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**12 June 2013**

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

**MEETING:** Standards and Governance Committee  
**DATE:** 20 June 2013  
**TIME:** 6.00 p.m.  
**PLACE:** Committee Room 1, Town Hall, Gosport  
**Democratic Services contact:** Chris Wrein

LINDA EDWARDS  
BOROUGH SOLICITOR

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### **MEMBERS OF THE COMMITTEE**

Councillor Scard (Chairman)  
Councillor Burgess (Vice-Chairman)

Councillor Chegwyn  
Councillor Dickson  
Councillor Forder

Councillor Henshaw  
Councillor Jacobs  
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. APOLOGIES FOR NON-ATTENDANCE

2. DECLARATIONS OF INTEREST

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

3. MINUTES

*To approve as a correct records the Minutes of the Committee meetings held on 11 April and 16 May 2013 (copies attached)*

4. DEPUTATIONS – STANDING ORDER 3.5

*(NOTE: The Committee is required to receive a deputation(s) on a matter which is before the meeting of the Committee provided that notice of the intended deputation and its object shall have been received by the Borough Solicitor by 12 noon on Tuesday, 18 June 2013. The total time for deputations in favour and against a proposal shall not exceed 10 minutes).*

5. PUBLIC QUESTIONS – STANDING ORDER 3.6

*(NOTE: The Committee is required to allow a total of 15 minutes for questions from Members of the public on matters within the terms of reference of the Committee provided that notice of such Question(s) shall have been submitted to the Borough Solicitor by 12 noon on Tuesday, 18 June 2013).*

6. INTERNAL AUDIT ANNUAL REPORT YEAR ENDING 2012 / 2013

Part II

*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 both governance and the Internal Audit function.*

Contact Officer:  
Chris Davis  
Ext 5306

7. AUDIT PLAN

Part II

*To provide the Standards and Governance Committee with a basis to review the proposed audit approach and scope for the 2012/13 external audit in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Standing Guidance, auditing standards and other professional requirements, and also to ensure that the audit is in line with the Committee's expectations.*

Contact Officer:  
Julian Bowcher  
Ext 5551

Standards and Governance Committee  
20 June 2013

8. AUDIT PROGRESS REPORT

Part II

*The purpose of this report is to provide the Standards and Governance Committee with an overview of the stage reached by the Council's external auditors in delivering the 2012/13 audit.*

Contact Officer:  
Julian Bowcher  
Ext 5551

9. ANY OTHER ITEMS

*which the Chairman determines should be considered, by reason of special circumstances, as a matter of urgency.*

## AGENDA ITEM NO. 6

<b>Board/Committee:</b>	Standards and Governance Committee
<b>Date of Meeting:</b>	20 June 2013
<b>Title:</b>	Internal Audit Annual Report 2012/13
<b>Author:</b>	Head of Internal Audit & Risk Assurance
<b>Status:</b>	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 both governance and 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.

That the Committee note the opportunity to broaden the current shared management role for internal audit as laid out in Appendix A 3.1.

#### **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 A.

#### **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 2012/13 is detailed in the attached Appendix A under section 2.3.

<b>Financial Services comments:</b>	Nil
<b>Legal Services comments:</b>	none
<b>Crime and Disorder:</b>	Nil
<b>Equality and Diversity:</b>	Nil
<b>Service Improvement Plan implications:</b>	The information provided within the report has a direct link to improving the overall governance arrangements within the Council. The performance of the Internal Audit section is a key operational indicator monitored closely against the agreed Annual Audit Plan.
<b>Corporate Plan:</b>	Internal Audit's work supports all Council Services in pursuit of their overall corporate and strategic priorities.
<b>Risk Assessment:</b>	See section 3
<b>Background papers:</b>	None
<b>Appendices/Enclosures:</b>	
Appendix 'A'	Internal Audit Annual Report 2012/13
<b>Report author/ Lead Officer:</b>	Chris Davis 02392 545306



# **Gosport Borough Council**

Standards & Governance Committee

## **Internal Audit Annual Report Year ending 31 March 2013**

Head of Internal Audit & Risk Assurance: Chris Davis

Presented at the Standards & Governance Committee on: 20 June 2013

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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 or assurances that assist the Council 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 Council's overall 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 2012/13 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 2012/13 (allowing us to be independent). The Section encountered a greater level of planned consultancy work around the major contracts and managed with a vacant post till September 2012 when there was a secondment of resource from the Housing Benefits Investigation team. This additional resource allowed the section to ensure 95% coverage of the agreed planned audits.

