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26 March 2014

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

**MEETING:** Standards and Governance Committee  
**DATE:** 03 April 2014  
**TIME:** 6.00 p.m.  
**PLACE:** Committee Room 1, Town Hall, Gosport  
**Democratic Services contact:** Sharon Dalrymple-Bray

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 by the Chairman 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 meeting held on 16 January 2014 (copy attached)*

4. DEPUTATIONS – STANDING ORDER 3.5

*(NOTE: The Committee is required to receive a deputation(s) on a matter which is before the meeting of the Committee provided that notice of the intended deputation and its object shall have been received by the Borough Solicitor by 12 noon on Tuesday, 01 April 2014. 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 01 April 2014).*

6. RISK MANAGEMENT UPDATE

PART II

*This report brings forward the updated Risk Management Policy and Risk Management Strategy for consideration and approval.*

Contact Officer:  
Chris Davis/  
Julian Bowcher  
Ext No. 5306/  
Ext No. 5551

7. INTERNAL AUDIT CHARTER & STRATEGY 2013/16

PART II

*This report sets out the proposed Internal Audit Charter and Strategy as required by the Public Sector Internal Audit Standards (PSIA) which came into effect on the 1 April 2013.*

Chris  
Davis/Julian  
Bowcher Ext  
No. 5306/Ext  
No. 5551

Standards and Governance Committee  
03 April 2014

- |     |  |   |
|-----|--|---|
| 8.  | INTERNAL AUDIT PLAN 2014/15  | PART II                                       |
|     | <i>This report provides the Standards and Governance Committee with the planned annual coverage of Internal Audit resources for 2014/15.</i>   | Chris Davis,<br>Ext No: 5306                  |
| 9.  | Ernst Young – CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2012/13  | PART II                                       |
|     | <i>The certification of claims and returns annual report summarises the findings from the work completed to enable us to certify the Council's 2012/13 claims and returns. It reports the key messages from the work that has been completed, including any changes that were agreed with your officers and where relevant details of matters reported to the grant paying department. Our annual report has been prepared in line with the requirements of the Audit Commission's Code of Audit Practice.</i> | Mike Bowers<br>Ernst & Young<br>0788 1518 961 |
|     | <i>The progress report confirms the completion of the certification of claims and returns annual report for 2012/13 and the progress made on the 2013/14 audit.</i>  |   |
| 10. | ANY OTHER ITEMS  |   |
|     | <i>Which the Chairman determines should be considered, by reason of special circumstances, as a matter of urgency.</i>   |   |

**A MEETING OF THE STANDARDS AND GOVERNANCE COMMITTEE**

**WAS HELD ON 16 JANUARY 2014**

Councillors; Burgess (P), Chegwyn (P), Dickson (P), Jacobs, Forder (P), Henshaw (P), Scard (P) and Wright (P).

**26. APOLOGIES**

There were no apologies received.

**27. DECLARATIONS OF INTEREST**

There were no declarations of interest received.

**28. MINUTES**

**RESOLVED:** That the minutes of the meeting of the Standards and Governance Committee held on 12 September 2013 be approved and signed by the Chairman as a true and correct record.

**29. DEPUTATIONS**

There were no deputations received.

**30. PUBLIC QUESTIONS**

There were no public questions received.

**31. ANNUAL AUDIT LETTER 2012/13 AND PROGRESS REPORT FROM THE COUNCIL'S EXTERNAL AUDITORS (ERNST & YOUNG)**

Consideration was given to a Report of the Council's external auditors Ernst & Young (EY) that summarised the annual audit letter and the completed 2012/13 audit and the expected outputs for the 2013/14 audit which were included in the Progress Report.

Helen Thompson (HT) introduced Ernst Young Manager, Mike Bowers (MB), to the committee. MB advised that he had been pleased to pick the role up from his predecessor. HT said that the Report would be delivered as two separate items; first the Annual Audit Letter (AAL) and secondly the Progress Report that MB would present.

HT presented the Report for the AAL highlighting to Members that EY are required by the Audit Commission to present their statement in line with the Audit Commission's code of practice; she continued to say the unqualified audit opinion was issued at the end of September, with no areas of concern.

HT summarised the AAL Report by sharing that the 'Key Findings' are listed at item 2 in the covering report. She continued to say that there had been improvement in statements and few recommendations with regard to risk and therefore they had no matters to report. With respect to Value for Money EY had identified that the Council had good arrangements in place. HT also recognised that the Council's review plans to respond to forthcoming challenges were good.

A member expressed their gratitude for the level of work Council Officers had put in which had resulted in such a positive report, other Members echoed this.

MB referred to page 4 of the Progress Report to update Members on the stage of audit EY were at. He advised that EY had certified the pooling of housing capital return and national non-domestic return by the deadline. MB also indicated that the housing and council tax benefits claim had been certified and submitted on time but was subject to a qualification letter, relating to more minor issues that are required to be reported to the Department of Works & Pensions.

He continued to say that the small amendment to the audit fee had been brought about by the additional work incurred in the audit of the pooling housing capital return, national non-domestic return and housing and council tax benefits claim. EY are in negotiations with Audit Commission Office concerning this.

HT advised that there were two stages to the process in the event of more work being needed, firstly EY were required to bring to the attention of officers the additional works, which they had done, and next for the Audit Commission to look at it across other councils before approving the fee; it was said that the Audit Commission process will take a little more time, but EY hoped to settle it as soon as they could.

MB referred to page 6 of the Progress Report and summarised that EY had met with the Borough Treasurer and other key officers to ensure the 2013/14 audit runs smoothly. He advised that EY were delivering accounting and audit issue workshops for officers to attend.

Further to a question the Borough Treasurer said he was satisfied that the amended fees being charged were reasonable.

**RESOLVED:** That

- a) **The Committee review and note the conclusions set out in the Annual Audit Letter before final approval by the Policy and Organisation Board; and**
- b) **Note the Progress Report.**

### **32. ANY OTHER ITEMS**

There were no other items discussed.

The meeting concluded at 18:14

**CHAIRMAN**

## AGENDA ITEM NO. 06

<b>Committee:</b>	<b>Standards &amp; Governance Committee</b>
<b>Date of Meeting:</b>	<b>3 April 2014</b>
<b>Title:</b>	<b>Risk Management Update</b>
<b>Author:</b>	<b>Head of Internal Audit &amp; Risk Assurance &amp; Borough Treasurer</b>
<b>Status:</b>	<b>For Decision</b>

### **Purpose**

This report brings forward the updated Risk Management Policy and Risk Management Strategy for consideration and approval.

### **Recommendation**

That the Standards and Governance Committee approve the attached Risk Management Policy and Risk Management Strategy.

## **1 Background**

- 1.1 Risk management is a central part of any organisation's strategic management. The Committee received a report in 2010 outlining the Council's approach to risk management. This report is to seek from those Members charged with governance, approval of the risk management policy and strategy for the period 2014 onwards.

## **2 Report**

- 2.1 The report provides an opportunity for Members to debate and reaffirm their approval of the Council's Risk Management Policy and Strategy.

### **2.1.1 Risk Management Policy**

It is the view of the Institute of Risk Managers that a good risk management policy is essential in integrating risk management into the culture of an organisation. The Policy underpins the Risk Management Strategy. The Policy attached as Appendix 1 sets out the aims, objectives, approach, responsibilities and monitoring arrangements for risk management at Gosport Borough Council and it is recommended that the Committee approve it.

### **2.1.2 Risk Management Strategy**

The Strategy is attached as Appendix 2 and is for approval.

### **3      Risk Assessment**

- 3.1      Failure to embed an effective risk management culture and procedures will leave the Council more vulnerable to the adverse effects of the risks currently being borne. It will be less likely to have identified the risks and undertaken appropriate control measures which when in place can reduce both the likelihood and impact of such negative events.

