use all possible lawful means to protect Council services and finances from fraudsters and it will fully meet relevant legislative requirements relating to fraud and corruption including the Regulation of Investigatory Powers Act (RIPA) 2000, the Proceeds of Crime Act 2005 and Money Laundering Regulations 2003.

3. PREVENTION

3.1 STAFF

- 3.1.1 The Council recognises that a key preventative measure in the fight against fraud and corruption is to take effective steps at the recruitment stage to establish, as far as possible, the honesty and integrity of potential staff. In this regard, temporary and contract staff should be treated in the same manner as permanent staff.
- 3.1.2 Staff recruitment will be in accordance with the Council's policies and procedures. Written references covering the known honesty and integrity of potential staff and evidence of qualifications will always be obtained before offers of employment are made. Further checks may be introduced in areas where an increased risk of potential fraud and corruption has been identified. There will be an open and fair policy of recruitment with no 'canvassing' and 'favouritism' and the Council's Equal Opportunities Policy will be adhered to during this process.
- 3.1.3 Staff are expected to follow standards of conduct laid down by the Council's Code of Conduct for Employees, National Agreement on Pay and Conditions of Service, any other codes of practice and by professional bodies of which they are members. In the latter instance, the Council will report known impropriety to the relevant Institution for them to consider appropriate disciplinary action.
- 3.1.4 The Council's Disciplinary Procedure is administered by the Head of Paid Service and is to be followed when staff are suspected of committing a fraudulent or corrupt act.
- 3.1.6 All staff are required to declare in a register any offers of gifts or hospitality which are in any way related to the performance of their duties in relation to the Authority. The Employee Gifts and Hospitality Register is held by the Borough Solicitor.
- 3.1.7 Staff must declare any pecuniary interests in contracts that have been or are proposed to be entered into by the Council, in accordance with Section 117 of the Local Government Act 2000. The legislation also prohibits the acceptance of fees or rewards other than by means of proper remuneration.
- 3.1.8 Staff should also disclose any personal and private non-pecuniary interests to their Manager. This includes membership of any organisation which is not open to the public without formal membership and commitment of allegiance and which has secrecy about rules or membership or conduct.
- 3.1.9 Guidance on offers of gifts or hospitality and disclosure of pecuniary and non-pecuniary interests can be found in the Code of Conduct for Employees.
- 3.1.10 Management at all levels are responsible for ensuring that their staff are aware of the Council's Financial Procedure Rules and that their requirements are being met. They are also responsible for the operation, management and monitoring of the internal control systems within their service areas. Under

Regulation 4 of the Accounts and Audit Regulations 2003 the Council has to maintain a sound system of internal control which facilitates the effective exercise of that body's functions and includes arrangements for the management of risk. To facilitate this, Managers are therefore required to give reasonable assurance that internal controls within their service areas are operating satisfactorily.

- 3.1.11 Managers should strive to create an environment in which their staff feel able to approach them with concerns they may have about suspected irregularities.

3.2 MEMBERS

- 3.2.1 Members are required to operate within :

- Government Legislation including the National Code of Local Government Conduct ;
- The Code of Conduct for Members of the Council and the Code of Practice for Members on Gifts and Hospitality ;
- Council Contract Procedure Rules and Financial Procedure Rules ;
- Any locally adopted Codes or Rules as listed within the Council's Constitution.

- 3.2.2 These matters are specifically brought to the attention of Members on election to office by the Chief Executive and subsequent training. The Local Government Act 2000 requires all Members to sign an undertaking to observe the Code of Conduct and they are advised of new legislative or procedural requirements.

- 3.2.3 Members are required to compulsorily provide specific information concerning their financial and other interests and keep this information up to date. The Members Financial and Other Interests Register is held by the Council's Borough Solicitor.

- 3.2.4 Adherence to these matters is overseen by the Council's Standards and Governance Committee which has independent representatives within its membership and is responsible for the ethical framework of the Council working closely with the Chief Executive, Deputy Chief Executive & Borough Treasurer and Borough Solicitor.

- 3.2.5 The Council's Standards and Governance Committee is responsible for promoting and maintaining high standards of conduct by elected Members, co-opted members and officers of the Council; for the Members' codes of conduct; for the Council's protocols and ethical guidance; and for dealing with complaints about councillors in so far as permitted by law. It has the task of overseeing the Council's complaints procedure and reviewing the Constitution and making recommendations for changes and revisions to it to the Full Council.

3.3 **SYSTEMS**

- 3.3.1 The Council has in place Delegations to Officers, Codes and Protocols, Financial Procedure Rules and Access to Information Rules within its Constitution that place duties on all Members and employees to act in accordance with best practice when dealing with the affairs of the Council.
- 3.3.2 The Deputy Chief Executive & Borough Treasurer has a statutory responsibility under Section 151 of the Local Government Act 2000 to ensure proper administration of the Council's financial affairs. In addition, under the Accounts and Audit Regulations 2003, the Council is required to maintain an adequate and effective internal audit of its financial records and systems of internal control.
- 3.3.3 The Borough Solicitor has a statutory responsibility under section 5.5 of the Local Government and Housing Act 1989 and the Local Government Act 2000 to ensure the lawfulness and fairness of decision making and with the Standards Committee to promote and maintain high standards of conduct.
- 3.3.4 The Council is committed to systems which incorporate efficient and effective internal controls and which include adequate separation of duties. It is also committed to satisfy the requirements of the Bribery Act 2010. All Service Managers are required to ensure that such controls, including those in a computerised environment, are properly maintained and documented.
- 3.3.5 Internal and External Audit regularly assess the adequacy, efficiency and effectiveness of the Council's financial systems having regard to the risks of fraud and corruption. Any weaknesses identified will be reported to management who will ensure that corrective action is taken. The Section 151 Officer (Deputy Chief Executive & Borough Treasurer) will use his statutory power to enforce the required changes if necessary via the Council's Standards and Governance Committee.
- 3.3.6 The Council encourages liaison with other external agencies to exchange information where possible and appropriate to help prevent and detect fraud and corruption. These agencies include:
- Other Local Authorities and statutory Authorities ;
 - Treasurers Associations and Societies ;
 - Local, regional and national Auditor networks ;
 - Government Departments ;
 - Police ;
 - Audit Commission (National Fraud Initiative) ;
 - National & Local Anti-Fraud Network and ;
 - Housing Benefit Matching Service;
 - National Fraud Initiative.
- 3.3.7 The Head of Internal Audit & Risk Assurance is the Council's appointed Money Laundering Reporting Officer (MLRO) in accordance with the Council's Anti-Money Laundering Policy.

4. DETECTION AND INVESTIGATION

- 4.1 The Council's preventative systems, particularly internal control systems, provide indicators of, and help to deter any fraudulent activity.
- 4.2 It is the responsibility of Managers to prevent and detect fraud and corruption. However, it is often the alertness of members, staff and the general public to the possibility of fraud and corruption that enables detection to occur and appropriate action to take place.
- 4.3 Despite the best efforts of the Council, frauds are often discovered by chance or 'tip-off' and the Council has in place arrangements to enable such information to be properly and promptly dealt with.
- 4.4 Members, Chief Officers and staff are required by Financial Procedure Rules to notify the Head of Internal Audit & Risk Assurance immediately of any instances or suspected instances of fraud and corruption. This is essential to the success of this policy and :
 - ensures the consistent treatment of information regarding fraud and corruption and ;
 - facilitates a thorough independent investigation of any allegation received.
- 4.5 Suspicions that any transaction or dealing may involve the proceeds of crime should be reported to the Head of Internal Audit & Risk Assurance (MLRO) who will ensure such suspicions are reported to the relevant authorities as required by the regulations governing Money Laundering.
- 4.6 Depending on the nature and anticipated extent of the allegations, the investigating officer, usually the Head of Internal Audit and in the case of benefit fraud the Benefit Fraud Team Leader, will ensure that all allegations and evidence are properly investigated and reported upon and will work closely with management and other agencies such as the Police to achieve this.
- 4.7 Procedures for dealing with the investigation of fraud and corruption are included in the Audit Manual of the Internal Audit section. Procedures and conduct for dealing with the investigation of benefit fraud are included in the Benefit Fraud Procedures Manual.
- 4.8 The Council's disciplinary procedures will be invoked where the outcome of the investigation indicates improper behaviour by a member of staff. In addition, if appropriate, offenders will be prosecuted by the Police where financial impropriety is discovered.
- 4.9 The Council's Benefit Fraud Prosecution / Sanction Policy will be followed where the outcome of the investigation indicates benefit fraud. Where the Policy criteria are satisfied, offenders will be prosecuted by the Police.

- 4.10 All investigations into suspected instances of fraud and corruption undertaken by the Council shall comply with the requirements of the Human Rights Act 1998, Regulation of Investigatory Powers Act 2000 and have regard to the Police and Criminal Evidence Act 1984.
- 4.11 The Council will also aim to recover from the perpetrators any losses that it sustains as a result of fraud and corruption.
- 4.12 Where appropriate, the Council will publicise the results of any action taken, including prosecutions, with regard to fraud and corruption activity perpetrated on the Council.
- 4.13 The Council's arrangements for the prevention, detection and investigation of suspected fraud and corruption are subject to review by the Council's external auditors.

5. TRAINING

- 5.1 The Council recognises that the success of its Anti-Fraud and Corruption Policy and its general credibility will depend largely on how effectively it is communicated throughout the Council and beyond, together with the effectiveness of programmed training and the responsiveness of staff throughout the Authority.
- 5.2 To facilitate this, management are responsible for ensuring that this Policy and the related policies and procedures to which it refers, are communicated to their staff in order to promote greater awareness of fraud and corruption.
- 5.3 Management should ensure that positive and appropriate training provision is made for all employees involved in key internal control systems to ensure that their responsibilities and duties in this respect are regularly highlighted and reinforced.
- 5.4 Induction and refresher training for Members will be provided by the Head of Internal Audit & Risk Assurance.
- 5.5 Investigation of fraud and corruption is undertaken by the Internal Audit and Benefit Sections. Staff involved in this work will be properly and regularly trained.

6. CONCLUSION

- 6.1 The Council has in place a robust network of policies, guidelines, systems and procedures which are designed to limit, as far as is practicable, acts of fraud and corruption and to detect and assist it in dealing with fraud and corruption should it occur. All such measures will be kept under review to ensure they keep pace with any developments in fraud prevention and detection techniques.

- 6.2 The Council will maintain a continuous review of all its systems and procedures through the work of both its Policy & Performance and Internal Audit sections.
- 6.3 The Council will continuously review its key policy documents including this Anti-Fraud and Corruption Policy.

GOSPORT BOROUGH COUNCIL
ANTI MONEY LAUNDERING POLICY

1.0 INTRODUCTION

- 1.1. The Proceeds of Crime Act 2002, the Terrorism Act 2000 and the Money Laundering Regulations 2007 place obligations on the Council and its employees to establish internal procedures to prevent the use of their services for money laundering.

2.0 SCOPE OF THE POLICY

- 2.1 This Policy applies to all employees of the Council and aims to maintain the high standards of conduct which currently exist within the Council by preventing criminal activity through money laundering. The Policy sets out the procedures which must be followed (for example the reporting of suspicions of money laundering activity) to enable the Council to comply with its legal obligations.
- 2.2 Further information is set out in the accompanying Guidance Note. Both the Policy and the Guidance Notes sit alongside the Council's Whistleblowing Policy, Anti-Fraud and Corruption Strategy and its Anti Bribery Policy.
- 2.3 Failure by a member of staff to comply with the procedures set out in this Policy may lead to disciplinary action being taken against them. Any disciplinary action will be dealt with in accordance with the Council's Disciplinary and Capability Procedure.

3.0 WHAT IS MONEY LAUNDERING?

3.1 Money laundering is the term used for a number of offences involving the proceeds of crime or terrorism funds. The following constitute the act of money laundering:

- concealing, disguising, converting, transferring criminal property or removing it from the UK (section 327 of the 2002 Act); or
- entering into or becoming concerned in an arrangement which you know or suspect facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person (section 328); or
- acquiring, using or possessing criminal property (section 329).

These are the primary money laundering offences, and are therefore prohibited acts under the legislation. There are also two secondary offences: failure to disclose any of the three primary offences and tipping off. Tipping off is where someone informs a person or people who are, or who are suspected of being involved in money laundering, in such a way as to reduce the likelihood of their being investigated or prejudicing an investigation.

3.2 Potentially any member of staff could be caught by the money laundering provisions if they suspect money laundering and either become involved with it in some way and/or do nothing about it. The Guidance Note gives practical examples. This Policy sets out how any concerns should be raised.

3.3 Whilst the risk to the Council of contravening the legislation is low, ***it is extremely important that all employees are familiar with their legal responsibilities: serious criminal sanctions may be imposed for breaches of the legislation. The key requirement on employees is to promptly report any suspected money laundering activity to the Money Laundering Reporting Officer.***

4.0 **WHAT ARE THE OBLIGATIONS ON THE COUNCIL?**

4.1 Organisations conducting “relevant business” must:

- appoint a Money Laundering Reporting Officer (“MLRO”) to receive disclosures from employees of money laundering activity (their own or anyone else’s);
- implement a procedure to enable the reporting of suspicions of money laundering;
- maintain client identification procedures in certain circumstances; and
- maintain record keeping procedures.