### 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 2013 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 2013;
- Whether or not any critical or essential recommendations have not been accepted by management (none) 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 Council's objectives or activities;

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

## **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 a well developed strategic risk register which is now active on the Council performance management software (Covalent). The Corporate Risk Management Group meets on a quarterly basis and this focused group has enhanced the culture of risk at this level. Meetings took place in April, July, September, December and February in this financial year. In addition a report in October was tabled to Council Management Team covering the topic of risk management. Much work in the year has been focussed in developing a similar structure around operational risk registers and this has culminated in all sections of the Council now having well developed registers in an electronic format enhancing the overall internal risk management control framework and processes measured by our insurers (Zurich). Additional work in 2013/14 is planned to further develop and enhance these registers and the Council internal processes and procedures to improve against the Zurich risk management standards (another inspection is planned for 2013/14). The overall governance of risk management is supported by quarterly performance management and risk updates with all Service Managers with the Chief Executive.

### **Governance**

The Council is committed to the principles of good governance, which is already demonstrated through many aspects of good practice in relevant areas. Finally, the Council has responded to the External Audit Annual Governance Report 2011/12 and management are implementing a number of areas that require improvements and these were followed up (where appropriate) by Internal Audit as part of their 2012/13 planned work.

### **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 for 2012/13 remains spread across the lower two categories. The internal audit team in total recommended 157 (165 previous year) recommendations to management (all accepted). The profile against last year was 2 (22) essential, 49 (66) important and 106 (77) advisory.

### **Fraud**

The Council continues to be active in detecting and preventing benefit and corporate fraud. The internal team claimed back over £243k from various sources in housing benefit overpayment, council tax benefit and income support/job seekers allowance. Many of the investigations were jointly managed with the Department of Works and Pensions. 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 various sections of the Council. There were 622 matches overall within the data exercise. A number related to those registered on council tax claiming single person discount. Of these the Council disallowed 40 claims amounting to £15,022.72 to be repaid through revised bills. Other proactive work continues in corporate fraud through use of internal forensic data matching.

### **Acceptance of Recommendations**

The two essential recommendations (of a total of 157 recommendations) made during the year were fully accepted by management and were reported to the Committee. 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 [49 in total] and advisory [106 in total]) were also accepted. In total Internal Audit recommended to senior management 157 recommendations in the year.

## **2.6 Other External Inspections**

Other than External Audit – none.

## **2.7 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 2013.

## **3.0 Performance of Internal Audit**

### **3.1 Internal Audit Resource**

Internal Audit began the year with a part time auditor vacancy but were fully resourced by September 2012 as previously mentioned (2.2). As at year end March 2013 the partnership with Eastleigh Borough Council had generated £256,042 (£43,318 in 2012/13) in its six years. The Head of Internal Audit continued with his shared management role across the two Councils. The respective Chief Financial Officers of the current arrangement have been in discussion with another Hampshire Authority to discuss the possibility of a third party joining the established joint arrangement. A business case is being developed for a third partner to join the current arrangement and will be finalised by the end of June 2013. The wider arrangement will further strengthen its existing resource capacity, economies and skills set as well as produce further financial savings to this Council.

### **3.2 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 Council have been met.

### **3.3 Conflict of Interest**

We have not undertaken any work or activity during 2012/13 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.