<b>Financial Services comments:</b>	None
<b>Legal Services comments:</b>	None for the purposes of the report
<b>Crime and Disorder:</b>	None
<b>Equality and Diversity:</b>	None
<b>Service Improvement Plan implications:</b>	Council wide
<b>Corporate Plan:</b>	The Corporate Risk Management Group and its principles support all Council Services in pursuit of their overall corporate objectives.
<b>Risk Assessment:</b>	See section 3
<b>Background papers:</b>	Nil
<b>Appendices/Enclosures:</b>	
Appendix 1	Risk Management Policy
Appendix 2	Risk Management Strategy
<b>Report author/ Lead Officer:</b>	Chris Davis





**GOSPORT**  
Borough Council

# **RISK MANAGEMENT POLICY**

## **2014**

## **POLICY STATEMENT**

Everything that we do as an organisation involves a degree of risk whether it is innovative projects, purchasing new systems and equipment, determining priorities, or taking decisions about the future of the Borough. It is therefore an essential part of good governance that we manage these risks effectively.

Effective risk management helps us to:

- Successfully achieve corporate priorities and objectives by capitalising on opportunities and minimising threats.
- Strengthen corporate governance and internal control framework;
- Improve partnership arrangements;
- Embed risk management into corporate processes including the financial and strategic planning.

The updated Risk Management Policy explains how the Council will manage risk. Members and senior management are committed to embedding the principles and practices of Risk Management in the culture, behaviours, processes and administration of the Council.

Signed by:

**Councillor Mark Hook**  
**Leader of the Council**

**Ian Lycett**  
**Chief Executive**

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## 1. INTRODUCTION

(Chartered Institute of Public Finance and Accountancy) CIPFA define risk management as “the identification, analysis and economic control of those risks that can threaten the operations, assets, objectives and other responsibilities of an organisation”.

Risk management is an area for inclusion in the annual governance statement and as part of the Council's Corporate Governance arrangements risk management should become permanently established as a management tool throughout the organisation.

The purpose of this Risk Management Policy is to state the Council's risk management *aims, objectives, approach, responsibilities and procedures* to embed risk management across the Council.

## 2. AIMS

Risk Management has to be proactive to ensure that corporate and operational risks are:-

- Identified
- Assessed by considering the impacts and likelihoods of their occurrence
- Effectively managed by identifying suitable controls and counter measures, and assessing the cost effectiveness of the mitigating actions proposed.

## 3. OBJECTIVES

The objective of this policy is to provide an effective framework to enable the Council to design and implement measures to reduce the impact of those risks only where it would be cost-effective to do so by:-

- Embedding risk management into the culture of Gosport Borough Council;
- Managing both strategic and operational risk effectively in accordance with best practice;
- Anticipate and respond to changing social, environmental, political and legislative requirements;
- Prevent injury, damage and losses and reduce cost of risk;

These objectives will be achieved by:-

- Establishing clear roles, responsibilities and reporting lines.
- Maintaining and reviewing registers of both key corporate risks and linking them to strategic business objectives and along with all operational risks, assigning ownership of each risk.
- Developing and maintaining a risk aware culture across the council
- Systematically and proactively identifying strategic and operational risks and prioritisation or resource at the overall authority-wide, service and activity levels.
- Providing regular, valued reports to members, management teams on the authority's key risks including emergent risks.
- Embedding risk management in its corporate business processes including:-
  - Strategic/Financial Planning
  - Policy making and review
  - Performance/Project management
  - Partnership working
- Including a risk assessment in Board reports to support strategic policy decisions and project initiation documents
- Considering positive risks (opportunities) as well as negative risks (threats) in relation to its business planning.

## 4. APPROACH

### 4.1 Risk Treatment

There are 4 basic ways of treating risk:-

- **Avoidance** – deciding not to continue or proceed with the activity in view of the level of risks involved, wherever possible. (Note: statutory requirements cannot be avoided)
- **Transfer** – which involves another party bearing or sharing the risk, a typical example is the use of insurance. (Note: ultimate responsibility to undertake statutory requirements remains with the Council even if third party provision is engaged)
- **Control** – by ensuring existing controls are effective by periodic review and testing, and implementing additional controls where considered necessary
- **Acceptance** – certain risks cannot be adequately treated by avoidance, transfer or control. In such cases, there is no alternative but for the Council to accept the residual ('remaining') risks concerned. Details of how these risks and their possible effects are to be managed must be recorded in the service's (and where appropriate Corporate) Risk Register, and subject to regular review.

### 4.2 Framework

The Council maintains a Strategic Risk Register (SRR) and Operational Risk Registers (ORR) that details the:

- Risk and Impact that could happen if the hazard or event should occur
- Actions which have been taken to mitigate the risk.
- Current risk score – a score to show the likelihood of the hazard/event occurring after actions have been taken to mitigate the risk.
- Further actions planned to reduce the risks.
- Post mitigated risk score (i.e. after treatment) – a score to show the risk level when further actions have been taken to mitigate the risk.
- All risks will be assigned risk owners.
- All actions will be assigned target dates for completion and action owners.

## 5. ROLES AND RESPONSIBILITIES

The Council recognises that it is the responsibility of all elected members and employees to have due regard for risk in performing their duties. The key roles within the risk management framework are as follows: -

### 5.1 Elected Members

Have a responsibility to:-

- Understand the strategic risks faced by the authority.
- Oversee the effective management of these risks by officers.
- Ensure that risks have been considered in decision-making
- Agree the Risk Management Policy and review its effectiveness
- Receive a six-monthly report on risk management

### 5.2 The Chief Executive and Council Management Team (CMT)

Have overall responsibility for risk management and will be involved in the identification and effective management of strategic risk in line with the agreed Risk

Management Policy including a six-monthly review of the Strategic Risk Register and that the management of risk is within the council's risk appetite.

### **5.3 The Corporate Risk Management Group (CRMG)**

The role of the group is as a facilitating group which will be the focal point for the co-ordinating and the developing of good practice on all aspects of risk management focussing on strategic, operational and cross cutting issues.

Membership of the group will include representative from each Unit as well as those in specialist roles with specific responsibilities for aspects of risk management i.e. Health & Safety, Insurance.

The group will review both Strategic and Operational Risk Register to ensure that these are scored and managed appropriately. The success and implementation of risk management measures will be monitored and reported to Elected Members and CMT and will arrange for the dissemination of information and advice to achieve better risk management throughout the organisation.

### **5.4 Internal Audit**

Is responsible for:-

- undertaking audits of the Council's Risk Management system and procedures in order to assess their effectiveness and compliance with the Council's requirements as part of Corporate Governance process
- making recommendations to improve the effectiveness of risk management within the Council

### **5.5 Service Unit Managers and their Staff**

Service Unit Managers will ensure that risk management is discussed, understood and complied with within their units and that operational risks are being identified, evaluated and managed effectively in line with the risk management strategy and that operational risk registers are regularly reviewed and updated.

## **6. MONITORING**

- The Chief Executive and CMT will receive reports from the CRMG twice each year on how the implementation of the Strategy and Action Plan is progressing.
- CRMG will review the Action Plan monthly and the Strategic risk Register twice yearly alternating with the CMT review. CRMG will invite Line Managers to present their Operational Risk Registers periodically to the group.
- Standards & Governance Committee will receive an annual report reviewing progress against the Risk Management Strategy and Action Plan and updating the Strategy and Action Plan for the following year;
- The Policy & Organisation Board will receive the Annual Governance Statement outlining the adequacy of risk management and internal control throughout Gosport Borough council as part of the overall governance process.

## **7. REVIEW**

This policy will be subject to annual review. The Standards & Governance Committee will be requested formally approve any changes proposed to the Policy as a result of the review.