4.2 Not all of the Council’s business is “relevant” for the purposes of the legislation: it is mainly accountancy and audit services and the financial, company and property transactions undertaken by Legal Services. However, the safest way to ensure compliance with the law is to apply them to all areas of work undertaken by the Council; therefore, **all** staff are required to comply with the reporting procedure set out in section 6 below.

4.3 The following sections of this Policy provide further detail about the requirements listed in paragraph 4.1.

5.0 THE MONEY LAUNDERING REPORTING OFFICER

- 5.1 The officer nominated to receive disclosures about money laundering activity within the Council is the Head of Internal Audit & Risk Assurance, Chris Davis. He can be contacted as follows:

Chris Davis
Head of Internal Audit & Risk Assurance
Gosport Borough Council
Town Hall
High Street
Gosport
Hampshire
PO12 1EB

e-mail: chris.davis@gosport.gov.uk

Telephone: 02392 545306

- 5.2 In the absence of the MLRO, the Principal Auditor, Angela Nally, is authorised to deputise for him. Angela can be contacted at the above address or on telephone number 02392 545376 (direct line).

6.0 DISCLOSURE PROCEDURE

Cash Payments

- 6.1 No payment to the Council will be accepted in cash (including notes, coins or travellers' cheques in any currency) if it exceeds £5,000.

Reporting to the Money Laundering Reporting Officer

- 6.2 Where it is suspected that money laundering activity is taking/has taken place, or an employee becomes concerned that their involvement in a matter may amount to a prohibited act under the legislation, this must be disclosed as soon as practicable to the MLRO. The disclosure should be within “hours” of the information coming to the employee’s attention, not weeks or months later. **SHOULD THIS NOT BE DONE, THEN THE EMPLOYEE MAY BE LIABLE TO PROSECUTION.**

6.3 Disclosure should be made to the MLRO using the proforma report attached at Appendix 1. The report must include as much detail as possible, for example:

- Full details of the people involved (including the employee, if relevant), e.g. name, date of birth, address, company names, directorships, phone numbers, etc;
- Full details of the nature of involvement;
 - If the employee is concerned that their involvement in the transaction would amount to a prohibited act under sections 327 – 329 of the 2002 Act, then the report must include all relevant details, as the employee will need consent from the Serious Organised Crime Agency (SOCA), via the MLRO, to take any further part in the transaction - this is the case even if the client gives instructions for the matter to proceed before such consent is given.
 - The employee should therefore make it clear in the report if such consent is required and clarify whether there are any deadlines for giving such consent e.g. a completion date or court deadline;
- The types of money laundering activity involved:
 - if possible, cite the section number(s) under which the report is being made e.g. a principal money laundering offence under the 2002 Act (or 2000 Act), or general reporting requirement under section 330 of the 2002 Act (or section 21A of the 2000 Act), or both;
- The dates of such activities, including:

- whether the transactions have happened, are ongoing or are imminent;
- Where they took place;
- How they were undertaken;
- The (likely) amount of money/assets involved;
- Why, exactly, you are suspicious – SOCA will require full reasons;

along with any other available information to enable the MLRO to make a sound judgment as to whether there are reasonable grounds for knowledge or suspicion of money laundering and to enable him to prepare his report to SOCA, where appropriate. Copies of any relevant supporting documentation should be enclosed.

- 6.4 Once the matter is reported to the MLRO, employees must follow any directions he may give. The employee **must NOT make any further enquiries into the matter themselves**: any necessary investigation will be undertaken by SOCA. All members of staff will be required to co-operate with the MLRO and the authorities during any subsequent money laundering investigation.
- 6.5 Similarly, **at no time and under no circumstances should the employee voice any suspicions** to the person(s) suspected of money laundering, even if SOCA has given consent to a particular transaction proceeding, without the specific consent of the MLRO; otherwise a criminal offence of “tipping off” (see the Guidance Note for further details) may be committed.
- 6.6 No reference should be made on a client file to a report having been made to the MLRO – should the client exercise their right to see the file, then such a note will obviously tip them off to the report having been made and may

render an employee liable to prosecution. The MLRO will keep the appropriate records in a confidential manner.

Consideration of the disclosure by the Money Laundering Reporting Officer

6.7 Upon receipt of a disclosure report, the MLRO must note the date of receipt on his section of the report and acknowledge receipt of it. He should also advise the employee of the timescale within which he expects to respond.

6.8 The MLRO will consider the report and any other available internal information he thinks relevant e.g.

- reviewing other transaction patterns and volumes;
- the length of any business relationship involved;
- the number of any one-off transactions and linked one-off transactions;
- any identification evidence held;

and undertake such other reasonable inquiries he thinks appropriate in order to ensure that all available information is taken into account in deciding whether a report to SOCA is required (such enquiries being made in such a way as to avoid any appearance of tipping off those involved). The MLRO may also need to discuss the report with the employee.

6.9 Once the MLRO has evaluated the disclosure report and any other relevant information, he must make a timely determination as to whether:

- there is actual or suspected money laundering taking place; or
- there are reasonable grounds to know or suspect that is the case; and
- whether he needs to seek consent from SOCA for a particular transaction to proceed.

6.10 Where the MLRO does so conclude, then he must disclose the matter as soon as practicable to SOCA on their standard report form and in the prescribed manner, unless he has a reasonable excuse for non-disclosure to SOCA (for example, a lawyer can claim legal professional privilege for not disclosing the information).

6.10.1 Where the MLRO suspects money laundering but has a reasonable excuse for non-disclosure, then he must note the report accordingly; he can then immediately give his consent for any ongoing or imminent transactions to proceed.

6.10.2 In cases where legal professional privilege may apply, the MLRO must liaise with the legal adviser to decide whether there is a reasonable excuse for not reporting the matter to SOCA.

6.10.3 Where consent is required from SOCA for a transaction to proceed, then the transaction(s) in question must not be undertaken or completed until SOCA has specifically given consent, or there is

deemed consent through the expiration of the relevant time limits without objection from SOCA.

- 6.11 Where the MLRO concludes that there are no reasonable grounds to suspect money laundering then he shall mark the report accordingly and give his consent for any ongoing or imminent transaction(s) to proceed.
- 6.12 All disclosure reports referred to the MLRO and reports made by him to SOCA must be retained by the MLRO in a confidential file kept for that purpose, for a minimum of five years.
- 6.13 ***The MLRO commits a criminal offence if he knows or suspects, or has reasonable grounds to do so, through a disclosure being made to him, that another person is engaged in money laundering and he does not disclose this as soon as practicable to SOCA.***

7.0 CUSTOMER DUE DILIGENCE

7.1 Where the Council is carrying out certain 'regulated activities' then extra care needs to be taken to check the identity of the customer or client – this is known as carrying out Customer Due Diligence.

7.2 Customer due diligence means:

- (a) identifying the customer and verifying the customer's identity on the basis of documents, data or information obtained from a reliable and independent source;
- (b) identifying, where there is a beneficial owner who is not the customer, the beneficial owner and taking adequate measures, on a risk-sensitive basis, to verify his identity so that the relevant person is satisfied that he knows who the beneficial owner is, including, in the case of a legal person, trust or similar legal arrangement, measures to understand the ownership and control structure of the person, trust or arrangement; and
- (c) obtaining information on the purpose and intended nature of the business relationship.

7.2 The Regulations regarding customer due diligence are detailed and complex, but there are some simple questions that will help decide if it is necessary:

- Is the service a regulated activity (see 7.3)?
- Is the Council charging for the service i.e. is it 'by way of business'?
- Is the service being provided to a customer other than a UK public authority?

If the answer to any of these questions is **no** then there is no need to carry out customer due diligence

If the answer to all these questions is **yes** then customer due diligence must be carried out before any business is undertaken for that client. If there is uncertainty whether customer due diligence is required then the MLRO should be contacted for advice.

7.3 Regulated activity is defined as the provision 'by way of business' of: advice about tax affairs; accounting services; treasury management, investment or other financial services; audit services; legal services; estate agency; services involving the formation, operation or arrangement of a company or trust or; dealing in goods wherever a transaction involves a cash payment of £5,000 or more."

- 7.4 Where customer due diligence is required then evidence of identity must be sought, for example:
- checking with the customer's website to confirm their business address;
 - conducting an on-line search via Companies House to confirm the nature and business of the customer and confirm the identities of any directors;
 - seeking evidence from the key contact of their personal identity, for example their passport, and position within the organisation.
- 7.5 The requirement for customer due diligence applies immediately for new customers and should be applied on a risk sensitive basis for existing customers. Ongoing customer due diligence must also be carried out during the life of a business relationship but should be proportionate to the risk of money laundering and terrorist funding, based on the officer's knowledge of the customer and a regular scrutiny of the transactions involved.
- 7.6 If, at any time, it is suspected that a client or customer for whom the Council is currently, or is planning to carry out, a regulated activity is carrying out money laundering or terrorist financing, or has lied about their identity then this must be reported to the MLRO.
- 7.7 In certain circumstances enhanced customer due diligence must be carried out for example where:
- The customer has not been physically present for identification
 - The customer is a politically exposed person
 - There is a beneficial owner who is not the customer – a beneficial owner is any individual who: holds more than 25% of the shares, voting rights or interest in a company, partnership or trust.
- 7.8 Enhanced customer due diligence could include any additional documentation, data or information that will confirm the customer's identity and / or the source of the funds to be used in the business relationship / transaction. If it is believed that enhanced customer due diligence is required then the MLRO should be consulted prior to carrying it out.

8.0 RECORD KEEPING PROCEDURES

8.1 Each unit of the Council conducting relevant business must maintain records of:

- client identification evidence obtained; and
- details of all relevant business transactions carried out for clients

for at least five years. This is so that they may be used as evidence in any subsequent investigation by the authorities into money laundering.

8.2 The precise nature of the records is not prescribed by law however they must be capable of providing an audit trail during any subsequent investigation, for example distinguishing the client and the relevant transaction and recording in what form any funds were received or paid. In practice, the business units of the Council will be routinely making records of work carried out for clients in the course of normal business and these should suffice in this regard.

8.3 An electronic copy of every customer due diligence record must be sent to the MLRO to meet the requirements of the Regulations and in case of inspection by the relevant supervising body.

9.0 CONCLUSION

9.1 The legislative requirements concerning anti-money laundering procedures are lengthy and complex. This Policy has been written so as to enable the Council to meet the legal requirements in a way which is proportionate to the very low risk to the Council of contravening the legislation.

9.2 Any concerns whatsoever regarding any transactions should be reported to the MLRO.

10.0 FURTHER INFORMATION

- 10.1 Further information can be obtained from the MLRO and the following sources:

www.soca.gov.uk – website of the Serious and Organised Crime Agency

“Proceeds of Crime (Anti-Money Laundering) – Practical Guidance for Public Service Organisations” – CIPFA

“Anti-Money Laundering (Proceeds of Crime and Terrorism) – Second Interim Guidance for Accountants” – CCAB (**www.ccab.org.uk**)

Money Laundering Guidance at **www.lawsociety.org.uk**

SI 2007 No. 2157 The Money Laundering Regulations 2007 at:

http://www.hm-treasury.gov.uk/consultations_and_legislation/money_laundering_directive/consult_moneylaundering_2007.cfm

CONFIDENTIAL

Report to Money Laundering Reporting Officer

Re: Money Laundering Activity

To: TIM RYDER, Money Laundering Reporting Officer

From:

[insert name of employee]

Directorate:

[insert post title and Business Unit]

Ext/Tel No:

DETAILS OF SUSPECTED OFFENCE:

Name(s) and address(es) of person(s) involved:

[if a company/public body please include details of nature of business]

Nature, value and timing of activity involved:

[Please include full details eg what, when, where, how.

Continue on a separate sheet if necessary]

Nature of suspicions regarding such activity:

[Please continue on a separate sheet if necessary]

Has any investigation been undertaken (as far as you are aware)?

[Please tick the relevant box]

No

☐ Yes ☐

If yes, please include details below:

Have you discussed your suspicions with anyone else?

[Please tick the relevant box]

☐ Yes ☐ No

If yes, please specify below, explaining why such discussion was necessary:

Have you consulted any supervisory body guidance re money laundering? (e.g. the Law Society)

[Please tick the relevant box]

☐ Yes ☐ No

If yes, please specify below:

Do you feel you have a reasonable excuse for not disclosing the matter to SOCA? (e.g. are you a lawyer and wish to claim legal professional privilege?)

[Please tick the relevant box]

☐ Yes ☐ No

If yes, please set out full details below:

Are you involved in a transaction which might be a prohibited act under sections 327- 329 of the Act and which requires appropriate consent from SOCA?

[Please tick the relevant box]

☐ Yes ☐ No

If yes, please enclose details in the box below:

Please set out below any other information you feel is relevant:

Signed:

Dated:

Please do not discuss the content of this report with anyone you believe to be involved in the suspected money laundering activity described. To do so may constitute a tipping off offence, which carries a maximum penalty of 5 years' imprisonment.

THE FOLLOWING PART OF THIS FORM IS FOR COMPLETION BY THE MLRO

Date report received:

Date receipt of report acknowledged:

CONSIDERATION OF DISCLOSURE:

Action plan:

OUTCOME OF CONSIDERATION OF DISCLOSURE:

Are there reasonable grounds for suspecting money laundering activity?