### **3.4 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.

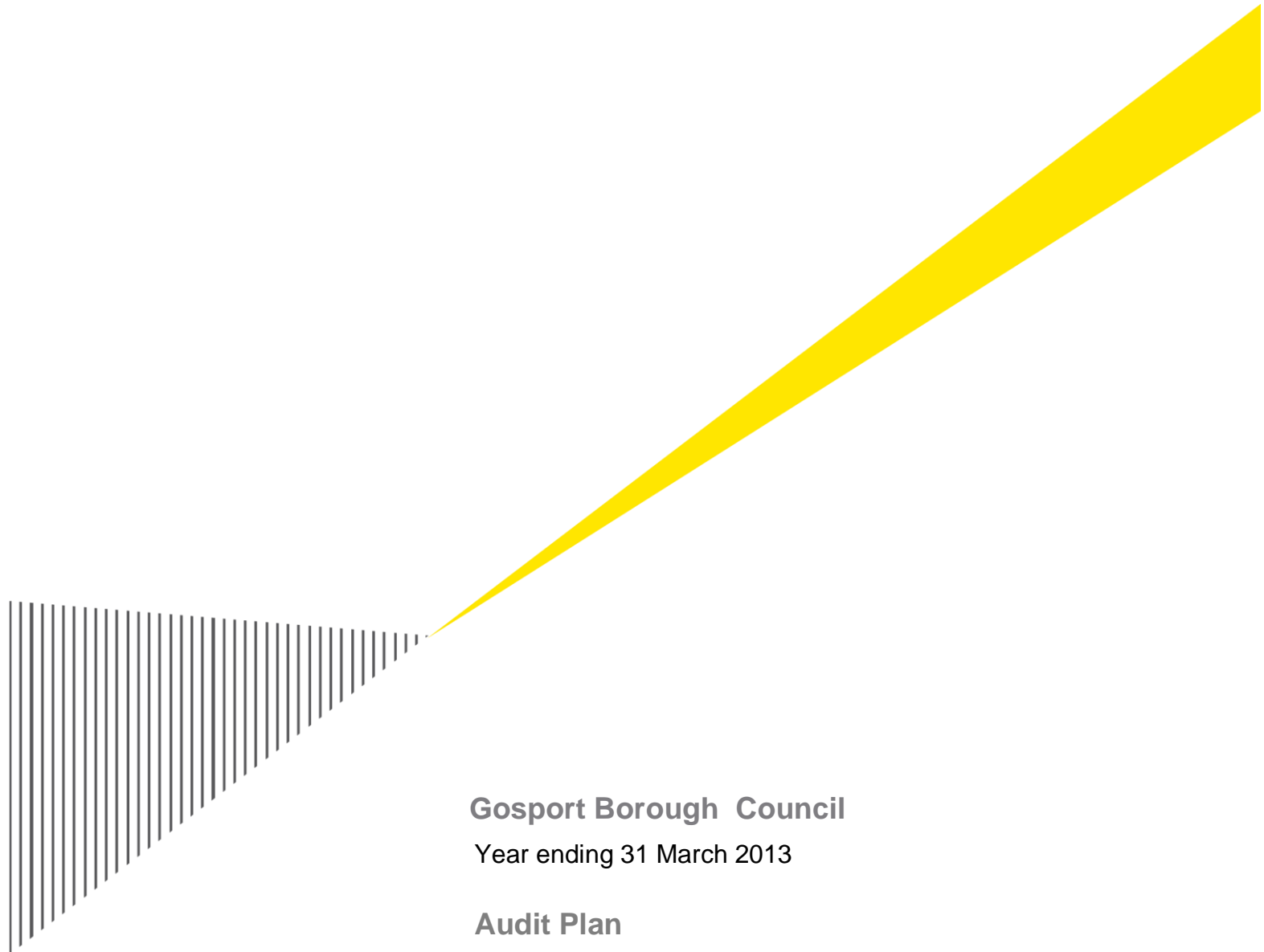
### **3.5 External Audit annual review of Internal Audit**

The Audit Commission & Ernst Young LLP (from 01.11.2012), 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.

### **3.6 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;
- Liaison with other county auditors through established Hampshire wide groups on fraud and IT related matters;
- Professional training (CPD) as well as attendance on training seminars.
- Performance management (action plan and key local and personal performance indicators);
- The maintenance of the Internal Audit Manual.



**Gosport Borough Council**

Year ending 31 March 2013

**Audit Plan**

7 June 2013

## **The Members of the Standards and Governance Committee**

Gosport Borough Council  
Town Hall,  
High Street,  
Gosport.  
Hampshire,  
PO12 1EB

7 June 2013

Dear Members

## **Audit Plan**

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. The purpose of this report is to provide the Standards and Governance Committee with a basis to review our proposed audit approach and scope for the 2012/13 audit in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Standing Guidance, auditing standards and other professional requirements, and also to ensure that our audit is in line with the Committee's expectations.

This report summarises our assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response.

We welcome the opportunity to discuss this report with you on 20 June 2013 and understand any other matters which you consider may influence our audit.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Helen Thompson'.