## **RISK MANAGEMENT STRATEGY**

### **INTRODUCTION**

Gosport Borough Council is committed to ensuring that risks to the effective delivery of its services and achievement of its overall objectives are properly and adequately controlled. It is recognised that effective management of risk will enable the Council to maximise its opportunities and enhance the value of services it provides to the community. Gosport Borough Council expects all officers and members to have due regard for risk when carrying out their duties and that risk management should become permanently established as a management tool throughout the organisation.

### **WHAT IS RISK MANAGEMENT**

Risk Management is the control of business risks in a manner consistent with the principles of economy, efficiency and effectiveness. It is an essential performance management process to ensure that both the long and short term objectives of the Council are achieved and that all opportunities are fully maximised.

Risk Management is not about eliminating risk, as this would limit the ability of the organisation to develop and deliver its ambitions. Its purpose is to recognise the issues that could affect the achievement of our objectives and develop actions to control or reduce those risks. Acknowledgement of potential problems and preparing for them is an essential element to successfully delivering any service or project. An effective risk management system identifies and assesses risks, decides on appropriate responses and then provides assurance that the chosen responses are effective'.

### **AIMS, OBJECTIVES AND STRATEGIC PRIORITIES**

**Gosport Borough Council's strategic priority themes are;**

- Places
- People
- Prosperity
- Pursuit of Excellence

The aim of this strategy is to provide an effective framework for the council to manage the key risks facing our services and to help achieve its corporate aims, objective and strategic priorities by effectively managing the main risks. This should ensure resources stay focused on delivery and are not diverted to deal with unexpected problems. Risk management across the organisation should, therefore, be viewed as a tool to support achievement rather than simply another compliance procedure.

The objectives of Gosport Borough Council's Risk Management strategy are clearly defined in the *Risk Management Policy* along with how these objectives will be achieved.

### **THE RISK MANAGEMENT FRAMEWORK**

The Council maintains both a Strategic Risk Register (SRR) and Operational Risk Registers (ORR) which records the key risks facing the Council together with

mitigating controls to reduce the risk. By having a robust and systematic risk management framework embedded throughout the organisation it will:

- Help officers to fully understand the causes and impacts of the risks that they face, and in turn make more informed decisions on how best to manage risks.
- Allow officers to analyse and prioritise risks; helping inform decisions on the management, escalation and communication of risks.
- Creates a management tool which promotes discussion and helps reinforce officers' understanding of risks and how they will be managed; as well as encouraging the assignation of roles and responsibilities.
- Provide senior managers and members with the assurance that risks are being considered and managed across the organisation, and where need-be risks are escalated for their input and guidance.

Some risks namely those associated with projects and partnership working may be cross departmental and will need to be identified, assessed and included at either operational or strategic register level.

Risk management is a dynamic process and risk registers must be living documents which are reviewed to add/delete risks and amend impact and likelihood scorings.

## **BENEFITS**

The overall benefits of a systematic approach to risk management should help the Council;-

- Focus on what needs to be done to meet the Councils aims and objectives;
- Encourage and support innovation;
- Protect our reputation;
- Achieve increased certainty and fewer surprises;
- Improve service delivery;
- Achieve more effective management of change;
- Use resources more efficiently;
- Improve management at all levels through better decision making;
- Reduce waste and fraud, and achieve Best Value.

## **MONITORING AND SUPPORT**

There will be regular reporting to Members and to Council Management Team of the Strategic Risk Register and the Risk Management Action Plan. In addition, other section meetings should be used to explain and take forward the risk management process.

Training programmes for those involved in the risk assessment process will be compiled to ensure that the same approach to risk is adopted throughout the Council.

Specific training for members will be organised with support from the Council's Insurers Zurich Municipal.

The induction process will be extended to ensure a consistent approach is taken across the whole authority.



## AGENDA ITEM NO. 07

<b>Committee:</b>	<b>Standards &amp; Governance Committee</b>
<b>Date of Meeting:</b>	<b>3 April 2014</b>
<b>Title:</b>	<b>Internal Audit Charter &amp; Strategy 2013/16</b>
<b>Author:</b>	<b>Head of Internal Audit &amp; Risk Assurance</b>
<b>Status:</b>	<b>For Decision</b>

### **Purpose**

This report sets out the proposed Internal Audit Charter and Strategy as required by the Public Sector Internal Audit Standards (the Standards) which came into effect on the 1 April 2013.

### **Recommendation**

That the Standards and Governance Committee approve the Internal Audit Charter and Strategy 2013/16.

#### **1      Background**

- 1.1      The new UK-wide Public Sector Internal Audit Standards (the Standards) came into effect from 1 April 2013. To ensure the Council's compliance with these standards, a new Internal Audit Strategy and Charter has been prepared for approval.

#### **2      Report**

- 2.1      The new UK-wide Standards replace the CIPFA Standards. CIPFA and the Chartered Institute of Internal Auditors (CIIA) have jointly issued these common standards for all UK public sector organisations.

- 2.2      The objectives of the Standards are to:

- Define the nature of internal auditing in the UK public sector.
- Set basic principles for providing internal audit services that add value to the organisation, leading to improved organisational processes and operations.
- Establish the basis for the evaluation of internal audit performance and to promote continuous improvement.
- Establish a framework for providing internal audit services that add value to the organisation, leading to improved organisational processes and operations.

- 2.3 The Standards incorporates a code of ethics governing the integrity and conduct of internal auditors and the requirement for objectivity, confidentiality and competency, including regard to the seven principles of public life.
- 2.4 There are also detailed performance standards on the actual conduct of internal audit work including planning, performance of individual audits, progress monitoring and the communication of results.
- 2.5 Included within the Standards is a requirement for regular review and assessment of Internal Audit's conformability with the Standards. This will be done as part of Internal Audit's annual report progress, which will be reported to the Committee.
- 2.6 To assist with the Council's compliance with these standards a new Internal Audit Charter (Appendix 1) and Strategy (Appendix 2) have been prepared for approval. These will be reviewed and brought back for approval every year to ensure that they remain up to date and relevant.

### **3. Risk Assessment**

- 3.1 The risk of non-compliance to the Standards could place the Council in a position to incur additional external audit fees in addition to reviewing the future of the current internal audit in-house service provision.

### **4 Conclusion**

- 4.1 This report outlines the Council's Internal Audit Charter and Strategy in compliance with the Standards.

<b>Financial Services comments:</b>	None
<b>Legal Services comments:</b>	None
<b>Crime and Disorder:</b>	None
<b>Equality and Diversity:</b>	None
<b>Service Improvement Plan implications:</b>	Compliance with the PSIAS's.
<b>Corporate Plan:</b>	The Internal Audit coverage supports all Council Services in pursuit of their overall corporate objectives.
<b>Risk Assessment:</b>	See Section 3
<b>Background papers:</b>	None
<b>Appendices/Enclosures:</b>	Appendix 1 - Internal Audit Charter 13/16 Appendix 2 – Internal Audit Strategy 13/16
<b>Report author/ Lead Officer:</b>	Chris Davis 023 9254 5306

## **GOSPORT BOROUGH COUNCIL** **INTERNAL AUDIT CHARTER**

### **Introduction**

The Internal Audit Charter describes the purpose, authority and responsibility of the internal audit activity. The Head of Internal Audit & Risk Assurance is responsible for reviewing the Charter and presenting it to the Borough Treasurer (CFO), Management Team and Standards & Governance Committee regularly for review and approval.