If there are reasonable grounds for suspicion, will a report be made to SOCA?

[Please tick the relevant box]

☐ Yes ☐ No

**If yes, please confirm date of report to SOCA:
and complete the box below:**

Details of liaison with SOCA regarding the report:

Notice Period: to

Moratorium Period: to

Is consent required from SOCA to any ongoing or imminent transactions which would otherwise be prohibited acts? ☐ Yes ☐ No

If yes, please confirm full details in the box below:

Date consent received from SOCA:

Date consent given by you to employee:

If there are reasonable grounds to suspect money laundering, but you do not intend to report the matter to SOCA, please set out below the reason(s) for non-disclosure:

[Please set out any reasonable excuse for non-disclosure]

Date consent given by you to employee for any prohibited act transactions to proceed:

Other relevant information:

Signed: **Dated:**

THIS REPORT TO BE RETAINED FOR AT LEAST FIVE YEARS

GOSPORT BOROUGH COUNCIL

Anti-Bribery Policy

Introduction

Gosport Borough Council values its reputation for ethical behaviour and for financial probity and reliability. It recognises that over and above the commission of any crime, any involvement in bribery will also reflect adversely on its image and reputation. Its aim therefore is to limit its exposure to bribery by:

- Setting out a clear anti-bribery policy;
- Training all employees so that they can recognise and avoid the use of bribery by themselves and others;
- Encouraging its employees to be vigilant and to report any suspicion of bribery, providing them with suitable channels of communication and ensuring sensitive information is treated appropriately;
- Rigorously investigating instances of alleged bribery and assisting the police and other appropriate authorities in any resultant prosecution;
- Taking firm and vigorous action against any individual(s) involved in bribery.

The Policy

The Council prohibits:

the offering, the giving, the solicitation or the acceptance of any bribe, whether cash or other inducement

to or from

any person or company, wherever they are situated and whether they are a public official or body or private person or company

by

any individual employee, agent or other person or body acting on the Council's behalf

in order to

gain any commercial, contractual or regulatory advantage for the Council in a way which is unethical

or in order to

gain any personal advantage, pecuniary or otherwise, for the individual or anyone connected with the individual

Further Clarification

The Council recognises that market practice varies across the territories in which it does business and what is normal and acceptable in one place may not be in another. This policy prohibits any inducement which results in a personal gain or advantage to the recipient or any person or body associated with them, and which is intended to influence them to take action which may not be solely in the interests of the Council.

This policy is not meant to prohibit the following practices providing they are customary in a particular market, are proportionate and are properly recorded:

- normal and appropriate hospitality
- the giving of a ceremonial gift on a festival or at another special time

Inevitably, decisions as to what is acceptable may not always be easy. If anyone is in doubt as to whether a potential act constitutes bribery, the matter should be referred to the Monitoring Officer with responsibility for this policy before proceeding.

Employee Responsibility

The prevention, detection and reporting of bribery is the responsibility of all employees throughout the Council. Suitable channels of communication by which employees or others can report confidentially any suspicion of bribery will be maintained via the whistleblower's hotline (telephone number 02392 545308).

Whistleblowing Policy

INTRODUCTION

1. The word whistleblowing in this Policy refers to the disclosure internally or externally by workers of suspected malpractice, as well as illegal acts or omissions at work.

POLICY STATEMENT

2. Gosport Borough Council is committed to achieving the highest possible standards of service and the highest possible ethical standards in public life and in all of its practices. To achieve these ends, it encourages freedom of speech. It also encourages staff to use internal mechanisms for reporting any malpractice or illegal acts or omissions by its employees or ex-employees.

OTHER POLICIES AND PROCEDURES

3. Gosport Borough Council has a range of policies and procedures, which deal with standards of behaviour at work; they cover Discipline, Grievance, Harassment, Equality, Diversity and Recruitment and Selection. Employees are encouraged to use the provisions of these procedures when appropriate. There may be times, however, when the matter does not relate to an individual's personal employment position and needs to be handled in a different way.

Examples may be:-

- Malpractice or unfair treatment of a client/customer by a senior member of staff
- Repeated unfair treatment of a client/customer, despite a complaint being made
- A criminal offence has been committed, is being committed or is likely to be committed
- Suspected fraud
- Disregard for legislation, particularly in relation to health and safety at work
- The environment has been, or is likely to be, damaged
- Showing undue favour over a contractual matter or to a job applicant
- A breach of the Code of Conduct
- A breach of Financial Procedure Rules or Contract procedure Rules
- Information on any of the above has been, is being, or is likely to be concealed

This list is not exhaustive.

Gosport Borough Council will not tolerate any harassment or victimisation of a whistleblower (including informal pressures), and will treat this as a serious disciplinary offence, which will be dealt with under the Disciplinary Rules and Procedures.

Hotline telephone number is 02392 545308 (24hr)

Agenda item no. 11

Board	Standards & Governance Committee
Date of meeting:	23rd June 2011
Title:	Amended Financial Procedure Rules
Author:	Head of Internal Audit & Risk Assurance
Status:	For Decision to Council

Purpose

The need to update the Council's Financial Procedure Rules (formerly known as Financial Regulations), previous version dated April 2006, in line with updated legislation, codes of practices, a revised democratic process, Council restructure and reducing bureaucracy to improve and streamline decision making.

Recommendation

Members are requested to:-

Review and support the amended Financial Procedure Rules (Appendix 1) as part of the Council's Constitution (Part 4 – Schedule 16) and recommend their adoption to Council.

1. Background

- 1.1** The Council, to conduct its business effectively need to ensure that it has sound financial management policies in place and they are strictly adhered to. Part of this process is the establishment of Financial Procedure Rules that set out the financial policies of the Council. The Council is committed to innovation within the regulatory framework, providing that the necessary risk assessment and approval safeguards are in place.

2. Report

- 2.1** The significant amendments to the previous version of the Regulations, now known as Financial Procedure Rules are:
- The abolition of Sub Boards;
 - Increasing the financial limits in both revenue and capital for virements to £20k (previously £10k) [A.12 & A.14] and the upper limit to £50k (previously £25k) [A.13 & A.15]

- Increasing the levels (increased to £20k for revenue, to £100k for capital and a 10% margin limit) of supplementary estimates that require approval by the Policy & Organisation Board [A.17 & A.18];
- Updated contacts for External Audit (included in footnote);
- Increasing the debt write off limit to up to £20k (previously £10k) [D.26 a] for Service Unit Managers and Borough Treasurer and in excess of £20k (previously £10k) for the Policy & Organisation Board approval following a report from the Borough Treasurer [D.26 b];

A number of amendments to job titles have been incorporated and other minor changes have been included to refresh the updated procedures.

3. Risk assessment

- 3.1 The Financial Procedure Rules provide clarity about financial accountabilities for all Members, Officers and other stakeholders. The Rules are part of the overall financial framework of the Council which also includes other internal financial regulatory documents forming sound governance arrangements.

4. Conclusion

- 4.1 The updated Financial Procedure Rules is just one area under review as part of the Council's corporate governance arrangements.

Financial Services comments:	See SIP implications below.
Legal Services comments:	None for the purposes of this Report
Service Improvement Plan implications:	The Financial Procedure Rules will be kept under review on a two year cycle within the Financial Services Unit
Corporate Plan:	The updated Financial Procedure Rules will support the Council's pursuit of excellence.
Risk Assessment:	Refer to paragraph no 3 in body of report
Background papers:	Nil
Appendices/Enclosures: Appendix 1	Financial Procedure Rules
Report author/Lead Officer:	Chris Davis (02392 545306) & Peter Wilson (02392 545300)

FINANCIAL PROCEDURE RULES FOR GOSPORT BOROUGH COUNCIL

- 1. Introduction**
- 2. A: Financial Management**
 - B: Financial Planning**
 - C: Risk Management And Control Of Resources**
 - D: Systems And Procedures**
 - E: External Arrangements**

1 INTRODUCTION

- 1.1 Financial Procedure Rules (previously known as Financial Regulations) provide the framework for good governance in the management of the Council's financial affairs. They apply to every Board, Committee, member and officer of the Council and anyone acting on its behalf.
- 1.2 It is the responsibility of all Members and officers to comply with the Council's Financial Procedure Rules.
- 1.3 The provisions of these Procedure Rules shall not prevent the Chief Executive or Service Unit Manager from incurring expenditure which is essential to meet immediate needs created by a sudden emergency or which is referred to in Section 138 of the Local Government Act 1972. However, prior to any financial commitment being made the appropriate Service Unit Manager shall consult, wherever possible, the Chief Executive and the Borough Treasurer. In addition, the matter shall also be reported, as soon as practicable, to the appropriate Board.
- 1.4 Section 151 of the Local Government Act 1972 requires every local authority "to make arrangement for the proper administration of their financial affairs and secure that one of their Officers has responsibility for the administration of those affairs" The Council has appointed the Deputy Chief Executive & Borough Treasurer as the Section 151 Officer and the Financial Services Manager as the designated deputy.

SECTION A: FINANCIAL MANAGEMENT**INTRODUCTION**

- A.1 Financial management covers all financial matters in relation to the running of the Council.

THE FULL COUNCIL

- A.2 The Full Council is responsible for approving procedures and for recording and reporting decisions taken. The Terms of Reference and the delegations to Boards, Scrutiny Committee, Standards & Governance Committee and delegation to officers are set out in the Constitution ([GBC Constitution](#)).
- A.3 Within these procedure rules, the Policy & Organisation Board shall be construed to be the Proper Board to which matters shall be referred, unless otherwise stated.

COUNCIL MANAGEMENT TEAM**Borough Treasurer**

- A.4 The Borough Treasurer has statutory duties in relation to the financial administration and stewardship of the Council (in the absence of the Borough Treasurer, the Financial Services Manager or Head of Accountancy shall exercise these functions as deputy). This statutory responsibility cannot be overridden.
- A.5 The Borough Treasurer is responsible for:
- the proper administration of the Council's financial affairs
 - setting and monitoring compliance with accounting and financial management procedures and standards including International Financial Reporting Standards (IFRS)
 - maintaining an effective and adequate internal audit and all audit arrangements
 - advising on the Council's finances
 - providing financial information
 - preparing and controlling forward financial plans, budget strategies, the revenue budget, the capital strategy and capital programme
 - treasury management and banking arrangements
 - All financial staff as Head of Profession
 - schemes of financial delegation
 - financial and related IT systems
 - procedures and controls for ordering services, supplies and works
 - payment of accounts and collection of income.

A.6 Section 114 of the Local Government Finance Act 1988 (the Act) requires the Borough Treasurer to report to the Council and external auditor if the Council or one of its officers:

- has made, or is about to make, a decision which involves incurring unlawful expenditure
- has taken, or is about to take, an unlawful action which has or would result in a loss or deficiency to Gosport Borough Council
- is about to make an unlawful entry in Gosport Borough Council's accounts.

A.7 Section 114 of the Act also requires:

- the Borough Treasurer to nominate a properly qualified member of staff to deputise should he be unable to perform the duties under section 114.

- that the Council provides the Borough Treasurer with sufficient staff, accommodation and other resources – including legal advice where this is necessary – to carry out the duties under Section 114.

Other Council Management Team Officers

A.8 These officers are responsible for:

- ensuring that Members are advised of the financial implications of all proposals and that the financial implications have been agreed by the CFO or his deputy.
- operating financial processes within their Units. To do this they must ensure that adequate operational controls are in place.
- controlling expenditure and income, monitoring performance and taking the necessary action to remain within budgets and cash limits.

A.9 It is the responsibility of Service Unit Managers to consult with the Borough Treasurer and seek approval regarding any matters that are liable to significantly affect the Council's finances, before any commitments are incurred.

Virement¹**Revenue**

- A.10 The Full Council is responsible for agreeing procedures for virement of expenditure between budget headings.
- A.11 The virement regulations below are aimed at providing the flexibility for Service Unit Managers to ensure that approved budgets are not exceeded while at the same time allowing for the delivery of services in line with the Council's policies and plans.
- A.12 Virements less than £20,000 can be approved by the Service Unit Manager after agreement with the Borough Treasurer and the Chief Executive. Over £20,000 requires the further approval of the appropriate Board(s).
- A.13 Virements between Boards of more than £50,000 require approval from the Borough Treasurer, Chief Executive and the appropriate Board(s). They must also be approved by the Policy & Organisation Board.

Capital

- A.14 Virements of less than £20,000 between approved schemes can be approved by the Service Unit Manager after agreement with the Borough Treasurer and Chief Executive. Applications for virements of more than £20,000 between approved schemes must be made to the appropriate Board by the Service Unit Manager for approval.
- A.15 Virements between Boards of more than £50,000 require approval from the Borough Treasurer, Chief Executive and the appropriate Board(s). They must also be approved by the Policy & Organisation Board.

Supplementary Estimates²

- A.16 Supplementary estimates are a last resort and will only exceptionally be approved by both the Borough Treasurer and Chief Executive. They must also be approved by the Policy & Organisation Board.

¹ A Virement is an approved transfer of a budgetary sum of money between budget headings (a budget heading being a budget line in the budget book).

² A supplementary estimate is an additional budgetary sum of money – generally from the Council's reserves.