Helen Thompson  
Director  
For and behalf of Ernst & Young LLP  
Enc

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# 1. Overview

## Context for the audit

This audit plan covers the work we plan to perform to provide you with:

- ▶ Our audit opinion on whether the financial statements of Gosport Borough Council give a true and fair view of the financial position as at 31 March 2013 and of the income and expenditure for the year then ended; and
- ▶ A statutory conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

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

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

- ▶ Strategic, operational and financial risks relevant to the financial statements.
- ▶ Developments in financial reporting and auditing standards.
- ▶ The quality of systems and processes.
- ▶ Changes in the business and regulatory environment.
- ▶ Management's views on all of the above.

This enables us to focus our audit on the areas that matter. This means our feedback is more likely to be relevant to the Council.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

In part 2 and 3 of this report we provide more detail on the areas which we believe present significant risk to the audit of financial statements, and outline our plans to address them.

We will provide an update to the Standards and Governance Committee on our results of our work in these areas in our report to those charged with governance scheduled for delivery in September 2013.

## Our process and strategy

### ▶ Financial Statement Audit

We will apply the concept of materiality in planning and performing our audit, in evaluating the effect of any identified misstatements and in forming our opinion. We set our materiality based on the Council's level of gross expenditure. We also consider the size of useable reserves, the Council's financial position, its public profile and the reporting and challenge history. Our audit is designed to identify errors above materiality.

- ▶ We aim to rely on the Council's internal controls in the key financial systems to the fullest extent allowed by auditing standards. We identify the controls we consider important and seek to place reliance on internal audit's testing of those controls. Where control failures are identified we consider the most appropriate steps to take.

- ▶ We seek to place reliance on the work of internal audit wherever possible. We have already liaised with Internal Audit and have started our review and re-performance of their work. This work will complete in June.
- ▶ The key members of our audit team are Helen Thompson, Director; Rose Coates, Manager; and Alan Gregory, Lead Executive.
- ▶ Arrangements for securing Economy, Efficiency and Effectiveness

We adopt an integrated audit approach: our work on the financial statement audit feeds into our consideration of the arrangements in place for securing economy, efficiency and effectiveness.

## 2. Financial Statement Risks

We outline below our assessment of the key strategic or operational risks and the financial statement risks facing the Council, identified through our knowledge of your operations and discussion with members and officers.

At this stage of our audit we have not identified any significant risks.

Auditors are required to maintain professional scepticism on any audit engagement, and therefore recognise and plan to address the following risk:

Other financial statement risks	Our audit approach
<p><b>Risk of misstatement due to fraud and error</b></p> <p>Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.</p> <p>Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such a risk.</p>	<p>Based on the requirements of auditing standards our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ Identifying fraud risks during the planning stages.</li> <li>▶ Inquiry of management about risks of fraud and the controls put in place to address those risks.</li> <li>▶ Understanding the oversight given by those charged with governance of management's processes over fraud.</li> <li>▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud.</li> <li>▶ Determining an appropriate strategy to address those identified risks of fraud.</li> <li>▶ Performing mandatory procedures regardless of specifically identified fraud risks.</li> </ul> <p>We will consider the results of the National Fraud Initiative and may refer to it in our reporting to you.</p> <p>Our approach to address the risks of fraud we have identified at this stage of our planning will focus on:</p> <ul style="list-style-type: none"> <li>▶ reviewing the year-end position against in-year financial forecasts;</li> <li>▶ reviewing the reasonableness and completeness of prepayments, accruals and provisions;</li> <li>▶ testing material adjustments made by journals; and</li> <li>▶ reviewing transactions both before and after year-end to ensure they are correctly disclosed in the correct financial period</li> </ul>

At our meeting, we will seek to validate this risk with the Committee.

### 3. Economy, Efficiency & Effectiveness

Our work will focus on:

1. Whether there are proper arrangements for securing financial resilience at the Council; and
2. Whether there are proper arrangements at the Council to secure economy, efficiency and effectiveness in the use of resources.

We acknowledge the Council operates in a context of increasing financial pressure and will continue to monitor the Council's response to relevant government announcements during the audit.

At this stage of our audit we have not identified any significant risks.