The charter is split into the following sections;

- Regulatory basis for Internal Audit
- Purpose (Definition of Internal Auditing)
- Scope and Objectives of Internal Audit
- Reporting Lines and Authority within the Council
- Independence and Objectivity including Code of Ethics
- Resourcing and Quality Standards
- Standards in Audit Delivery and Management

### **Regulatory basis for Internal Audit**

The requirement for an Internal Audit function is contained in Regulation 6 of the Accounts and Audit Regulations, which requires the Council to:

**“undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control”.**

The Regulations also adds that the Council is required to:

**“make available such documents and records as appear to that body to be necessary for the purposes of the audit and supply the body with such information and explanation as that body considers necessary for that purpose”.**

Ensuring that at least annually, a review is carried out on the effectiveness of its internal audit function.

Internal Audit also assists the Section 151 Officer (Borough Treasurer) in discharging their delegated responsibilities under Section 151 of the Local Government Act 1972 which requires the Council to;

**“make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs”.**

The internal audit activity will govern itself by adherence to Public Sector Internal Audit Standards (PSIAS). The PSIAS includes mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). The PSIAS applies to all internal audit service providers, whether in house, shared services or outsourced.

## **Council’s Constitution**

Gosport Borough Council’s Constitution, Part 4, contains the Council’s Financial Procedure Rules. Internal Audits responsibilities are separately recorded in Schedule 16 sections C10, C13-C15 & C19-C21.

## **Purpose, Authority and Responsibility (Standards 1000 and 1010)**

### **Purpose (Definition of Internal Auditing)**

Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance issues.

### **Scope and Objectives**

1. To review, appraise and report on the adequacy of internal controls across the whole organisation’s Control Environment<sup>1</sup> as a contribution to the proper, economic, efficient and effective use of resources. This includes;

- a. the completeness, reliability and integrity of information, both financial and operational;
- b. the systems established to ensure compliance with policies, plans, procedures, laws and regulations;
- c. the extent to which the assets and interests are accounted for and safeguarded from loss;
- d. the economy, efficiency and effectiveness with which resources are employed; and
- e. whether operations are being carried out as planned and objectives and goals are being met.

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<sup>1</sup> The PSIAS defines the Control Environment as;  
“the attitude and actions of the panel and management regarding the importance of control within the organisation. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control”.

2. To promote good governance arrangements and monitor progress made against governance actions.
3. To support the risk management process within the Council.
4. To advise on internal control implications on new systems.
5. To support in relevant corporate or service projects.
6. To add value through advice, facilitation and training (subject to there being no impact on the core assurance work, maintaining independence and availability of skills and resources).
7. Provide a quality fraud investigation service (not to include Benefit Investigations work) and
8. Support the work of the Standards & Governance Committee.

These objectives will be delivered through maintaining a high quality internal audit function that meets the needs of the Council, supporting the Borough Treasurer the Standards & Governance Committee in discharging their responsibilities and meeting the requirements of the PSIAS.

## **Reporting Lines and Relationships**

The Internal Head of Internal Audit & Risk Assurance reports to the Borough Treasurer, however Internal Audit is independent in its planning and operation and as such has unrestricted access to the;

- Chief Executive;
- Borough Solicitor & Deputy Chief Executive;
- Management Team
- Councillors including specifically the Chair of the Standards & Governance Committee;
- All levels of management; and
- other council employees as necessary.

CIPFA has published “The Role of the Head of Internal Audit in Public Service Organisations”. The Head of Internal Audit & Risk Assurance must comply with these requirements in addition to those set out in the PSIAS.

## **Authority**

Internal Auditors also have access to;

- enter any Council premises or land at any time, subject to any statutory requirements;
- have access to all records and documents concerning any past or prospective financial transaction of the Council;
- require, and receive, any necessary explanations concerning any matter under examination;

- require any employee of the Council to produce any Council property or asset under their control.

For clarity this may extend to partner or service delivery organisations if required.

## **Independence and Objectivity (Standards 1100, 1110, 1111, 1120 and 1130) Code of Ethics**

All Internal Auditors will conform to the Chartered Institute of Internal Auditors' (CIIA) Code of Ethics. Where members of the Internal Audit team have attained membership with other professional bodies such as: the ACCA or CIPFA, those officers must also comply with their relevant bodies' ethical requirements. In addition to this, all Internal Auditors will have regard to the Standards of Public Life's "Seven Principles of Public Life" ([www.publicstandards.gov.uk](http://www.publicstandards.gov.uk)).

Each member of the team will receive a copy of a Code Ethics and Due Professional Care Declaration and sign up to an annual declaration to confirm that they will work in compliance with the Code of Ethics as well as Council's standards and policies such as the Employee Code of Conduct. Where potential areas of conflict may arise during the year, the auditor will also be required to disclose this. It is critical that all Auditors maintain high standards of integrity, independence, objectivity, confidentiality and competence. Where an Internal Auditors' conduct does not comply with these standards or codes, disciplinary action may be taken, either by the Council or by the individual's professional body.

## **Further Standards and Independence**

Internal Auditors must remain independent; therefore Auditors will be independent of the activities audited to enable staff to perform their duties in a way that allows them to make impartial, objective and effective professional judgements and recommendations. As such, Audit staff will not have any operational responsibilities. Further to this, audit staff will not assess specific operations for which they have had any responsibility within the previous year. The Head of Internal Audit & Risk Assurance will report annually to the Borough Treasurer and Standards & Governance Committee that independence and objectivity has been maintained. If this is not the case, disclosure will be made, this for example may be as a result of resource limitations, conflicts of interest or restricted access to records.

## **Internal Audit Resource Management, Proficiency and Due Professional Care (Standards 1200, 1210, 1220 1230 and 2030) Resource Management (Standard 2030)**

For the audit team to fulfil their responsibilities, the team must be appropriately staffed in terms of numbers, professional qualifications, skills and experience. Resources must be effectively deployed to achieve the approved risk based plan. The mix of available knowledge, skills and other competencies will be considered once the risk based plan is drafted to ensure they are sufficient to deliver the plan.

It is the responsibility of the Borough Treasurer to report concerns over a lack of resources to the Chief Executive and to the Standards & Governance Committee.

If necessary the Borough Treasurer will agree with the Chief Executive additional and or specialist resources.

Employment of staff will be in compliance with the Council's Personnel policies.

External resources will be procured in line with the Council's Financial Procedure Rules and Contract Procedure Rules. There is a further specific requirement under the PSIAS that approval be sought from the Standards & Governance Committee to engage in any significant additional consultancy services not already included within the audit plan.

### **Proficiency (Standard 1210)**

The Head of Internal Audit & Risk Assurance must hold a professional qualification (CMIIA, CIPFA or equivalent) and be suitably experienced. Each job role within the internal audit structure will detail skills and competencies within the approved job description and person specification. In line with Council policy and the PSAIS, each member of the team will be assessed against these predetermined competencies and annual objectives. Any development and training plans will be regularly reviewed, monitored and agreed with officers. This assessment will also take into account competency changes as needed i.e. to reflect changing technology and legislation. Auditors are also required to maintain a record of their continual professional development in line with their professional body. (Standard 1230)

### **Due Professional Care (Standard 1220)**

Internal auditors must exercise due professional care by considering the:

- Extent of work needed to achieve the engagement's objectives;
- Relative complexity, materiality or significance of matters to which assurance procedures are applied;
- Adequacy and effectiveness of governance, risk management and control processes;
- Probability of significant errors, fraud, or non-compliance; and
- Cost of assurance in relation to potential benefits.

Considering various data analysis techniques and being alert to significant risks that may affect the objectives.

### **Quality Assurance and Improvement Programme (Standards 1300, 1310, 1311, 1312, 1320, 1321 and 1322)**

To enable the Borough Treasurer to assess the Internal Audit's activity's conformance to the PSIAS and to aid in the annual assessment of Internal Audit's efficiency and effectiveness and identify opportunities for improvement a Quality Assurance and Improvement Programme (QAIP) has been developed.