Revenue

- A.17 Where expenditure budget provisions are estimated to be exceeded or an income budget provision not achieved by more than £20,000, and a virement is not possible, then the Service Unit Manager responsible for the budget, following consultation with the Financial Services Manager, should apply to the appropriate Board for a supplementary estimate for the estimated overspend or shortfall of income. Board recommendations shall be referred to the next available meeting of the Policy & Organisation Board.

Capital

- A.18 If the estimated cost of a scheme or project included in the Capital Estimates is likely to exceed the approved expenditure by more than 10% or £100,000 whichever is the lesser (subject to a minimum of £20,000), and a virement is not possible, the Service Unit Manager responsible for controlling the expenditure on that scheme or project, following consultation with the Financial Services Manager, shall apply to the appropriate Board for a supplementary estimate for the amount of the estimated overspending. Board recommendations for any excess expenditure arising from other variations or changes to a scheme shall require the approval of the next available meeting of the Policy & Organisation Board.

Treatment of year-end balances

- A.19 The treatment of year-end balances resulting from under and overspendings on budget headings shall be approved by the Policy and Organisation Board as part of the final accounts process.
- A.20 Revenue budget carry forwards will generally not be permitted.
- A.21 Capital programme slippage will be reported to Policy & Organisation Board as part of the final accounts process.

Accounting policies

- A.22 The Borough Treasurer is responsible for determining accounting policies and financial systems and ensuring that they are applied consistently.

Accounting records and returns

- A.23 The Borough Treasurer is responsible for determining the accounting procedures and records for the Borough Council.

Journals

- A.24 All individual journals over £50,000 are subject to monthly review by senior accounts staff and a further check of the monthly files are subject to review by the CFO or his deputy.

The annual statement of accounts

- A.25 The Financial Services Manager is responsible for ensuring that the annual statement of accounts is prepared in accordance with statutory timescales and the applicable Codes and reporting financial standards. Standards and Governance Committee is responsible for approving the annual governance statement and reviewing external auditor's comments. Policy & Organisation Board is responsible for approving the Council's Statement of Accounts.

SECTION B: FINANCIAL PLANNING

BUDGETING

Budget format

- B.1 The general format of the budget will be approved by the Council on the advice of the Borough Treasurer. The draft budget should include allocations to different services and projects, potential taxation levels and will be prepared with due regard to the Medium Term Financial Strategy and annual Budget Strategy.

Budget preparation

- B.2 The Borough Treasurer shall prepare and present the annual estimates of revenue income and expenditure to the Council's Boards with due regard to the relevant codes of practice.

Policy and Organisation Board

- B.3 The Policy and Organisation Board shall oversee the budget policy and strategy, Medium Term Financial Strategy and Budget and shall recommend to Council detailed estimates for approval. The Council shall determine the level of Council Tax for each property Band to be levied in the next financial year, by no later than 11th March in each year.

Budget monitoring

- B.4 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.
- B.5 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.
- B.6 Accountants are to attend Section meetings to provide input on the budget situation and resolve any budgetary queries.
- B.7 The Borough Treasurer shall submit regular budget monitoring reports to the Council Management Team and Council Members identifying changes in trends and resource requirements.
- B.8 All Service Unit Managers should ensure that arrangements are in place for their staff to record time spent on appropriate projects and services.

Preparation of the capital programme

- B.9 Capital Programmes shall initially be prepared by the Borough Treasurer in conjunction with Service Unit Managers to reflect either approved or intended Council projects and the likely availability of resources.
- B.10 On an annual basis Boards will consider and report their forward capital programmes to the Policy and Organisation Board. Any changes to these programmes will be considered by Boards and referred to the Policy and Organisation Board for approval. The Policy and Organisation Board shall recommend to the Council the total programme for approval for the ensuing financial year, after taking into account both capital and revenue resource implications.

SECTION C: RISK MANAGEMENT AND CONTROL OF RESOURCES

INTRODUCTION

- C.1 Robust, integrated systems should be developed and maintained for identifying and evaluating all significant operational risks to the Council. This should include the proactive participation of all those associated with planning and delivering services.

RISK MANAGEMENT

- C.2 The Standards & Governance Committee is responsible for approving the Council's risk management policy statement and strategy and for reviewing the effectiveness of risk management. In addition, the Council is responsible for ensuring that appropriate reserves and insurances are maintained.
- C.3 The Head of Internal Audit & Risk Assurance is responsible for co-ordinating the Council's risk management policy statement and for promoting it throughout the Council.

INSURANCE

- C.4 The CFO shall ensure that, after discussion with the relevant Service Unit Manager, the Council has appropriate insurance cover at all times.

Insurable Items and Interests

- C.5 Service Unit Managers shall notify the Financial Services Unit promptly of all liabilities, risks, properties, assets and rights that could be insured and of any alterations that should be made to existing cover.
- C.6 Service Unit Manager shall promptly notify the Financial Services Unit of every loss, liability or damage sustained, or event likely to lead to a claim, which is or may be covered by insurance. Where appropriate, e.g. suspected arson, the Service Unit Manager shall also inform the Police.

INTERNAL CONTROL

- C.7 Internal control refers to the systems of control put in place to help ensure the Council's objectives are achieved in a manner that promotes economical, efficient and effective use of resources and that the Council's assets and interests are safeguarded.
- C.8 The Borough Treasurer is responsible for advising on effective systems of internal control. These arrangements need to ensure compliance with all applicable statutes and regulations and other relevant statements of best practice. They should ensure that all funds are properly safeguarded and used economically, efficiently and in accordance with the statutory and other authorities that govern their use.

- C.9 It is the responsibility of Service Unit Managers to establish sound arrangements for planning, appraising, authorising and controlling their operations in order to achieve continuous improvement, economy, efficiency and effectiveness and for achieving their financial performance targets.

AUDIT REQUIREMENTS

- C.10 The Accounts and Audit Regulations 1996 require every Council to maintain an adequate and effective internal audit.
- C.11 The Audit Commission is responsible for appointing external auditors to each Council. The basic duties of the external auditor are governed by section 15 of the Local Government Finance Act 1982.
- C.12 The Council may, from time to time, be subject to audit, inspection or investigation by external bodies such as HM Revenue & Customs, who have statutory rights of access.

INTERNAL AUDIT

- C.13 The CFO shall be responsible for maintaining a continuous and independent internal audit appraisal of the Council's internal control systems, as a service to the organisation. The Internal Audit Section shall objectively examine, evaluate and report on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.

REPORTING LINES

- C.14 The Head of Internal Audit & Risk Assurance shall report at least quarterly to the Standards and Governance Committee on the activities of Internal Audit.

AUDIT AUTHORITY

- C.15 The CFO and Head of Internal Audit & Risk Assurance or authorised representative has authority to:
- (a) enter, at all reasonable times, any premises or land owned, leased or controlled by the Council
 - (b) inspect and examine all records, accounts, leases, agreements, contracts, vouchers, correspondence and other documents of the Council
 - (c) require and receive explanations on any matter under examination, either verbally or in writing

- (d) require any employee to produce and account for cash, stores, or other Council property under their control.

EXTERNAL AUDIT³

C.16 The basic duties of the External Audit are defined in the Audit Commission Act 1998 and the Local Government Act 1999.

C.17 Their duties are to review and report upon:

- All financial aspects of the Council's corporate governance arrangements.
- the Council's financial statements and incorporating results within the "Annual Governance Report".
- the External Auditors are to be given access, at all reasonable times, to premises, personnel, documents and assets as required
- VFM Conclusion (The External auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.).
- to present to the Council their "Annual Audit Letter".

PREVENTING FRAUD AND CORRUPTION

C.18 The CFO is responsible for the development and compliance of an anti-fraud and corruption policy.

Potential fraud and corruption⁴

C.19 Where there is a suspicion of irregularity in the administration of the financial affairs of the Council, it is the duty of all individuals to report the matter to the Head of Internal Audit & Risk Assurance.

C.20 Where, upon investigation, reasonable grounds appear to exist for suspecting that a loss may have occurred as the result of misappropriation, irregular expenditure or fraud, the Head of Internal Audit & Risk Assurance shall decide, in consultation with the Chief Executive and CFO, whether the circumstances require further investigation by the Police and take appropriate action. The Chief Executive, CFO and Monitoring Officer shall be consulted prior to referring any matter to the Police.

³ The Audit Commission are currently the Council's External Auditors. They can be contacted on 0844 798 4640.

⁴ 24 hour Fraud Hotline 02392 545308.

- C.21 Where, upon investigation, the Head of Internal Audit & Risk Assurance believes that a loss may have occurred as the result of waste, extravagance or maladministration, a report on the matter shall be submitted to the Service Unit Manager, Borough Treasurer, Chief Executive and Monitoring Officer.

ASSETS

- C.22 Service Unit Managers should ensure that records and assets are properly maintained (inventory) and securely held. They should also ensure that contingency plans are in place for the continuity of service and the security of assets in the event of disaster or system failure.

LAND (inc. leases etc.)

Terrier

- C.23 A terrier of all land owned by the Council shall be maintained by the Head of Legal Services.

Sale and Purchase of Land

- C.24 Unless covered under the Scheme of Delegation to Officers, land shall not be sold, purchased or leased except as authorised by the Policy and Organisation Board. The Board must be presented with a report prepared by the relevant Service Unit Manager in consultation with the Borough Solicitor, Financial Services Manager and the Head of Property Services containing a detailed evaluation (including a reason for the proposal, the overall implications of the proposal, a valuation and risk assessment) of the consequences and implications of such sale or purchase.

TREASURY MANAGEMENT

- C.25 The Council has adopted CIPFA's Code of Practice for Treasury Management in Local Authorities.
- C.26 The Council is responsible for approving the Treasury Management policy statement setting out the matters detailed in paragraph 15 of CIPFA's Code of Practice for Treasury Management in Local Authorities. The policy statement is proposed to the Full Council. The Borough Treasurer has responsibility for implementing and monitoring this statement.
- C.27 The CFO is responsible for ensuring an appropriate Treasury Management Strategy is adopted by Council at or before the start of each financial year.

Borrowing

- C.28 The CFO has authority to arrange the borrowings necessary to finance the Council's Capital Programme, to defray payments to be met from revenue funds pending the receipt of sums due in respect of the same period, or to replace debts repaid as prescribed in the Council's Scheme of Delegation to Officers.

Lending

- C.29 The CFO has authority to invest or deposit any temporary surplus funds on the Wholesale Money Market. Such funds will only be placed with those institutions that meet the criteria approved by the Council.
- C.30 The CFO is responsible for reporting annually to Full Council on the activities of the Treasury Management operation.

BANKING

- C.31 The opening of any Council bank account must be authorised by the CFO or his deputy.
- C.32 Direct debit instructions (DDI's) for payment of invoice(s) must be signed by an authorised Officer under the agreed Council's Bank Mandate. Further information regarding the signatories may be obtained from the Head of Accountancy.
- C.33 Arrangements and terms for banking shall be in accordance with a contract that shall from time to time be subject to competitive tender.
- C.34 All forms of cheque and cheque stationery shall be ordered, issued and controlled by the Financial Services Manager.
- C.35 Cheques for less than £20,000 shall bear the lithographic signature of the CFO. Cheques equal to or greater than £20,000 should be signed by an authorised signatory under the Council's Bank Mandate. In exceptional circumstances manual cheques can be produced which are signed manually by an authorised signatory.
- C.36 All payments sent electronically must be authorised by a designated Officer. Those greater than £20,000 (individual payment) should also be counter authorised an authorised signatory.

STAFFING

- C.37 Service Unit Managers shall exercise control over their staffing establishments within the approved annual staffing budgets.
- C.38 Where a Service Unit Manager wishes to make changes the cost should be absorbed in the current year and future years' budgets.
- C.39 Vacancies shall only be filled where they are essential to the services the Council provides and are subject to the approval of the Chief Executive, in consultation with the appropriate Board Chairman.

SECTION D: SYSTEMS AND PROCEDURES

INTRODUCTION

- D.1 Sound systems and procedures are essential to an effective framework of accountability and control.

GENERAL

- D.2 The Financial Services Unit is to advise on and supply the financial information that needs to be included in performance plans in accordance with statutory requirements and agreed timetables.
- D.3 The Financial Services Unit shall be responsible for advising on the financial administration and accounting procedures and for the maintenance of all accounting records. Where records are maintained by service units the appropriate Manager shall have a duty to maintain a clear audit/management trail to support their management control responsibilities.
- D.4 Service Unit Managers shall obtain the Head of Accountancy's approval before introducing any books, forms or procedures or other records that relate to or may affect the Council's finances.
- D.5 Service Unit Managers, in consultation with the CFO, shall submit to the Head of Accountancy such information as the latter deems necessary for accounting and costing purposes and shall afford access at all reasonable times to all accounting records and documents which relate to or may affect the Council's finances.
- D.6 Service Unit Managers shall ensure that as far as is practicable, the duties of staff concerned with financial systems and transactions are trained and they maintain an up to date procedural manual of fundamental financial systems.

COUNCIL TAX AND NATIONAL NON-DOMESTIC RATES

Register

- D.7 The CFO shall compile and maintain up-to-date records of all relevant properties and businesses.

Billing

- D.8 The CFO shall send appropriate bills promptly to those liable for Council Tax or National Non-Domestic Rates.

Collection and Recovery

- D.9 The CFO shall take all action necessary, in accordance with Council policy, to secure the prompt collection and recovery of amounts due.