We will consider the Council's response to known changes to local authority financial arrangements. In 2012/13 the subsidy method of financing the Housing Revenue Account (HRA) was replaced with a system of self-financing. The Local Government Finance Act 2012 also introduces a new council tax reduction scheme and changes to the way non domestic rates are used to support national and local expenditure. From our discussions with officers to date the Council has appropriate arrangements in place to assess the impact of these changes on its financial plans and ensure the new accounting arrangements are complied with. However, no specific audit risks have been identified in respect of these changes.

At our meeting, we will seek to validate this risk assessment with the Committee.

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## 4. Our audit process and strategy

### 4.1 Objective and scope of our audit

Under the Audit Commission's Code of Audit Practice ('the Code'), dated March 2010, our principal objectives are to review and report on, to the extent required by the relevant legislation and the requirements of the Code, the Council's:

- i) financial statements; and
- ii) arrangements for securing economy, efficiency and effectiveness in its use of resources.

We issue a two-part audit report covering both of these objectives.

#### i) Financial Statement Audit

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

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

#### ii) Arrangements for securing economy, efficiency and effectiveness

The Code sets out our responsibility to satisfy ourselves that the Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In arriving at our conclusion, to the fullest extent possible we will place reliance on the reported results of the work of other statutory inspectorates in relation to corporate or service performance. In examining the Council's corporate performance management and financial management arrangements we have regard to the following criteria and areas of focus specified by the Audit Commission:

- ▶ Arrangements for securing financial resilience – whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future; and
- ▶ Arrangements for securing economy, efficiency and effectiveness – whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

### 4.2 Audit process overview

Our audit involves:

- ▶ assessing the key internal controls in place and testing the operation of these controls;
- ▶ review and re-performance of the work of your internal auditors;
- ▶ reliance on the work of other auditors where appropriate;
- ▶ reliance on the work of experts in relation to areas such as pensions and valuations; and
- ▶ substantive tests of detail of transactions and amounts.

## Processes

Our initial assessment of the key processes across the entity has identified the following key processes where we will seek to test key controls, both manual and IT:

- ▶ accounts receivable;
- ▶ procure to pay;
- ▶ council tax;
- ▶ business rates;
- ▶ cash processing and bank;
- ▶ housing and council tax benefits ;
- ▶ housing rents; and
- ▶ payroll.

We propose to take a substantive approach to the following areas on the grounds of efficiency:

- ▶ property, plant and equipment;
- ▶ pensions;
- ▶ treasury management; and
- ▶ financial statements close process and journals.

## Analytics

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

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

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Standards and Governance Committee.

## Internal audit

We will seek to place reliance on the work of Internal Audit wherever possible in line with auditing standards. We have already liaised with Internal Audit and have begun our review and re-performance of their work on the systems detailed above.

## Use of experts

We will use specialist Ernst & Young resource as necessary to help us to form a view on judgments made in the financial statements.

In addition to the key areas of emphasis outlined above, we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline the procedures we will undertake during the course of our audit.

***Mandatory procedures required by auditing standards on:***

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

***Procedures required by the Code***

- ▶ Reviewing, and reporting as appropriate, other information published with the financial statements, including the Annual Governance Statement and the Remuneration Report.
- ▶ Reviewing and reporting on the Whole of Government accounts return, in line with NAO instructions.
- ▶ Reviewing, and where appropriate, examining evidence relevant to your corporate performance management and financial management arrangements and reporting on these arrangements.

## **4.3 Materiality**

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with the Council its expectations regarding our detection of misstatements in the financial statements.

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

ISA (UK & Ireland) 450 (revised) requires us to record all misstatements identified except those that are “clearly trivial”. We intend to treat misstatements less than £33,590 as clearly trivial. All uncorrected misstatements found above this amount will be presented to the Council in our year-end report.

## **4.4 Fees**

The Audit Commission has published a scale fee for all authorities. The scale fee is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice 2010. The indicative fee scale for your audit is £69,825.

## 4.5 Your audit team

The engagement team is led by Helen Thompson, Director, who has significant experience of auditing in the public sector, including local government bodies. She is supported by Rose Coates, Manager, who is responsible for the day-to-day direction of audit work, and the key point of contact for the chief accountant, and Alan Gregory, Lead Executive.

## 4.6 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money work and the whole of government accounts; and the deliverables we have agreed to provide to you through the Standards and Governance Committee cycle in 2013. These dates are determined to ensure they are in line with the Audit Commission's rolling calendar of deadlines.