The QAIP includes both internal and external assessments (Standard 1310) Assessment against QAIP will form part of the annual assessment of the effectiveness of internal audit (contained within the Annual Auditors Report) which is published to the Borough Treasurer and Standards & Governance Committee. (Standard 1320) Where there are instances of non-conformances to the PSIAS this is reported to the Borough Treasurer and Standards & Governance Committee. Any significant deviations will be detailed within the Annual Governance Statement. Standard 1322)

### **Internal Assessment (Standard 1311)**

All Auditors have access to an up to date electronic audit manual, the Internal Audit Charter, Council policies, the PSIAS and application note as well as other references. In addition an Audit Library is maintained. Where staff are members of bodies such as the CMLA further guidance is available. To maintain quality, work is allocated to staff with appropriate skills, competence and experience. All levels of staff are supervised to a degree. Work is monitored for progress, assessed for quality and to allow for coaching. (Linked to standard 2340)

Personal reviews are undertaken for individual auditors and service targets agreed. Audit targets and performance indicators are agreed with the Borough Treasurer and reported to the Chief Executive (corporate performance management) and periodically to the Standards & Governance Committee. In addition to the Quality Assurance and Improvement Programme (QAIP), progress made against the audit plan and any emerging issues (i.e. fraud risks or governance issues) are reported regularly to Borough Treasurer, Management Team and the Standards & Governance Committee (linked to standard 2060). On-going assessment of individuals is carried out through regular 121's, monthly team meetings and formally in the annual Personal Review process.

### **External Assessment (Standard 1312)**

In compliance with the PSIAS, external assessment will be carried out at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The preferred method would be through self-assessment, with independent validation from a peer review (organised possibly through the Hampshire & IoW Audit Manager Group) providing there is no conflict of interest and impairment to objectivity in this arrangement. This arrangement and scope must be agreed with the Borough Treasurer, Standards & Governance Committee and the Independent Assessor.

### **Performance Standards (Standards 2000, 2010, 2020, 2030, 2040, 2050, 2060 and 2070)**

The internal audits prime responsibility is to the Council. Key are the risks and controls within the Council activities are undertaken by "partners" where there is also a need for assurance over their activities on the Council's behalf. In order to give an evidenced based opinion there is a minimum level of coverage required. When



planning the work of internal audit, assurances provided by third parties can be considered.

## **Planning (Standard 2010)**

The Head of Internal Audit & Risk Assurance develops a risk based audit plan, which can be updated to reflect changing risks and priorities of the organisation, to enable the production of the annual internal audit opinion. In order to prepare this risk based audit plan, the Borough Treasurer considers both the National (i.e. economic climate, fraud trends) and Local issues (corporate plan, service action plans, Medium Term Financial Plan, risk registers and discussions with management).

A risk assessment of the “Audit Universe” is undertaken by scoring a number of factors, which are weighted to give an overall score which dictates how often the area should be reviewed. (This assessment and model used is supported by the Institute of Internal Auditors. It considers the size of the area, the control environment and Inspection regimes).

The plan will consider;

- the need for specialist auditor skills, where they are not available already;
- the balance of the range of reviews and sufficient coverage to ensure that External Audit can place reliance on the work of Internal Audit;
- the need to update and review for emergent risks;
- contingency time for ad hoc reviews or fraud investigations;
- sufficient time for audit management including audit planning, development of the annual opinion and attendance at meetings and maintenance of audit policies and procedures (Standard 2040);
- Staff training and development needs;
- Liaison time with other assurance providers to share information (standard 2050), such as the External Auditor;
- Assurances provided by other bodies

The Head of Internal Audit & Risk Assurance reports the risk based audit plan and resource requirements to the Borough Treasurer and the Standards & Governance Committee for review and approval. For clarity the Standards & Governance Committee can approve but cannot direct the audit plan.

## **Nature of Work (Standards 2100, 2110, 2120 and 2130)**

### **Governance (Standard 2110)**

Internal audit will assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the organisation;
- Ensuring effective organisational performance management and accountability;
- Communicating risk and control information to appropriate areas of the

- organisation; and
- Coordinating the activities of and communicating information among the board, external and internal auditors and management.

Specifically internal audit;

- evaluates the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities;
- assesses whether the information technology governance of the organisation supports the organisation's strategies and objectives.

### **Risk Management (Standard 2120)**

Internal audit evaluates the effectiveness and contributes to the improvement of risk management processes.

The PSIAS requires Internal Audit to;

1. Evaluate risk exposures relating to the organisation's governance, operations and information systems regarding the:
  - Achievement of the organisation's strategic objectives;
  - Reliability and integrity of financial and operational information;
  - Effectiveness and efficiency of operations and programmes;
  - Safeguarding of assets; and
  - Compliance with laws, regulations, policies, procedures and contracts.
2. Address risk consistent with the engagement's objectives and be alert to the existence of other significant risks.
3. Incorporate knowledge of risks gained from consulting engagements into their evaluation of the organisation's risk management processes.
4. Assist management in establishing or improving risk management processes, but refrain from assuming any management responsibility by actually managing risks.

### **Control (Standard 2130)**

Internal audit assists the organisation in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement. Internal audit evaluates the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems regarding the:

- Achievement of the organisation's strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programmes;

- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts.

Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluation of the organisation's control processes.

### **Fraud (Consultancy Work)**

Whilst it is not a primary role of Internal Audit to detect fraud, it does have a role in providing an independent assurance on the effectiveness of the processes put in place by management to manage the risk of fraud. Internal Audit can do additional work, although it cannot be prejudicial to this primary role. Typical activities may include;

- Investigating the cause of fraud;
- Responding to whistleblowers;
- Considering fraud in every audit;
- Making recommendations to improve processes;
- Review fraud prevention controls and detection processes put in place by management.

## **Audit Delivery**

### **Engagement Planning (Standards 2200, 2201, 2210, 2220, 2230 and 2240)**

For each engagement, a brief should be prepared, discussed and agreed with relevant managers. The brief should establish the objectives, scope and timing for the audit assignment and its resources and reporting requirements. Audit work is undertaken using a risk based audit approach, which will consider the probability of significant errors, fraud and non-compliance. Adequate criteria will be needed to evaluate the nature of internal audit's work. Criteria can be extended to consider value for money assessments.

### **Performing the Engagement (Standard 2300, 2310, 2320, 2330 and 2340)**

Auditors are required to identify, analyse, evaluate and document sufficient information to achieve the engagement's objectives. This evidence supports their conclusions, professional judgments and recommendations and therefore must be factual and accurate. This data is held in compliance with the Councils' retention policies.

### **Communicating Results (Standards 2400, 2410, 2420, 2421, 2430, 2431, 2440 and 2450)**

The results of all engagements are reported, including the objective, scope, all material facts, conclusions, recommendations, action plans, any limitations and where appropriate contain the internal auditors' opinion. Contents of draft reports are discussed with managers for factual accuracies. It is important to bring significant issues to the attention of management during the course of engagement to allow for

immediate action. Managers are required to give responses to each recommendation, detailing the responsible officer for each action and the target date for completion. Where there is disagreement over the actions to be taken, this is recorded in the action plan with the residual risks highlighted. Where these risks are deemed to be high, they are reported to the Borough Treasurer and relevant Director, and the Standards & Governance Committee and that risk registers are updated where relevant.

### **Overall Opinions (Standard 2450)**

The Annual Internal Auditors report is prepared by the Head of Internal Audit & Risk Assurance. This opinion is used to inform the Annual Governance Statement. This report must conclude on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control giving an overall opinion, summary of the work undertaken to support this opinion (including any reliance placed on work by other assurance providers), a statement on the conformance with the PSIAS, the results of the QAIP and any external assessors improvement recommendations, disclosure of any impairments or limitations. If an unfavourable opinion is given, the reasons for this must be specified.