INCOME**Collection**

- D.10 The collection of all money due to the Council shall be under the control of the Borough Treasurer and each Manager shall provide such information as may be required to record correctly and recover promptly all sums due. The use of electronic collection (direct debit) must be encouraged to all customers, where available.
- D.11 There is a statutory requirement for the Council to be aware of its cash income and to protect against the risk of becoming involved in money laundering. In order to assist with this requirement a limit on single cash transactions has been set at £5,000. All single cash transactions of this amount or greater must be reported to the Head of Internal Audit & Risk Assurance immediately.

Stationery

- D.12 All receipt forms, books, tickets and other documents of a financial nature by which income is demanded or receipted, shall be ordered, controlled and supplied to Service Units by the Pay and Central Services Section, except where otherwise specifically approved by the Financial Services Manager. Service Unit Managers shall be responsible for the safe custody of such documents within their service units and for maintaining control over their use in accordance with arrangements approved by the Head of Internal Audit & Risk Assurance.

Receipting

- D.13 Every Service Unit Manager whose unit receives money on behalf of the Council shall comply with arrangements approved by the Head of Internal Audit & Risk Assurance and Head of Accountancy concerning its acknowledgement and recording. This includes the issue of formal instructions to staff. Service Unit Managers shall also be responsible for the safe custody of the money and shall, promptly deposit it with the Cash Office. Payment counterfoils shall be stamped, dated and signed by the Cashier, save where an approved machine receipting system is in use. No Officer shall give a receipt for money received on behalf of the Council on any form other than an official receipt form. All monies received should be banked or paid into the cashiers promptly and within 5 working days.

- D.14 All cheques, money orders, postal orders and payment warrants received shall be immediately crossed with the name of "Gosport Borough Council".
- D.15 Money received shall not be used to cash personal or other cheques but shall be deposited intact.

Paying-in

- D.16 Every Officer who pays money into the cash office or any other authorised cash collection point shall enter on the paying-in slip and on the counterfoil or duplicate particulars of such payment, including the receipt number(s) to which the payment(s) relates. In addition, for each cheque, the amount and the receipt number to which it relates shall be entered separately. If a cheque is received in full or partial discharge of a debt, the counterfoil should be marked as such.
- D.17 The CFO shall be notified of all money due to the Council under contracts, leases, tenancies and other agreements that have been entered into on the Council's behalf as soon as possible and shall have access to the original documents and relevant particulars and information.

Sundry Debtors

- D.18 Sundry debtors invoices will only be raised in response to a documented request in a format approved by the Head of Accountancy.
- D.19 A sundry debtor invoice request form must be completed within 14 days of the date of supply or from when the debt was incurred.
- D.20 Care must be taken to ensure that the debtors' details, including full name, address and postcode, are entered correctly, and that the correct accounting and VAT codes are used.
- D.21 Wherever possible, a formal legal agreement for the debt should be established which must be provided in the event of recovery action being necessary.
- D.22 Wherever possible, efforts should be made to avoid raising small value invoices by encouraging the customer to pay in advance.

Bad Debts

- D.23 Service Unit Managers shall refer to the Borough Solicitor all debts (other than Housing rents and Local Tax) which they are unable to recover following the recognised arrears process.
- D.24 Service Unit Managers shall also inform the Financial Services Unit of any sums that have been referred to the Borough Solicitor.

- D.25 The Borough Solicitor shall take all reasonable steps to recover such debts that are not considered as irrecoverable.
- D.26 No sum of money due to the Council, after it has been correctly determined, shall be discharged otherwise than by payment in full or by writing off the debt or the unpaid portion of it on the authority of:
- a) both the appropriate Service Unit Manager and the Borough Treasurer, up to £20,000
 - b) by the Policy and Organisation Board in excess of £20,000, following a report by the Borough Treasurer confirming that the debt is not recoverable at reasonable effort and expense.
- D.27 An annual summary of all debt write-offs shall be notified to members of the Policy and Organisation Board by the Borough Treasurer.

Scales of Fees and Charges

- D.28 Fees and Charges shall be reviewed as part of the Council's annual budget process and amendments reported to the P&O Board.
- D.29 The recommendation of the Board on the amendment of the Scales shall be reported to the next available Full Council.

PURCHASE ORDERS

- D.30 Paragraphs D32, D33 and D35 in this section do not apply to Housing (tenants requested repairs).

Ordering goods and services

- D.31 A requisition shall be raised for all purchases.
- D.32 All requisitions shall be approved by the appropriate Senior Officer.
- D.33 Request for a quote form shall be used for all non catalogue goods and will be sourced by Central Purchasing.
- D.34 Official orders for all purchases, other than petty cash, shall only be placed in accordance with systems approved by the Head of Pay & Central Services, Head of Accountancy and the Head of Internal Audit and Risk Assurance.
- D.35 Orders for goods, works or services, other than recurring services eg.- public utility supplies etc. shall be on an official order form.
- D.36 Each order shall specify and describe adequately the nature and quantity of the goods, works, services etc., required and any agreed prices. In addition, all incentives or inducements on ordering goods must

be registered and reported prior to authorisation and recorded on the order.

- D.37 Any changes to the terms of the order as issued originally shall be approved by the Manager or nominated Senior Officer.
- D.38 No order shall be placed which will commit the Council to expenditure unless authority exists to incur such expenditure.
- D.39 Official orders may not be used for the procurement of goods, materials or services for the personal use of an employee, except for the purchase of personal protective equipment.

EXPENDITURE

- D.40 In order to comply with the Late Payment of Commercial Debts (Interest) Act 1998 the Financial Services Manager shall ensure that payment of all sums due from the Council is made promptly. Service Unit Managers shall be responsible for ensuring that all invoices and other accounts are sent for payment without delay, particularly where a discount is available. All procurement cards held within the Council must follow the same principles as set out in this section. In addition, these cards must be kept secure at all times.
- D.41 Prior to an invoice being authorised for payment, Service Unit Managers shall ensure that responsible officers under their control are satisfied that:
- (a) invoices are date stamped on receipt
 - (b) the terms of the order have been complied with
 - (c) prices are in accordance with any quotation given or are otherwise reasonable
 - (d) the amount of the invoice is arithmetically correct
 - (e) all discounts have been taken
 - (f) appropriate entries have been made in stores records/inventories/copy orders etc
 - (g) the amount of the expenditure is provided for in the approved budgets and that the grid stamp is fully completed including the expenditure code and certification. As a minimum the checked by, certified for payment, creditor number and expenditure code boxes must be completed on the grid stamp.
 - (h) the invoice has not been authorised previously for payment

- (i) the account is not a photocopy or statement or Facsimile (unless approved by the Head of Accountancy)
- (j) a pro-forma voucher is not being used as a substitute for an invoice
- (k) Value Added Tax has been correctly identified, checked and coded on official tax invoices
- (l) if an invoice is disputed, delayed or paid on a copy the details of this must be noted on the invoice.

D.42 Invoices must be authorised for payment without delay to comply with both payment terms and the Council's local Performance Indicator which requires payment within 30 days.

Invoice Certification

D.43 Before certification by the appropriate Service Unit Manager or appropriate senior officer, where necessary (i.e. recurring invoices). Invoices for payment shall be independently initialled as checked. The form and content of the certification for payment shall be that required by the Financial Services Unit. Nominated certifying officers shall be required to provide the Head of Accountancy with specimen signatures and initials, together with an expenditure limit annually (as agreed by Council Management Team). Officers shall not certify any voucher payable to themselves, family relatives or organisation/club in which they have an interest. Responsibilities for verifying receipt of goods, checking invoices and certification for payment shall be carried out by separate officers.

Urgent Payments

D.44 Urgent payments are costly to process, so Units should keep requests for such payments to a minimum and only in cases where there is a genuine need. The use of electronic payment must be encouraged to all suppliers, where available, at all times (direct credit).

Payment of Salaries, Wages and Allowances

D.45 The payment of all salaries, wages and other allowances shall be under the control of the CFO.

Changes

- D.46 Service Unit Managers shall immediately notify the Head of Pay & Central Services, the Head of Personnel and the Chief Executive of all matters affecting staffing establishments and the payment of employees' remuneration and allowances, in particular:
- (a) appointments, resignations, dismissals, suspensions, secondment and transfer
 - (b) absences from duty for sickness or other reasons, apart from approved leave
 - (c) changes in remuneration, other than normal increments, pay awards and agreements of general or national application
 - (d) information necessary to maintain records of service for superannuation, income tax, national insurance and items of a similar nature
 - (e) significant changes in duties and responsibilities.
- D.47 All notifications must be signed by the appropriate Manager or a nominated Officer.

Time Sheets

- D.48 Service Unit Managers shall ensure that any required time sheets for staff under their control are properly completed and are examined and independently certified by a responsible officer.

Payroll Information

- D.49 Service Unit Managers shall make available to the Head of Pay & Central Services all information necessary for the prompt and accurate preparation of payrolls. The arrangements shall include an approved form of time and pay records and such records may only be authorised by approved certifying officers as agreed with the Head of Pay & Central Services.

Allowances

- D.50 All claims by Members and Officers for payment of car allowances, subsistence allowances, travelling and other expenses shall be submitted, duly certified, in accordance with the procedure approved by the CFO. Such claims may be authorised only by an approved certifying officer. Certifying officers may not certify their own claims. Claims

submitted more than three months after the expenses were incurred will only be paid with the express approval of the CFO, after consultation with the appropriate Service Unit Manager.

- D.51 A certification by or on behalf of a Manager shall be taken to mean that the certifying officer is satisfied that the journeys were for official business and that the most cost effective option was used, the expenses were properly and necessarily incurred and that the allowances are properly payable by the Council.
- D.52 Officers in receipt of car allowances shall maintain a log of all mileage in respect of official business.

TAXATION

- D.53 The Council is responsible for ensuring its tax affairs are in order. Service Unit Managers are to be provided with relevant information and kept up to date with tax issues and required record keeping. This will ensure that all taxable transactions are identified, properly carried out and accounted for within stipulated timescales.

SECURITY

- D.54 Each Service Unit Manager is responsible for maintaining proper security of all information, buildings, stocks, stores, furniture, equipment, documents, financial records, cash etc., under their control (including such information held on computer which shall be in accordance with the principles of the Data Protection Act 1998). The Head of Internal Audit & Risk Assurance shall be consulted in any case where security is thought to be defective or where it is considered that special security arrangements may be needed (e.g. intruder alarms).

Cash holding limits

- D.55 Every effort should be made to bank monies as soon as possible. In those units that have access to a safe a maximum limit for cash holdings must be agreed with both the Financial Services Unit (for insurance purposes) and the Head of Internal Audit & Risk Assurance.

Safe keys

- D.56 Keys to safes, key safe boxes (where used) and similar receptacles shall be issued to named individuals who shall be held responsible for their safe custody; the loss of any such keys must be immediately reported to the Head of Internal Audit & Risk Assurance.

Town Hall

- D.57 Service Unit Managers shall refer any relevant matters to the Chief Executive or to the Manager who has responsibility for the overall security of the Town Hall.

ASSET REGISTERS**Preparation and maintenance**

- D.58 The Financial Services Manager shall be responsible for preparing and maintaining an asset register which shall record all Council owned land, buildings and assets initially costing (or currently valued at) greater than £10,000. This will include maintaining inventories and recording an adequate description of furniture, fittings, equipment, plant and machinery. Inventions, writing and software (including in-house developed spreadsheets) will give rise to Intellectual Property and various Acts of Parliament will cover different types of intellectual property. Service Unit Managers shall provide, on a regular basis, such information as is required by the Head of Accountancy for the maintenance of the register.

Verification

- D.59 At least once a year the CFO will require other Service Unit Managers to arrange for their portion of the register to be checked against the physical assets. The Head of Accountancy shall be advised of surpluses or deficiencies requiring amendment of the register.

Disposal

- D.60 The disposal of any items considered to be obsolete or surplus to requirements shall be in accordance with the Council's Scheme of Delegation to Officers.

STOCKS AND STORES**Custody**

- D.61 Service Unit Managers shall be responsible for the custody and control of the stocks and stores in their units.

Accounts

- D.62 The stores accounting records maintained by Service Unit Managers shall be approved by the Head of Accountancy and Service Unit Managers shall supply such information as is required for the Council's accounting and financial records.

Levels

- D.63 Stocks shall not be in excess of reasonable requirements.

Valuation

- D.64 The Head of Accountancy, in conjunction with Service Unit Managers, shall determine the method to be followed in the valuation of stores.

Stocktaking

- D.65 Not less frequently than annually, Service Unit Managers shall ensure that a stock take of all stocks and stores in their units is carried out independently of the officers responsible for their custody. Where items are obsolete or surplus to requirements, the Manager shall dispose of them in accordance with the Council's Scheme of Delegation to Officers.
- D.66 The Head of Internal Audit & Risk Assurance may be represented at any stocktaking for the purpose of making test checks and shall be allowed to make test checks at any time.

Adjustment of stores records

- D.67 Adjustments of stores records in consequence of discrepancies revealed by stocktaking shall be authorised by the appropriate Manager and, if significant, shall be reported to the Head of Accountancy and Head of Internal Audit & Risk Assurance.

Report to Head of Accountancy

- D.68 The total value of stores written off in each financial year shall be reported to the Head of Accountancy.