We will provide formal reports to the Standards and Governance Committee throughout our audit process as outlined below. We will issue an interim report where required, summarising the findings from our audit at that stage. From time to time matters may arise that require immediate communication with the Standards and Governance Committee and we will discuss them with the Committee Chair as appropriate.

Following the conclusion of our audit we will prepare an annual audit letter in order to communicate to the Council and external stakeholders, including members of the public, the key issues arising from our work.

Audit phase	Timetable	Deliverables
High level planning:	<b>December 2012</b>	Fee Letter
Risk assessment and setting of scopes	<b>March /April</b>	
Testing of routine processes and controls	<b>June 2013</b>	Audit Plan
Value for money conclusion	<b>July/August 2013</b>	
Year-end audit	<b>July/September</b>	Report to those charged with governance (12 September 2013 Standards and Governance Committee).
		By 30 September 2013 audit report (including our opinion on the financial statements and a conclusion as to whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources).
		Audit completion certificate.
		Whole of Government Accounts Certification (by 7 October 2013).
Reporting	<b>October 2013</b>	Annual Audit Letter
Grant claims	<b>December 2013</b>	Report on the audit of grant claims

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



## 5. Independence

### 5.1 Introduction

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

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

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

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

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

## **5.2 Relationships, services and related threats and safeguards**

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

### ***Self-interest threats***

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long-outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies you have approved and that are in compliance with the Audit Commission's Standing Guidance.

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

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

### ***Self-review threats***

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

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

### ***Management threats***

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

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

### ***Other threats***

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

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

### ***Overall Assessment***

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

### **5.3 Other required communications**

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm must publish by law. The most recent version of this Report is for the year ended 29 June 2012 and can be found here:

[UK 2012 Transparency Report](#)

## Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2012/13 £'000	Actual Fee 2011/12 £'000	Explanation of variance
<b>Total Audit Fee – Code work</b>	69,825	121,375	40% reduction reflects the savings from the Audit Commission procurement exercise
Certification of claims and returns*	20,650	40,109	

\*Our fee for the certification of grant claims is based on the indicative scale fee set by the Audit Commission.

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

- ▶ officers meet the agreed timetable of deliverables;
- ▶ we are able to place reliance on the work of internal audit as originally planned;
- ▶ the level of risk in relation to the audit of accounts is consistent with that in the prior year;
- ▶ no significant changes are made by the Audit Commission to the use of resources criteria on which our conclusion will be based;
- ▶ our accounts opinion and use of resources conclusion are unqualified;
- ▶ appropriate quality of documentation is provided by the audited body; and
- ▶ an effective control environment.