### **Monitoring Progress (Standard 2500) and Communicating Unacceptable Levels of Risk (Standard 2600)**

Internal Audit tracks progress made on agreed actions. It is the responsibility of the manager to implement and provide relevant evidence of the agreed actions to Internal Audit. Any high priority agreed action areas are reported to the Standards & Governance Committee. Where Managers have not actioned high priority agreed actions, or where the level of risk may be unacceptable to the Council, the Head of Internal Audit & Risk Assurance will report this to the relevant Borough Treasurer and Chief Executive. If the matter is still unresolved the Standards & Governance Committee will be informed. The findings and follow up reviews inform future audit planning.

## **Internal Audit Strategy for 2013/14 to 2015/16**

### **Introduction**

The Public Sector Internal Audit Standards (2013) requires that the Audit Manager produces an Audit Strategy. The Strategy is a high level statement of how the internal audit service will be delivered and developed in accordance with the terms of reference and how it links to the organisational objectives and priorities.

### **Internal Audit Objectives and Outcomes**

To deliver an assurance function that provides an independent and objective opinion to the organisation on the control environment which comprises the systems of governance, risk management and internal control. This is achieved by evaluating its effectiveness in achieving the organisation's objectives. Internal Audit will objectively examine, evaluate and report on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

The objective is to complete at least 95% of the annual plan for each year and to ensure that the outputs from the audits are reported to the appropriate level of management, that management agree to address areas of concern and that the results are reported to the Standards & Governance Committee. The outcomes from these reports and on-going advice and assurance should result in maintaining and where necessary improving the internal control framework of the Council.

A clear objective is to provide an audit service that provides assurance on the key financial systems of the Council, is actively involved in major projects / system developments (to provide timely opinions i.e. not after the event but in advance of), is a service that customers feel they can come to when necessary in confidence and will receive a professional and responsive level of advice and assurance. Contingencies are also built into the plan to help address new issues identified during the year.

Resource is also allocated to provide a pro-active role from Internal Audit in giving advice and assurance to management and working with others (including External Audit) to deliver a 'joined up' approach effectively utilising the special skills and knowledge within the Section.

The Audit Plan is split into the following five categories:

**Fundamental Audits (Compulsory)** - There is a requirement that these audits are undertaken annually and they form a key part of the opinion that the External Auditors make on the adequacy of the Council's Internal Audit arrangements.

An agreement is in place that enables Internal Audit and External Audit to place reliance on each other's work through a joint working protocol. This will

enable greater efficiencies in the use of audit resources over a three year period undertaking a systems flowcharting and walk through test approach instead of full annual compliance audits.

**Management Audits** - These audits involve the review of internal control risk, governance and performance areas that potentially have an effect on the whole organisation. Most of these will be directly linked/ identified in the Corporate and Service Risk Registers.

**Service Audits** - These are about reviewing specific services, activities and the systems and processes in use. The priority in the audit planning process is to ensure adequate audit coverage for the Core audits and then the Service audits. Resources dictate that IA have to prioritise service audits and this is where the IA evaluation of the risks helps to determine which services or activities should be put forward in the draft audit plans.

**On-going Activities & Advice** - These are the items that support the framework in which Internal Audit undertakes its activities and in providing a pro-active and responsive service to management and other key stakeholders.

**Contingencies** - These are in place to resource special investigations and Statutory Officer requests to undertake unplanned audit work.

### **Links to Gosport Borough Council's Objectives and Priorities**

The Internal Audit plan is linked to the Corporate and Service Risk Registers as appropriate, to ensure that Internal Audit review those areas considered to be of the most significant risk.

The three year plan will be reviewed annually and amended as necessary to address any change in organisational structure, objectives or priorities. The plan will be submitted to the Standards and Governance Committee for approval and will continue to be reviewed to ensure they it is in line with the risk profile/register and the Corporate Plan.

### **Internal Audit's contribution to Corporate Governance**

The Internal Audit Plan makes a direct contribution to the Governance of the Council and the outcomes from the plan contribute to providing independent assurance on the Council's governance arrangements and in identifying areas where management action is needed to improve the control environment of the Council's operations.

Internal Audit also undertakes an annual review of the Council's governance framework and produces a report to senior management on the findings of the review.

The Head of Internal Audit produces an annual audit report within which an opinion is provided on the Council's internal control framework based on the

results of the completion of the annual audit plan. This in-turn can have a direct impact on the Annual Governance Statement that the Corporate Governance Group produces on behalf of the Council.

### **Local and National Issues and the Role of Internal Audit**

A key part in producing the audit plans for future years is the consideration of local and national issues and how Internal Audit can through its role within the Council contribute to addressing these.

For Internal Audit to best make a contribution that 'adds value' and provides an adequate level of assurance this needs to formally evaluate these when planning future audit activities. This is achieved through a number of initiatives:

- Reviewing risk registers for the Council ensuring they are up to date and the process behind them is robust enough to place reliance on them. The audit plan is then cross referenced to the corporate / strategic risks the Council has identified.
- If required a further risk analysis will be undertaken by Internal Audit the results of which will be considered when determining the audit plan.
- Internal Audit have a risk evaluation model that has a number of attributes that are appropriately weighted to the changes that have occurred in the service / subject area, materiality, profile, etc. and this risk analysis can directly contribute to providing audit assurance on the internal control environment that in turn provides assurance at a Corporate Governance level.
- The three year 'umbrella' audit plan is reviewed on an annual basis to ensure it meets the needs of the Council and is mindful of emerging local and national issues.

### **Provision of the Internal Audit Service and the Resources / Skills required to deliver the Strategy**

Internal Audit Services are provided in partnership with Eastleigh Borough Council and Test Valley Borough Council, through a three way shared service.

The shared Head of Internal Audit is shared equally between each site with his time allocated as a third to each Council. The shared Head of Internal Audit, however, ensures that he is fully available to each Council in the partnership whether working on or off-site and this is a key element in the partnership approach and flexible work force planning.

The Principal Auditor role has a proportion of time allocated to monitoring, reviewing and performance managing the audit teams directly reporting to the shared Head of Internal Audit.

The Audit Partnership has in place one manager, three principal auditors, one senior and six auditors. The partnership has developed shared performance measures, systems and working practices based on best practice and in compliance with the Public Sector Internal Audit Standards.

There are robust and in-depth specialist skills within the partnership. The partnership has specialists in contracts and procurement, financial management, fraud/investigative/forensic work, process mapping, facilitating management workshops on risks and controls, governance and risk management.

Within the partnership the Head of Internal Audit seeks to ensure the most effective, efficient and economic use of resources to the benefit of each partnering Council. This is achieved by the continued assessment of priorities and utilising the skills, knowledge and experience of the auditors for the benefit of all and where appropriate undertaking audits in partnership.

The final objective is the delivery of an Internal Audit Service that provides each partnering Council with an adequate level of Internal Audit assurance to contribute to the governance requirements and compliance with legislative and the Council's own Constitution requirements.

Chris Davis CMIIA  
Shared Head of Internal Audit  
20 March 2014



## AGENDA ITEM NO. 08

<b>Committee:</b>	<b>Standards &amp; Governance Committee</b>
<b>Date of Meeting:</b>	<b>3 April 2014</b>
<b>Title:</b>	<b>Internal Audit Plan 2014/15</b>
<b>Author:</b>	<b>Head of Internal Audit &amp; Risk Assurance</b>
<b>Status:</b>	<b>For Decision</b>

### **Purpose**

This report provides the Standards and Governance Committee with the planned annual coverage of Internal Audit resources for 2014/15.

### **Recommendation**

That the Standards and Governance Committee approve the 2014/15 Internal Audit Plan as attached in Appendix One.