Stores records

- D.69 Details of stores received, returned or issued shall be entered promptly in the stores records.

Stores issues/returns

- D.70 Stores issue/returns shall be made only against a properly completed official stores issues/returns note.

Other

- D.71 A Service Unit Manager may, in consultation with the Head of Accountancy, instruct that the maintenance of records of particular items of stocks and stores are not necessary on economic grounds.

INFORMATION COMMUNICATION TECHNOLOGY

- D.72 The acquisition and disposal of ICT equipment (hardware & software) shall be in accordance with the Council's approved IT strategy, which requires, inter alia, a detailed financial appraisal of any significant proposed investment.
- D.73 The development or acquisition of software or systems shall comply with the principles of a recognised project management methodology e.g. PRINCE2. Any deviation from the agreed methodology must be reported to Council Management Team.
- D.74 All system selections must be signed off by the sponsoring Manager and the Head of Information Technology.
- D.75 The use of all ICT systems and equipment shall be in accordance with the standards and policies laid down for security, privacy and acceptable use.
- D.76 The use of ICT systems and equipment shall comply with the Data Protection Act 1998 and other ICT related Law.
- D.77 Only official, licensed versions of authorised software from a known, reliable source shall be used on Council equipment.

SECTION E: EXTERNAL ARRANGEMENTS**PARTNERSHIPS**

- E.1 The CFO shall ensure that accounting arrangements adopted relating to partnerships and joint ventures are satisfactory and that the overall corporate governance arrangements are satisfactory when contracts are arranged with external bodies. Service Unit Managers must ensure that the risks have been fully appraised before agreements are entered into with external bodies.
- E.2 Service Unit Managers are responsible for ensuring that appropriate approvals are obtained before any negotiations are concluded in relation to work with external bodies.

EXTERNAL FUNDING

- E.3 The CFO, in conjunction with the relevant Service Unit Manager, is responsible for ensuring that all funding notified by external bodies is received and properly recorded in the Council's accounts.

WORK FOR THIRD PARTIES

- E.4 The CFO and Borough Solicitor are responsible for approving the contractual framework for any work for third parties or external bodies.

AGENDA ITEM NO. 12

Committee:	Standards & Governance Committee
Date of Meeting:	23 June 2011
Title:	Annual Governance Statement 2010/11
Author:	Head of Internal Audit & Risk Assurance
Status:	FOR DECISION

Purpose

To bring to the attention of the Members the Annual Governance Statement (AGS) that will be presented to Policy & Organisation Board in conjunction with the Council's Annual Accounts for 2010/11.

Recommendation

To approve the Annual Governance Statement for inclusion in the Statement of Accounts 2010/11.

1 Background

- 1.1 The Accounts and Audit Regulations 2011 require that an Annual Governance Statement be included as part of local authority accounts. The statement covers the whole control framework of the Council rather than those controls which simply have a financial aspect. Guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) has been followed in compiling the Statement.
- 1.2 The Responsible Financial Officer, which for this Council is the Deputy Chief Executive & Borough Treasurer is required to provide an opinion on the adequacy of the Council's internal control systems. It is also considered to be good practice to produce an annual report on the activities of Internal Audit (see elsewhere on the agenda today).
- 1.3 This report covers these requirements as well as setting out a recommended Annual Governance Statement at Appendix One.

2 Report

2.1 Reviewing the Internal Control Environment

2.2 The control environment operates to:

- establish and monitor the Council's objectives;
- facilitate policy and decision making;
- ensure compliance with policies, procedures, laws and regulations;

- ensure efficient and effective use of resources for securing continuous improvement;
- enable the financial management of the Council; and
- ensure data quality and provide effective performance management.

2.3 This is reflected in the CIPFA/SOLACE guidance in the requirement to define how the Council:

- defines and updates a vision for the area;
- enables Members and officers to work together to achieve a common purpose;
- demonstrates good governance by upholding high standards of conduct and behaviour;
- manages risk and takes informed and transparent decisions, which are subject to effective scrutiny;
- develops the capacity and capability of members and officers to be effective;
- engages with stakeholders to promote public accountability.

2.4 The requirements of the CIPFA/SOLACE Framework have been reviewed. Evidence to support the Council's compliance with the framework has been compiled and weaknesses in processes and procedures identified. A summary of the assessment is set out in Appendix 1. The weaknesses identified are reflected in the Annual Governance Statement and an action plan developed to address them. **Factors used in Forming the Judgement**

2.5 In forming an opinion on the adequacy of the internal control environment the Responsible Financial Officer has had regard to:

- the review of the Council's Strategic Risk Register undertaken by the Corporate Risk Management Group in March 2011;
- audits carried out by the external auditor;
and
- the work of internal audit as set out in the Auditor's Annual Report.

2.6 The Auditor's Annual Report demonstrates that adequate audit coverage was maintained for the year and that all fundamental systems were covered. The Report concludes that reliance can be placed on the overall control environment.

Judgement on the Effectiveness of Internal Control

- 2.7 As set out in paragraph 1.2 the Responsible Financial Officer is required to provide an opinion on the adequacy of the Council's internal control systems. Based upon the factors as set out in paragraph 7 above the Council's overall internal control system is considered to be satisfactory.
- 2.8 However, some significant risks to the Council's operations remain on the Strategic Risk Register and action is being taken to mitigate these; there also remain some weaknesses in the Council's governance arrangements. These issues are covered more fully in the Annual Governance Statement as set out in Appendix One.

3 Risk Assessment

- 3.1 The Annual Governance Statement sets out the Council's approach to managing its exposure to a wide range of risks.

4 Conclusion

- 4.1 That the Annual Governance Statement provides the Council with a sound statement in support of its overall governance arrangements.

Financial Services comments:	Nil
Legal Services comments:	None for this report.
Service Improvement Plan implications:	The statement supports the statutory accounts of the Council and is the means to communicate to all stakeholders its overall governance arrangements for 2010/11.
Corporate Plan:	Supports the pursuit of excellence and the overall priorities of the Council.
Risk Assessment:	See Section 3
Background papers:	Nil
Appendices:	1. Draft Annual Governance Statement 2010/11
Report author/ Lead Officer:	Chris Davis 023 9254 5306

GOSPORT BOROUGH COUNCIL

ANNUAL GOVERNANCE STATEMENT 2010/11

Scope of responsibility

Gosport Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards; that public money is safeguarded and properly accounted for; and is used economically, efficiently and effectively. Gosport Borough Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Gosport Borough Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

Gosport Borough Council has completed the Corporate Governance Compliance Checklist which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government.

This statement explains how Gosport Borough Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Gosport Borough Council's policies, aims and objectives to evaluate the likelihood of those risks being realised

and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Gosport Borough Council for the date of approval of the 2010/11 Statement of Accounts.

The governance framework

Our governance framework derives from six core principles identified in a 2004 publication entitled The Good Governance Standard for Public Services. This was produced by the Independent Commission on Good Governance in Public Services - a commission set up by the Chartered Institute of Public Finance and Accountancy (CIPFA), and the Office of Public Management. The Commission utilised work done by, amongst others, Cadbury (1992), Nolan (1995) and CIPFA/SOLACE (2001). These principles were adapted for application to local authorities and published by CIPFA in 2007. The six core principles are:

1. Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area;
2. Members and officers working together to achieve a common purpose with clearly defined functions and roles;
3. Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
5. Developing the capacity and capability of members and officers to be effective; and
6. Engaging with local people and other stakeholders to ensure robust public accountability.

The key elements of each of these core principles are as follows:

Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.

The Sustainable Community Strategy sets out Gosport's 2026 Vision which has been developed in parallel with the Local Development Framework (which sets out future land use in the Borough).

The first stage in developing the Vision involved extensive data collection on a range of quality of life issues which provided a statistical picture of the Borough. This is the data baseline. The second stage involved a large-scale community consultation, 'Make your Mark', which allowed residents,

businesses and visitors to comment and prioritise the key issues. Over 1200 people took part in this highly successful participation event and the results were used to inform the Vision.

In addition to this key service providers were consulted and other consultation findings and local and regional plans and strategies were assessed. Drawing on the information obtained from the research and consultations Gosport's 2026 Vision was produced.

The Sustainable Community Strategy will be refreshed annually and fully reviewed every three to five years.

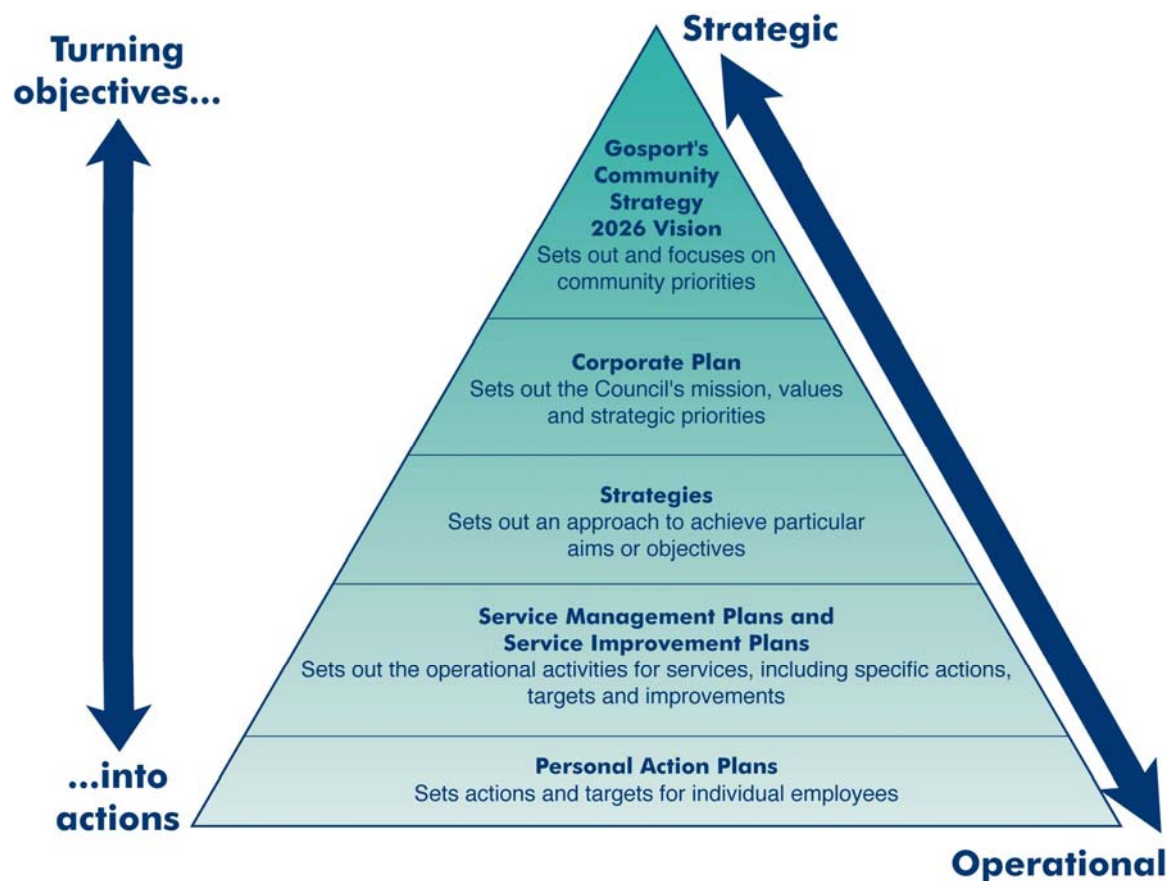
The Council's Corporate Plan sets out Gosport Borough Council's Mission and Values which will help us provide quality service delivery. The Corporate Plan also identifies the Council's strategic priorities (People, Places, Prosperity and Pursuit of Excellence), which are based on a combination of factors including what matters most to local people, national priorities set by the Government and the challenges from Gosport's changing social, economic and environmental context.

Much work has been completed around Climate Change and carbon reduction throughout the business and the signing of the Nottingham Declaration. This has culminated in a Climate Change Strategy being introduced.

The Council's mission is:

“To work with our community to improve everyone’s quality of life and deliver a sustainable future for the Borough.”

The diagram below sets out the various links in the process of establishing and monitoring the achievements of the Council's ambitions, and shows the links between the Community and Corporate Plan which then feed into, and are informed by, strategies, service management and service improvement plans and individual personal action plans:



The Council has a well established Performance Management Framework which has been further enhanced by introducing Covalent (software) to maintain this key information.

The Overview & Scrutiny Committee and Performance Sub Group monitor and scrutinise progress against targets and performance in priority areas effecting relevant service areas, and consider corrective action where necessary, on a quarterly basis. The Performance Sub Group has now been disbanded as the culture of performance management has been embedded into the day to day operations of the Council.

The Council maintains an objective and professional relationship with external auditors and statutory inspectors, as evidenced by the Annual Audit Letter.

Through reviews by external auditors, external agencies and Internal Audit, the Council constantly seeks ways of ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which it functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

The Council's Corporate Procurement Strategy, approved in 2009, provides a consistent strategic framework within which to undertake and continuously develop procurement to deliver the Council's corporate objectives, to improve performance and deliver efficiencies. The Strategy encompasses the policy

objectives of the National Procurement Strategy and adapts and prioritises them to meet the Council's local context. The Strategy recognises that the Council cannot achieve its objectives alone and emphasises the need to work in collaboration with public, private, social enterprise and voluntary sector partners. A core theme throughout the Strategy is the Council's commitment to social, economic and environmental sustainability. This strategy was produced in 2009/10.