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

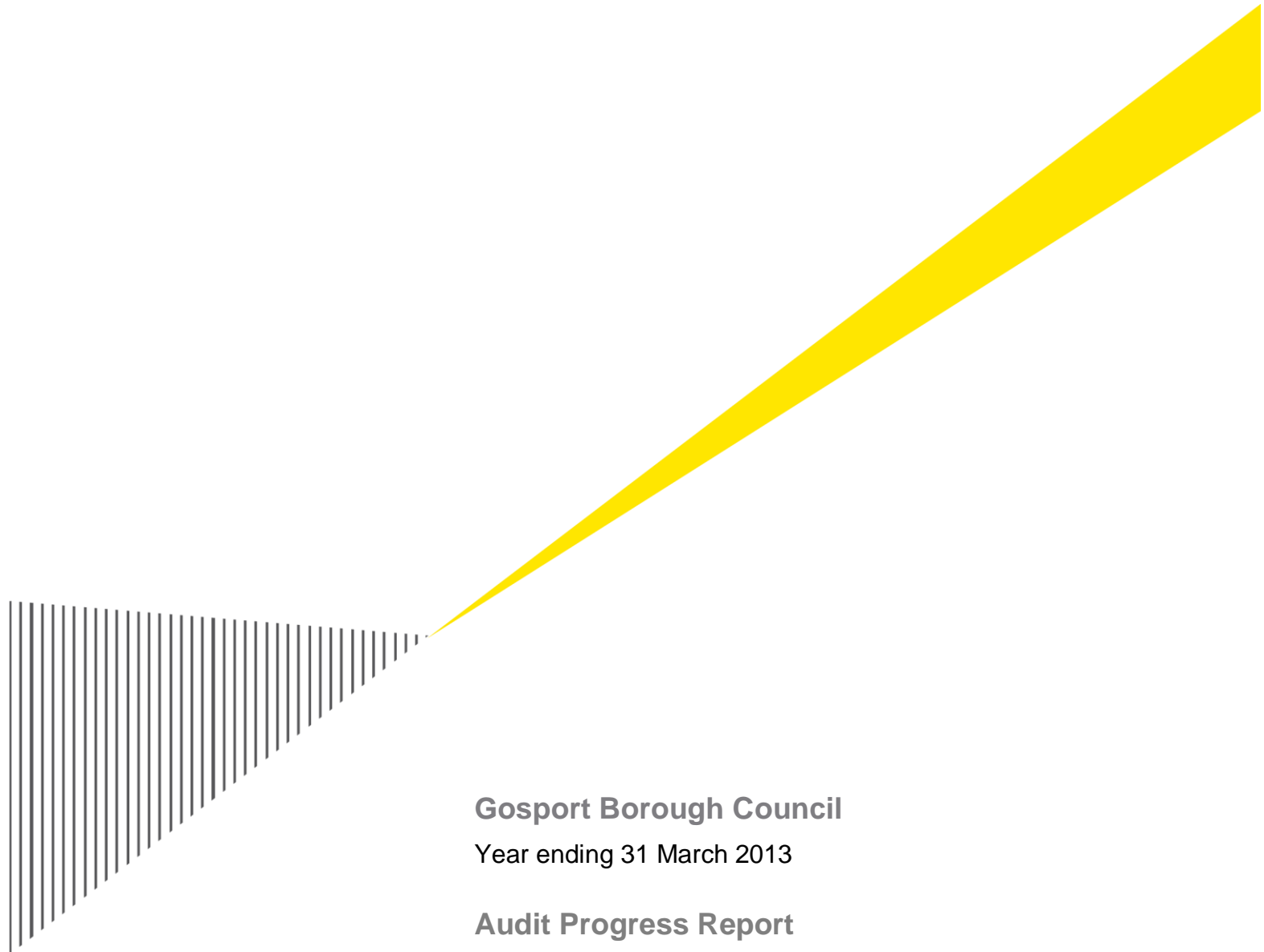
Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

# Appendix B UK required communications with those charged with governance

There are certain communications we must provide to the audit committee of audited clients. These are detailed here:

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

Required communication	Reference
<b>Independence</b> Communication of all significant facts and matters that bear on Ernst & Young's objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> For listed companies, communication of minimum requirements as detailed in the ethical standards: <ul style="list-style-type: none"> <li>▶ Relationships between Ernst &amp; Young, the audited body and senior management</li> <li>▶ Services provided by Ernst &amp; Young that may reasonably bear on the auditors' objectivity and independence</li> <li>▶ Related safeguards</li> <li>▶ Fees charged by Ernst &amp; Young analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees</li> <li>▶ A statement of compliance with the ethical standards</li> <li>▶ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence</li> </ul>	Audit Plan Report to those charged with governance
<b>Going concern</b> Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	Report to those charged with governance
<b>Significant deficiencies in internal controls identified during the audit</b>	Report to those charged with governance
<b>Opening Balances (initial audits)</b>	Report to those charged with governance
Findings and issues regarding the opening balance of initial audits	
<b>Certification work</b>	Grant certification report
Summary of certification work undertaken	
<b>Fee Information</b>	Audit Plan
Breakdown of fee information at the agreement of the initial audit plan	Report to those charged with governance and
Breakdown of fee information at the completion of the audit	Management Letter if considered necessary



**Gosport Borough Council**

Year ending 31 March 2013

**Audit Progress Report**

June 2013

Standards and Governance Committee  
Gosport Borough Council  
Town Hall,  
High Street  
Gosport  
PO12 1EB

7 June 2013

Dear Members

## **Audit Progress Report**

We are pleased to attach our Audit Progress Report.

The purpose of this report is to provide the Standards and Governance Committee with an overview of the stage we have reached in delivering your 2012/13 audit.