### **1      Background**

- 1.1      The plan has been developed after consultation with Service Unit Managers and a number of Section Heads as well as reviewing the three year strategic audit and assessing the Council's strategic and operational risk registers.
- 1.2      Further consultation with our new External Auditors is planned later this month to ensure there is no duplication of audit resource (both internal and external) in the forthcoming year.

### **2      Report**

- 2.1      Developing this year's audit plan has again been challenging with significant structural changes within the Council over the last 12 months and the revised partnership arrangement with another Hampshire Council (Test Valley Borough Council). The service has had turnover (an Auditor resigned early February) late in the 2013/14 year.
- 2.2      A review of the staffing resource of the Audit section will be undertaken early in the new financial year following the meeting with the Chief Financial Officers from the partnering authorities (see paragraph 2.6).
- 2.3      The Team continues to include the secondment of the Housing Benefit Fraud resource. A number of risk profiles have been affected due to the current economic climate, recent staff turnover, further partnership working and merging of services into new Unit.

The annual audit plan is based on 4.8 WTE internal staff and highlights the key components of the planned output from Internal Audit for 2014/15. Future monitoring reports will be scheduled (included in the Committee's work plan) for Members throughout the year to compare actual versus planned coverage for the forthcoming year.

2.4 The Internal Audit Plan also includes for a maximum of 20 days IT Audit specialist (covered within the annual internal audit budget) resource that continues to be shared with Portsmouth City Council.

2.5 The 2014/15 internal audit plan allows for a maximum of 166 (an increase in 36 days on the previous year (130 days)) audit days to be shared, under the current arrangement, to support Eastleigh Borough Council (EBC) and Test Valley Borough Council (TVBC) in delivering their audit plans. The shared resource will generate approximately £55K (an increase of £15K on the previous year) in the year. It's planned that audit resources will be allocated to Eastleigh Borough Council and Test Valley Borough Council in the following way:-

Quarter	Head of Internal Audit EBC (days) [W]	Head of Internal Audit TVBC (days) [T]
Q1 (Apr–Jun)	21.50	20
Q2 (Jul - Sep)	21.50	20
Q3 (Oct – Dec)	21.50	20
Q4 (Jan – Mar)	21.50	20

[W] – Wednesday & [T] – Tuesday (fixed days at each site)

2.6 There is a planned meeting with all three Chief Financial Officers from the partnering Authorities in April to discuss the future arrangement beyond its current closing date of September 2014. Any outcome from this meeting will be reported back to Members in July.

### **3 Risk Assessment**

3.1 The work performed by Internal Audit assists in reducing the overall risk exposure in the Council's operations and provides a degree of support to management in placing reliance on the adequacy of their controls within their Services.

### **4 Conclusion**

4.1 This report outlines the planned internal audit coverage for 2014/15

<b>Financial Services comments:</b>	As detailed in paragraph 2.5
<b>Legal Services comments:</b>	None
<b>Crime and Disorder:</b>	None
<b>Equality and Diversity:</b>	None
<b>Service Improvement Plan</b>	The annual plan is part of the Sections

<b>implications:</b>	improvement plan and regular monitoring features as the operational plan for which the section is scrutinised both externally (External Audit) and internally (by the Standards & Governance Committee).
<b>Corporate Plan:</b>	The Internal Audit coverage supports all Council Services in pursuit of their overall corporate objectives.
<b>Risk Assessment:</b>	See Section 3
<b>Background papers:</b>	None
<b>Appendices/Enclosures:</b>	Appendix One – Internal Audit Plan 2014/15
<b>Report author/ Lead Officer:</b>	Chris Davis 023 9254 5306

## Appendix One

<b>Service Unit/ Audit Area</b>	<b>Planned Audit Days 2013/14</b>	<b>Planned Audit Days 2014/15</b>
<b>Based on audit resource:-</b>	<b>4.12 WTE</b>	<b>4.8 WTE</b>
<b>Financial Services</b>	<b>195.75</b>	<b>241.50</b>
<b>Legal, Democratic &amp; Planning Services</b>	<b>18</b>	<b>35.50</b>
<b>Chief Executives</b>	<b>66.50</b>	<b>71.75</b>
<b>Community &amp; Customer Services*</b>	<b>98</b>	<b>105</b>
<b>Housing Services</b>	<b>76</b>	<b>62.50</b>
<b>Management/VFM Reviews</b>	<b>96</b>	<b>144</b>
<b>Eastleigh Borough Council</b>	<b>130</b>	<b>86</b>
<b>Test Valley Borough Council</b>	<b>-</b>	<b>80</b>
<b>Contingency</b>	<b>70</b>	<b>70</b>
<b>Total</b>	<b>750.25</b>	<b>896.25</b>

\* This Service Unit has now been disbanded. All the sections are now spread across the remaining Units. A revised Annual Audit Plan will in place by September 2014 that will have all the sections integrated within the 4 remaining Service Units.

## **Internal Audit Strategy for 2013/14 to 2015/16**

### **Introduction**

The Public Sector Internal Audit Standards (2013) requires that the Audit Manager produces an Audit Strategy. The Strategy is a high level statement of how the internal audit service will be delivered and developed in accordance with the terms of reference and how it links to the organisational objectives and priorities.

### **Internal Audit Objectives and Outcomes**

To deliver an assurance function that provides an independent and objective opinion to the organisation on the control environment which comprises the systems of governance, risk management and internal control. This is achieved by evaluating its effectiveness in achieving the organisation's objectives. Internal Audit will objectively examine, evaluate and report on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

The objective is to complete at least 95% of the annual plan for each year and to ensure that the outputs from the audits are reported to the appropriate level of management, that management agree to address areas of concern and that the results are reported to the Standards & Governance Committee. The outcomes from these reports and on-going advice and assurance should result in maintaining and where necessary improving the internal control framework of the Council.

A clear objective is to provide an audit service that provides assurance on the key financial systems of the Council, is actively involved in major projects / system developments (to provide timely opinions i.e. not after the event but in advance of), is a service that customers feel they can come to when necessary in confidence and will receive a professional and responsive level of advice and assurance. Contingencies are also built into the plan to help address new issues identified during the year.

Resource is also allocated to provide a pro-active role from Internal Audit in giving advice and assurance to management and working with others (including External Audit) to deliver a 'joined up' approach effectively utilising the special skills and knowledge within the Section.

The Audit Plan is split into the following five categories:

**Fundamental Audits (Compulsory)** - There is a requirement that these audits are undertaken annually and they form a key part of the opinion that the External Auditors make on the adequacy of the Council's Internal Audit arrangements.

An agreement is in place that enables Internal Audit and External Audit to place reliance on each other's work through a joint working protocol. This will

enable greater efficiencies in the use of audit resources over a three year period undertaking a systems flowcharting and walk through test approach instead of full annual compliance audits.

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**On-going Activities & Advice** - These are the items that support the framework in which Internal Audit undertakes its activities and in providing a pro-active and responsive service to management and other key stakeholders.

**Contingencies** - These are in place to resource special investigations and Statutory Officer requests to undertake unplanned audit work.

### **Links to Gosport Borough Council's Objectives and Priorities**

The Internal Audit plan is linked to the Corporate and Service Risk Registers as appropriate, to ensure that Internal Audit review those areas considered to be of the most significant risk.

The three year plan will be reviewed annually and amended as necessary to address any change in organisational structure, objectives or priorities. The plan will be submitted to the Standards and Governance Committee for approval and will continue to be reviewed to ensure they it is in line with the risk profile/register and the Corporate Plan.

### **Internal Audit's contribution to Corporate Governance**

The Internal Audit Plan makes a direct contribution to the Governance of the Council and the outcomes from the plan contribute to providing independent assurance on the Council's governance arrangements and in identifying areas where management action is needed to improve the control environment of the Council's operations.