The Council reviewed its Financial Regulations in 2006. These Regulations are planned to be updated in early 2011/12.

Risk Management is monitored by the Corporate Risk Management Group, which meets approximately four times a year. The Group reviews risk arrangements and advises Management Team on risk issues within the Council and on existing and planned risk controls.

Risks are reported by use of risk registers. Each section is required to update its own register. These registers will be further enhanced with the roll out of the "risk module" as part of the new performance management software in 2011/12. In addition, the Council's high level risks have been captured and agreed within the strategic risk register (December 10) which has been agreed by CMT and Members in 2010/11. All Members were invited to attend risk management training in 2010/11 hosted by Zurich Municipal.

Members and Officers working together to achieve a common purpose with clearly defined functions and roles

The Constitution sets out how the Borough Council operates, how decisions are made and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people. The introduction of the Local Government Act 2000 made it the duty of every Council to review their political management structures. As part of the review Councils were required to consider the type of structure to be adopted and were given a choice of four models from which to choose. Councils with a population of less than 85,000 were offered the opportunity to adopt 'alternative arrangements' or what is sometimes referred to as the 'fourth option', and this is the option that was approved by Gosport Borough Council in 2000.

The option to employ 'alternative arrangements' allows the Council to retain a Committee structure for making decisions but together with a system that allows other Councillors to scrutinise decisions that have been made. Members of the Policy and Organisation Board are disqualified from membership of the twelve strong Overview and Scrutiny Committee. There are six meetings of the Overview and Scrutiny Committee each year.

Decisions are made by Boards and Sub-Boards of the Council with the following having the responsibility for the majority of decision making (during 2010/11. Structure amended in 2011/12):

Council
Policy and Organisation Board
Community and Environment Board
Housing Board
Regulatory Board
Licensing Board

As the Regulatory Board deals only with planning applications and the Licensing Board with Licensing matters the law does not allow their work to be scrutinised by other Councillors. This is because the decisions made by these Boards are already subject to an appeal process, either through an independent inspector or the courts.

In addition to the Boards, there is also a Standards and Governance Committee in place to promote and maintain the highest standards of conduct by members and officers of the Council. The Committee comprises six Councillors and two Independent Members. Additionally, from May 2008 the Standards and Governance Committee is required to deal with complaints made about the conduct of Councillors as the majority of these cases will, from that point, be determined locally.

Officers give advice, implement decisions and manage the day-to-day delivery of its services. Some officers have specific duties to ensure that the Council acts within the law and uses its resources wisely. A code of practice governs the relationship between officers and members of the Council. In certain circumstances, senior and other officers of the Council can make decisions under delegated authority, as detailed in the Borough's constitution.

The Council Management Team (CMT) meet weekly to develop policy and strategic issues commensurate with the Council's aims, objectives and priorities. CMT also considers other internal control issues, including risk management, performance management, compliances, efficiency and financial management. Three CMT sub-groups, Performance, Organisation and Resources, are in place to consider specific areas of work. The Leader and Deputy Leader of the Council hold twice-weekly meetings with the Chief Executive Officer to review progress in achieving the Council's objectives, priorities for action, performance management and forward planning for major issues.

Pre-Agenda meetings are held for the Service Boards three weeks before the meeting of the Board. The Chairman of the Board will be present at Pre-Agenda meetings along with relevant officers of the Council. At the Pre-Agenda meeting the Chairman will consider a list of items that it has been proposed to take forward to the Board meeting and will make a decision on whether each item in his opinion should be placed on the final Agenda, decided under the delegated powers approved by Council or referred to the Overview and Scrutiny Committee. Following such Pre-Agenda meetings all

Members of the Council are furnished with a Key Decision List of items allowing four working days from publication to call in an item for scrutiny. Informal briefings are also held for the Chairmen of the Regulatory Board and Licensing Board shortly before the Board meeting.

Information that would be of benefit to other members of the Council staff is disseminated through regular meetings between Line Managers and the relevant Unit manager, and then through to the rest of the unit via monthly section meetings.

The Council has also adopted a number of codes and protocols that will govern both member and officer activities. These include:

- Code of Conduct for Members of Gosport Borough Council
- Code of Conduct for the Guidance of Employees
- Code of Conduct for Councillors in the Regulatory Process
- Protocol for Councillor/Officer Relationships
- Anti-Fraud and Corruption Policy
- Whistle Blowing Policy
- Protocol on Principles of Scrutiny

Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

It is the shared responsibility of the Chief Officers, primarily the Monitoring Officer (the Borough Solicitor) and Chief Executive Officer, and the Personnel section to ensure compliance with established policies, procedures, laws and regulations. Issues of conduct and governance must often be considered by the Standards and Governance Committee, in which case a report and recommendations are prepared by the Monitoring Officer. All posts within the authority have a detailed job specification and training needs are identified on an on-going basis and also through the six-monthly Appraisal and Personal Development Scheme.

The Environmental Health Section has achieved accreditation under the Charter Mark standards, which is the Government's national standard for excellence in customer service.

The financial management of the Authority is conducted in accordance with the financial rules set out in the Constitution and underpinned with Financial Regulations. The Council has designated the Deputy Chief Executive and Borough Treasurer as Chief Finance Officer in accordance with Section 151 of the Local Government Act 1972.

The Council operates an Internal Audit section, which operates to the standards set out in the 'Code of Practice for Internal Audit in Local Government in the UK'. This section continues to operate under a partnership arrangement with Eastleigh Borough Council.

Service Improvement Plans and Service Management Plans are regularly updated by Unit and Line Managers and are a standing item on monthly team

meetings. These plans incorporate Corporate Plan requirements into service activities, so that services know what they are required to do to achieve the Council's priorities and ambitions.

Taking informed and transparent decisions which are subject to effective scrutiny and managing risk

As the Council chose to adopt 'alternative arrangements' following publication of the Local Government Act 2000, a Board/Committee structure is in place and each party is represented proportionally on each Board and Committee according to the number of seats held. Consequently the Council enjoys a high level of transparency when it comes to decision making and any Member of the Council is afforded the right to sit on the Boards if they are nominated for such a position at the commencement of the Municipal Year.

The Overview and Scrutiny Committee will accept and investigate formal requests for scrutiny and receive selected policies and strategies for review throughout the year.

The Standards and Governance Committee promotes monitors and enforces probity and high ethical standards amongst the Members, as well as providing a vessel for Audit and Risk issues to be considered.

Developing the capacity and capability of members and officers to be effective

A designated Members' Portal covering a wide range of useful materials and guidance information is available for Members and staff to view on the intranet system. This resource enables the Council to better provide for Members the opportunity to locate important stored information and data. Within the Portal is the Members' Information Pack which provides Members with detailed corporate, strategic and financial information as well as relevant policies and other useful information such as floor plans and complaints guidance.

New Members are provided with an induction training programme to prepare them for their new role, commencing with an induction evening hosted by the Chief Executive, Borough Solicitor and Borough Treasurer that covers topics such as the role of the councillor, finance, standards, code of conduct and major projects. A rolling programme of topical briefings such as those on economic prosperity, crime reduction, local government finance and making decisions on planning and licensing issues are held throughout the year to correlate with the Board cycle.

There is a wide range of further training opportunities available to Members to increase their knowledge base from skills development (e.g. chairing skills, dealing with challenging people and media and image) to need-to-know subjects (e.g. Code of Conduct, planning issues and scrutiny) detailed in the 'Training Opportunities for Members' booklet within the Members Information Pack.

Engaging with local people and other stakeholders to ensure robust public accountability

Local government is accountable in a number of ways. Elected local authority members are democratically accountable to their local area and this gives them a clear leadership role in building sustainable communities. All members must account to their communities for the decisions they have taken and the rationale behind those decisions. All authorities are subject to external review through the external audit of their financial statements. They are required to publish their financial statements and are encouraged to prepare an annual report. Many are subject to national standards and targets. Their budgets are effectively subject to significant influence and overview by government, which has powers to intervene. Both members and officers are subject to codes of conduct. Additionally, where maladministration may have occurred, an aggrieved person may appeal either through their local councillor or directly to the Ombudsmen.

Review of effectiveness

Gosport Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The process that has been applied in maintaining and reviewing the effectiveness of the governance framework includes:

1. The Borough Solicitor (the "Monitoring Officer") has a duty to monitor and review the operation of the Constitution to ensure its aims and principles are given full effect. The Council reviews the Constitution regularly to incorporate any necessary changes.
2. The Council has an Overview and Scrutiny Committee. They can establish sub-groups, which can look at particular issues in depth, taking evidence from internal and external sources, before making recommendations to the Board/Council.
3. Internal Audit is responsible for monitoring the quality and effectiveness of systems of internal control. A risk model is used to formulate a three-year plan, and from which the annual workload is identified. The reporting process for Internal Audit requires a report of each audit to be submitted to the relevant service manager. The report includes recommendations for improvements that are included within an action plan (and are graded as critical, essential, important & advisory) and requires agreement or rejection by service managers. The process includes follow-up reviews of recommendations to ensure that they are acted upon, usually within six months.

The Standards & Governance Committee also received Internal Audit monitoring reports throughout 2010/11.

Internal Audit reviews and computer-based assignments had been undertaken in accordance with the risk index previously agreed with Members and the Council's external auditors.

Significant governance issues

The following governance issues were identified during 2010/11 as a result of the review of arrangements and by the work of external and internal audit.

NO	ISSUE	ACTION/PROGRESS TO DATE
1	Closely monitor the repairs contract budget.	Increased information and systems in place to ensure contract is financially controlled (This area has improved through the introduction of a robust control environment).
2	Homelessness debt management.	Working group established to streamline the process and reduce the level of arrears (this area (COMPLETED)).
3	Accounting reconciliations require evidence of review.	Evidence to be retained on file (COMPLETED)
4	Review the current procurement strategy and contract standing orders.	Contract procedure rules to be updated in 2010/11 (COMPLETED).
5	Improve the risk management arrangements throughout the Council.	Ensure adequate resource is provided to support this key business process (IN PLACE).
6	Enhance governance arrangements in the Councils strategic partnership arrangements.	Run workshops and perform risk assessments with stakeholders to determine the strength of the governance arrangements and make improvements where necessary.
7	Controls operating over the Council's Debtors system at the time of the audit were poor and were not operating effectively.	Work to improve controls has been ongoing and regular meetings are held between audit and finance to monitor progress and discuss issues / solutions.
8	Improve the IT control environment following the 2010/11 External Audit Review.	Head of ICT to review outcomes and develop an improvement plan.
9	To consider response to the Government's consultation regarding the future of Public Audit and any future implications for the Council.	To keep under review.
10	To consider the impacts of the Localism Bill including the implementation of a revised standards regime for Councillors.	To keep under review.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed

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Leader of the Council

Chief Executive

AGENDA ITEM NO. 13

Committee:	Standards & Governance Committee
Date of Meeting:	23 June 2011
Title:	Internal Audit Annual Report 2010/11
Author:	Head of Internal Audit & Risk Assurance
Status:	FOR DECISION

Purpose

In accordance with the national Code of Practice on Internal Audit, the Head of Internal Audit is required to present an annual report to the appropriate body that has responsibility for the Internal Audit function.

Recommendation

That the Committee notes the contents of this report and makes any observations and/or recommendations to the Council on any issue that the Committee feels should be drawn to their attention.

1 Background

- 1.1 As part of signing off the Annual Governance Statement (part of the Council's Annual Statement of Accounts) the Leader of the Council and the Chief Executive will place reliance upon this annual assurance report from the Head of Internal Audit & Risk Assurance. Any comments that the Committee may wish to add along side the report will also be considered.

2 Report

- 2.1 See attached report within Appendix 1.

3 Risk Assessment

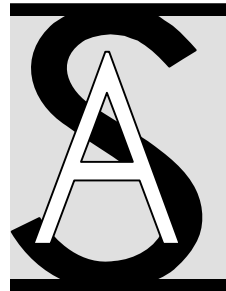
- 3.1 The report has a minimal direct impact on the overall risk of the Council. The work performed and the professional advice given by Internal Audit provides management with a high degree of assurance as stated within the attached report.

4 Conclusion

- 4.1 The overall opinion provided by internal audit, from the work undertaken in 2010/11,

Financial Services comments:	Nil
Legal Services comments:	None for this report
Service Improvement Plan implications:	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.
Corporate Plan:	Internal Audit's work supports all Council Services in pursuit of their overall corporate and strategic priorities.
Risk Assessment:	See section 3
Background papers:	Nil
Appendices:	1. Internal Audit Annual Report 2010/11
Report author/ Lead Officer:	Chris Davis 023 9254 5306

**Audit
Services**



Delivering a Quality Audit Service

Gosport Borough Council

Standards & Governance Committee

Internal Audit Annual Report Year ending 31 March 2011

Head of Internal Audit & Risk Assurance: Chris Davis

Presented at the Standards & Governance Committee of: 23 June 2011

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1.0 Introduction

1.1 The Role of Internal Audit

The role of internal audit is to provide management with an objective assessment of the adequacy and effectiveness of internal control, risk management and governance arrangements. Internal Audit is therefore a key part of Gosport Borough Council's internal control system and integral to the framework of assurance that the Committee can place reliance on to assess its internal control system.