Our audit will be undertaken in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Audit Commission Standing Guidance, auditing standards and other professional requirements.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully



Helen Thompson  
Director  
For and behalf of Ernst & Young LLP



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# 1. Work completed

## Meetings

We have held a number of planning meetings with officers and other stakeholders as part of our audit planning process to understand, document and walk through your key financial systems.

We plan to place as much reliance as possible on the work of Internal Audit.

Letters requesting certain assurances from management and those charged with governance were issued in February 2013 and responses were received in March 2013.

## Identification of significant risks

Our audit planning processes are complete. We have walked through your key financial systems and held a number of meetings with key finance officers and Internal Audit (IA). We have reviewed relevant IA work completed for the 2012/13 year and we have also used our cumulative knowledge to identify the significant risks faced by the Council. We have not identified any significant risks, and other risks identified have been summarised in our Audit Plan which is presented to this Standards and Governance Committee.

We plan to test the financial system controls in late June before starting our audit of your financial statements in July 2013. Unfortunately a key member of the audit team was unwell earlier in the year and so there have been some delays in our work. We have resources in place to ensure we complete the audit and report the results in our ISA260 report to the Standards and Governance Committee on 12 September 2013.

## Data Analytics

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

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

We agreed a timetable with finance officers to provide the required data to our audit team. Information is being provided. We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Standards and Governance Committee in our Audit Results Report (ISA 260 report) in September 2013.

## Value for money assessment

Our initial risk assessment for our value for money work against the Audit Commission's specified criteria is complete. We have highlighted any audit risks in our Audit Plan and any additional local risk based work we may need to undertake as a result. Detailed audit work will take place in July and August and we will report the results of our work in our ISA260 report to the Standards and Governance Committee on 12 September 2013.

## Grant claim certification

Our work on the certification of your 2012/13 claims has not yet started. We plan to audit your NNDR claim in September 2013 and your housing benefit claim in October 2013.

## **Independence**

Independence is a fundamental concept underlying the performance of an audit. The Ernst and Young Global (EYG) Independence Policy is designed to comply with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants. The Company takes all threats to independence very seriously. Any threats identified are summarised in our Audit Plan. No threats have been identified to date.

## 2. Timetable

### Standards and Governance Committee Timeline

We have set out below a timetable showing the key stages of the audit, including the value for money work and the whole of government accounts, and the deliverables we have agreed to provide to you through the 2012/13 Standards and Governance Committee cycle.

We will provide formal reports to the Standards and Governance Committee throughout our audit process as outlined below. From time to time matters may arise that require immediate communication with the Committee and we will discuss them with the Committee Chair as appropriate.

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

Audit phase	Timetable	Deliverables
High level planning:	<b>December 2012</b>	Fee Letter
Risk assessment and setting of scopes	<b>March /April</b>	Audit Plan
Testing of routine processes and controls	<b>June 2013</b>	
Value for money conclusion	<b>July/August 2013</b>	
Year-end audit	<b>July /September</b>	Report to those charged with governance (12 September 2013 Standards and Governance Committee).
		By 30 September 2013 audit report (including our opinion on the financial statements and a conclusion as to whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources).
		Audit completion certificate.
		Whole of Government Accounts Certification (by 7 October 2013).
Reporting	<b>October 2013</b>	Annual Audit Letter
Grant claims	<b>December 2013</b>	Report on the audit of grant claims

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters through our Sector Briefings. The latest edition is included in the agenda papers for today's meeting.

## Appendix 1: Audit Progress on Deliverables

### *Progress against key deliverables*

Key deliverable	Timetable in plan	Status	Comments
<b>Fee Letter</b>	December 2012	Completed	Reported to 16 January 2013 Standards and Governance Committee.
<b>Audit Plan</b>	June 2013		Reported to 20 June 2013 Standards and Governance Committee.
<b>Report to Those Charged with Governance</b>	September 2013		To be reported to 12 September 2013 Standards and Governance Committee.
<b>Audit Report (including opinion and value for money conclusion)</b>	September 2013		Draft to be reported to 12 September 2013 Standards and Governance Committee. Final Audit Report to be issued by 30 September 2013.
<b>Audit Certificate</b>	September 2013		To be issued by 30 September 2013.
<b>WGA Certificate</b>	September 2013		To be issued by 7 October 2013.
<b>Annual Audit Letter</b>	October 2013		To be issued by 31 October 2013.

Ernst & Young LLP

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The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited

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