1.2 Definition of Internal Audit

The definition of internal audit, as described in CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom, is set out below:

- Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation's objectives.
- Whilst Internal Audit "primarily" provides an independent and objective opinion to the organisation on the control environment, it may also undertake other, non-assurance work at the request of the organisation subject to the availability of skills and resources. This can include consultancy work; indeed, Internal Audit intrinsically delivers consultancy services when making recommendations for improvement arising from assurance work, value for money, process re-engineering and fraud related matters.

1.3 Annual Governance Statement

Authorities are required to publish an annual governance statement in line with the CIPFA/SOLACE Good Governance Framework to meet the statutory requirement. The statement brings a number of benefits to local authorities, including:

- increased awareness of internal controls and control weaknesses, and risk management among Section 151 Officers, Councillors and senior management;
- greater awareness of the importance of risk identification and monitoring amongst staff at all levels;
- better appreciation of the benefits of a strong internal audit function;
- greater awareness of the wider assurance sources that operate within the organisation and the importance of the role that they fulfil; and
- increased and encouraged audit committee activity.

The assignment opinions that internal audit provides the organisation during the year are part of the framework of assurances that assist the Authority to prepare their statement on the Council's overall corporate governance arrangements.

2.0 The Statement of Assurance

2.1 Context

As the Head of Internal Audit I am required to provide the Committee with assurance on the system of internal control. In giving the opinion it should be noted that assurance cannot be absolute. The most that the internal audit service can provide to the Committee is a reasonable assurance, based on their work for the year, that there are no major weaknesses in risk management, governance and control processes.

The matters raised in this report are only those that came to our attention during our internal audit work, for the 2010/11 year, and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

2.2 Limitations in our scope

No significant limitations of scope were encountered with senior management during 2010/11 (allowing us to be independent). The Section encountered planned resource secondment to the major procurement project in the year but this was partially negated by increased support from the remaining team, to ensure delivery of the agreed plan. The annual audit plan reflected this planned resource secondment to ensure full delivery in the key areas of the Council.

2.3 Internal Audit Opinion

We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of Gosport Borough Council's risk management, control and governance processes. In our opinion, based upon the work undertaken, for the 12 months ended 31 March 2011 Gosport Borough Council has adequate and effective risk management control and governance processes to manage the achievement of the organisation's objectives.

2.4 Scope of the Internal Audit Opinion

In arriving at our opinion, we have taken into account:

- The results of all internal and external audits (including other inspectorates) undertaken during the year ended 31 March 2011;
- Whether or not any critical or essential recommendations have not been accepted by management and the consequent risks;
- The results of follow-up action taken in respect of audits from previous years;
- The affects of any material changes in the organisation's objectives or activities;

- Matters arising from previous reports to the Committee and/or Authority;

2.5 The Basis of the Opinion

In reaching this opinion the following factors were taken into particular consideration:

Risk Management

Gosport Borough Council has developed a strategic risk register and is planning to roll out the concept of operational risk registers (utilising its existing software) to all Section Heads in late summer of 2011. The high level risk register has been endorsed by this Committee and will be brought back to this meeting in October for further review. The Corporate Risk Management Group has been reformed and has actively resumed its work around risk management within the Council as a whole. The organisation has loaded its strategic risks onto Covalent and risk awareness training was well received by Members in December 2010.

Governance

The Council is committed to the principles of good governance, which is already demonstrated through many aspects of good practice in relevant areas.

Internal Control

Our work has shown that internal controls across the organisation are working effectively. We have made no critical recommendations this year and the trend of the recommendations, spread across the lower two categories (see acceptance of recommendations).

Fraud

The section did investigate in the year a serious matter of “abuse of position” and three officers contracts were terminated from the enforcement team.

The Council again took part in the National Fraud Initiative (administered by the Audit Commission) and a number of strong matches were reported back to the Council. These have been passed onto the relevant sections within the Council to review. Feedback on the exercise will form part of my monitoring statement to the Committee in September. External Audit also requested information regarding fraud from all of Management Team to assist in their judgement on the overall governance arrangements of the Council.

Acceptance of Recommendations

All of the fifteen essential recommendations (<7% of the total 224 recommendations) made during the year were fully accepted by management. Through the process of consultation, professional independent dialogue (including the weight of audit evidence) as well as quality assurance all other lower category recommendations (important [121 in total] and advisory [88 in total]) were also

accepted. In total Internal Audit recommended to senior management 224 recommendations in the year.

2.6 The Statement on Internal Control

Although Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist, due to time and other constraints of audit coverage, it is my professional opinion that sound assurance can be placed upon the adequacy and effectiveness of the Council's overall internal control system in the year to 31 March 2011.

3.0 Performance of Internal Audit

3.1 Meeting Internal Audit Needs

I am satisfied that by delivering our agreed plan, a statutory requirement of the Section 151 officer, the internal audit needs of the organisation have been met.

3.2 Conflict of Interest

We have not undertaken any work or activity during 2010/11 that would lead us to declare any conflicts of interest. This area is taken extremely serious and rotation of work is undertaken annually. All Auditors sign an annual declaration.

3.3 Compliance with the CIPFA Code of Practice for Internal Audit

The Council engage in a risk based approach to determining the audit needs of the organisation at the start of the year and use a risk based methodology in planning and conducting our audit reviews. Our work has been performed in compliance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.

3.4 External Audit annual review of Internal Audit

The Audit Commission, the External Auditors for the Council, have examined the quality of the internal audit work and they can place adequate reliance on our output against the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.

3.5 Internal Quality Assurance Programmes

In order to ensure the quality of the work the section performs, we have a programme of quality measures which includes:

- Supervision, where necessary, of staff conducting audit work;
- Review of all files, working papers and reports by the Head of Internal Audit or his deputy;

- Appraisal of all audit staff and the development of personal development and training plans (part of the Chief Executive's Learning & Development Plan);
- Regular team meetings, an away day (to discuss process, delivery, efficiency, client needs and outcomes) and fortnightly progress updates with the audit team against the agreed audit plan;
- Performance management (annual service improvement plan and key local and personal performance indicators);
- The maintenance of the Internal Audit Manual.

3.6 Consultation on the Future of Local Public Audit (DCLG)

The Department for Communities and Local Government (DCLG) has issued a consultation document on the future of Local Public Audit. This document can be found here:

<http://www.communities.gov.uk/documents/localgovernment/pdf/1876169.pdf>

In launching this consultation document, the DCLG states that:

"On the 13 August 2010, the Secretary of State for Communities and Local Government announced plans to disband the Audit Commission, and refocus audit of local public bodies on helping local people hold those bodies to account for local spending decisions, the very essence of localism.

The aim is to replace the current, centralised audit systems managed by the Audit Commission, with anew decentralised regime, which will support local democratic accountability, and one that will also cut bureaucracy and costs, while ensuring that there continues to be robust local public audit. This consultation sets out proposals on the new audit framework where audit quality is regulated within a statutory framework, overseen by the National Audit Office and the accountancy profession and local public bodies will be free to appoint their own external auditors with stringent safeguards for independence."

Key issues discussed under this consultation are:

- All local public bodies with a turnover of over £6.5M will appoint their own independent (external) auditor.
- This appointment would be made by full council, taking into account the advice of an independently chaired audit committee, and with an opportunity for the electorate to make an input.
- The National Audit Office would prepare audit codes of practice and prescribe the way in which auditors are to carry out their functions.

- Registration of audit firms and auditors, as well as monitoring enforcement of audit standards, would be undertaken by the accountancy professional bodies under the supervision of the Financial Reporting Council and its operating bodies.
- It is expected that all local authorities will wish to co-operate to ensure there is wide competition for external audit contracts, and will want to work together to procure an external auditor.
- Proposals include changes to the structure of the audit committees, with the chair being independent of the local authority. The voice chair would also be independent to allow for possible absence of the chair. The elected members would be non-executive and non cabinet members, and the majority of the members of the committee would be independent of the authority (in support of the increased transparency agenda).
- The audit committee would have responsibility for the engagement of the external auditor and also the monitoring of its independence and quality of work. The committee would advise full council on the appropriate criteria for engaging an auditor and how these could be weighted. The committee would be also involved in the evaluation of bids
- Other proposals are made regarding failure to appoint an external auditor, rotation of audit firms, resignation/removal of auditors and auditor liability.
- The future of public interest reports/disclosure is also covered.

A further paper on the outcome of the consultation will be prepared for the Committee at the next appropriate Committee cycle.

AGENDA ITEM NO. 14

Board/Committee:	STANDARDS AND GOVERNANCE
Date of Meeting:	23 JUNE 2011
Title:	TRANSPARENCY – PUBLICATION OF ADDITIONAL DATA REGARDING MEMBER INTERESTS, ATTENDANCE ETC
Author:	CHIEF EXECUTIVE
Status:	FOR DECISION

Purpose

To provide a cost breakdown of the work required to include on the GBC website the member information that HCC currently displays on its website – Councillor attendance at meetings, claims and recorded interests.

Recommendation

The Committee should consider whether to recommend to the Policy & Organisation Board that additional information should be disclosed on the Council's website on a voluntary basis pending any new Transparency regulations.

1 Background

- 1.1 As previously reported by the Monitoring Officer, the Government have produced a number of consultation documents relating to the transparency agenda for the publication of information by local authorities but at this moment in time there is no legislative requirement for the Council to publish or to publish in any particular manner information relating to Members attendance at meetings or their register of interest.
- 1.2 The Council will of course be working to put further information on its website in response to the requirements of the Code of Practice once this has been finalised by the Government. However, it has been suggested that the Council could be voluntarily publishing more data on its website in anticipation of the impending code. In particular, details of Member's registered interests, attendances and expense/mileage claims have been suggested and the Committee requested an estimate of the resource implications involved.

2 Potential cost of work involved

- 2.1 An analysis of the probable work involved is attached as Appendix A.
- 2.2 The anticipated work involves 3 sections – Democratic Services, Pay & Admin and IT. The approximate total of 11 days represents an initial cost of less than £1,000 including materials and equipment. There would also be a small ongoing cost of maintaining the information. Initial costs can be minimised by gathering the data from the beginning of the current municipal year and updating it quarterly.
- 2.3 Specialist software as used by other authorities is considered prohibitively expensive and unnecessary for the areas currently considered.
- 2.4 If the Committee feel that early publication of this information should be undertaken, this recommendation should be referred to the Policy & Organisation Board for consideration and budget provision.

3 Risk Assessment

- 3.1 Failure to anticipate the final Code of Practice accurately may incur unnecessary costs.

Financial Services comments:	Any additional unbudgeted costs are expected to be minimal unless previous year's data is also to be published.
Legal Services comments:	Contained in the report.
Service Improvement Plan implications:	None.
Corporate Plan:	None.
Risk Assessment:	See Paragraph 3.
Background papers:	"TRANSPARENCY AGENDA AND FUTURE OF THE STANDARDS BOARD FOR ENGLAND" – report of the Borough Solicitor to 17.3.11 S&G Committee
Appendices/Enclosures:	Appendix A - Work to be undertaken.
Report author/ Lead Officer:	Ian Lycett

Work to be undertaken

- (i) Scan in as PDF documents 34 individual Councillor Financial Interest Forms (5 pages per form)
- (ii) Scan in as PDF documents any individual Councillor Hospitality Forms (1 page per form)
- (iii) Draft explanatory wording for (i) & (ii) above

(i) – (iii) Estimated total working days = 3

Once the scanning of the documents is complete and explanatory text agreed – to be forwarded to IT to put on web under each Councillor

Estimated total working days = 2

- (iv) Compile 34 separate 'Meetings Attended' tables for each Councillor
- (v) Draft explanatory wording for (iv) above

(iv) – (v) estimated total working days = 3

To be forwarded to IT to put on web under each Councillor

Estimated total working days = 2

- (vi) Pay & Admin Section to put on the web the Councillor Allowances claimed over 2010/11 Financial Year (including Special Responsibility Allowances & Mileage)

Estimated total working days = 1

AGENDA ITEM NO. 15

STANDARDS AND GOVERNANCE COMMITTEE WORKPLAN **AS AT 17 MARCH 2011**

Work Area	Report To Committee	Lead Officer
Part I Item Updated Anti Fraud & Corruption Policy	June 11	Chris Davis
Part I Item Amended Financial Procedure Rules	June 11	Chris Davis
Transparency – Publication Of Additional Data Regarding Member Interests, Attendance etc (cross reference to P & O Board (29 June 2011))	June 11	Ian Lycett
Member/Officer Protocol	Sept 11	Linda Edwards
Report on changes to or replacement of the Standards Board for England	When legislation announced	Linda Edwards
Review of Complaints For 2010/11 Financial Year	Sept 11	David Martin
Work Plan	Standing Item	
Detailed opinion audit plan for 2010/11 audit	June 11	Audit Commission
Audit Fee Letter for 2011/12 audit year	June 11	Audit Commission
2010/11 Annual Governance Statement	June 11	Chris Davis
Annual Governance Report	Sept 2011	Audit Commission
Annual Audit Letter	Nov 2011	Audit Commission
Local Government Ombudsman: Annual Review 2010/11	Sept 11	Linda Edwards
Annual Audit 2010/11 Report	June 11	Chris Davis