Internal Audit also undertakes an annual review of the Council's governance framework and produces a report to senior management on the findings of the review.

The Head of Internal Audit produces an annual audit report within which an opinion is provided on the Council's internal control framework based on the

results of the completion of the annual audit plan. This in-turn can have a direct impact on the Annual Governance Statement that the Corporate Governance Group produces on behalf of the Council.

### **Local and National Issues and the Role of Internal Audit**

A key part in producing the audit plans for future years is the consideration of local and national issues and how Internal Audit can through its role within the Council contribute to addressing these.

For Internal Audit to best make a contribution that 'adds value' and provides an adequate level of assurance this needs to formally evaluate these when planning future audit activities. This is achieved through a number of initiatives:

- Reviewing risk registers for the Council ensuring they are up to date and the process behind them is robust enough to place reliance on them. The audit plan is then cross referenced to the corporate / strategic risks the Council has identified.
- If required a further risk analysis will be undertaken by Internal Audit the results of which will be considered when determining the audit plan.
- Internal Audit have a risk evaluation model that has a number of attributes that are appropriately weighted to the changes that have occurred in the service / subject area, materiality, profile, etc. and this risk analysis can directly contribute to providing audit assurance on the internal control environment that in turn provides assurance at a Corporate Governance level.
- The three year 'umbrella' audit plan is reviewed on an annual basis to ensure it meets the needs of the Council and is mindful of emerging local and national issues.

### **Provision of the Internal Audit Service and the Resources / Skills required to deliver the Strategy**

Internal Audit Services are provided in partnership with Eastleigh Borough Council and Test Valley Borough Council, through a three way shared service.

The shared Head of Internal Audit is shared equally between each site with his time allocated as a third to each Council. The shared Head of Internal Audit, however, ensures that he is fully available to each Council in the partnership whether working on or off-site and this is a key element in the partnership approach and flexible work force planning.

The Principal Auditor role has a proportion of time allocated to monitoring, reviewing and performance managing the audit teams directly reporting to the shared Head of Internal Audit.

The Audit Partnership has in place one manager, three principal auditors, one senior and six auditors. The partnership has developed shared performance measures, systems and working practices based on best practice and in compliance with the Public Sector Internal Audit Standards.

There are robust and in-depth specialist skills within the partnership. The partnership has specialists in contracts and procurement, financial management, fraud/investigative/forensic work, process mapping, facilitating management workshops on risks and controls, governance and risk management.

Within the partnership the Head of Internal Audit seeks to ensure the most effective, efficient and economic use of resources to the benefit of each partnering Council. This is achieved by the continued assessment of priorities and utilising the skills, knowledge and experience of the auditors for the benefit of all and where appropriate undertaking audits in partnership.

The final objective is the delivery of an Internal Audit Service that provides each partnering Council with an adequate level of Internal Audit assurance to contribute to the governance requirements and compliance with legislative and the Council's own Constitution requirements.

Chris Davis CMIIA  
Shared Head of Internal Audit  
20 March 2014



## AGENDA ITEM NO. 09

<b>Board/Committee:</b>	<b>Standards and Governance Committee Meeting</b>
<b>Date of Meeting:</b>	3 April 2014
<b>Title:</b>	EY – Certification of claims and returns annual report 2012/13 and Progress Report
<b>Author:</b>	Helen Thompson
<b>Status:</b>	For consideration and approval by Standards and Governance Committee

### **Purpose**

The certification of claims and returns annual report summarises the findings from the work completed to enable us to certify the Council's 2012/13 claims and returns. It reports the key messages from the work that has been completed, including any changes that were agreed with your officers and where relevant details of matters reported to the grant paying department. Our annual report has been prepared in line with the requirements of the Audit Commission's Code of Audit Practice.

The progress report confirms the completion of the certification of claims and returns annual report for 2012/13 and the progress made on the 2013/14 audit.

### **Recommendation**

- Review and approve the conclusions set out in the certification of claims and returns annual report 2012/13.
- Note the Progress Report.

#### **1 Background**

- 1.1 The Audit Commission's Code of Audit Practice requires us to issue a certification of claims and returns annual report to those charged with governance. This report summarises the work we have carried out to enable us to certify the Council's 2012/13 grant claims and returns.
- 1.2 The Progress Report provides the Committee with details of the work completed in respect of the 2012/13 audit and the planned outputs from the 2013/14 audit.

## **2 Certification of claims and returns annual report 2012/13**

### **Scope**

- 2.1 Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and are required to complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require certification from an appropriately qualified auditor of the claims and returns submitted to them.
- 2.2 We checked and certified three claims and returns with a total value of £51 million. We met all submission deadlines.

### **Housing and council tax benefit**

- 2.3 The housing and council tax benefit subsidy claim was submitted on time to the Department of Works and Pensions (DWP) but was subject to a qualification letter. The qualification related to more minor issues that are required to be reported to the DWP under the Audit Commission's methodology.
- 2.4 We also agreed a number of more minor amendments to the Council's 2012/13 claim with your officers. The overall impact of these adjustments was an increase to the level of subsidy due to the Council by £1,079.

### **National non-domestic rates**

- 2.5 The Government runs a system of non-domestic rates using a national uniform business rate. Councils responsible for the scheme collect local business rates and pay the rate income over to the Government. Councils have to complete a return setting out what they have collected under the scheme and how much they need to pay over to the Government.
- 2.6 We found no errors on the national non-domestic rates return and we certified the return without qualification.

### **Pooling of housing capital receipts**

- 2.7 Pooling of housing capital receipts applies to all local authorities who have a housing function. We certified the Council's 2012/13 claim after agreeing a minor amendment with your officers.

## **3 Risk Assessment**

- 3.1 The Audit Commission requires auditors to report the findings from their work on the certification of claims and returns. This report should be reviewed and noted as part of the Council's governance arrangements.

3.2 There are no risks associated with the Progress Report.

#### **4 Conclusion**

4.1 The certification of claims and returns annual report 2012/13 is attached for consideration and approval. The Progress Report is provided for the Committee's information.

<b>Financial Services comments:</b>	N/A
<b>Legal Services comments:</b>	N/A
<b>Crime and Disorder:</b>	N/A
<b>Equality and Diversity:</b>	N/A
<b>Service Improvement Plan implications:</b>	N/A
<b>Corporate Plan:</b>	N/A
<b>Risk Assessment:</b>	N/A
<b>Background papers:</b>	N/A
<b>Enclosures:</b>	The certification of claims and returns annual 2012/13 report and Progress Report
<b>Report author/ Lead Officer:</b>	Helen Thompson, Audit Director, Ernst & Young

The Members of the Standards and Governance Committee  
Gosport Borough Council  
Town Hall  
High Street  
Gosport  
PO12 1EB

12 February 2014

Ref: GBC/Claims/2012-13  
Your ref:

Direct line: 02380 382099

Email: HThompson2@uk.ey.com

Dear Members

## **Certification of claims and returns annual report 2012-13 Gosport Borough Council**

We are pleased to report on our certification work. This report summarises the results of our work on Gosport Borough Council's 2012-13 claims and returns.

### **Scope of work**

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and are required to complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require certification from an appropriately qualified auditor of the claims and returns submitted to them.

Under section 28 of the Audit Commission Act 1998, the Audit Commission may, at the request of authorities, make arrangements for certifying claims and returns because scheme terms and conditions include a certification requirement. When such arrangements are made, certification instructions issued by the Audit Commission to appointed auditors of the audited body set out the work they must undertake before issuing certificates and set out the submission deadlines.

Certification work is not an audit. Certification work involves executing prescribed tests which are designed to give reasonable assurance that claims and returns are fairly stated and in accordance with specified terms and conditions.

In 2012-13, the Audit Commission did not ask auditors to certify individual claims and returns below £125,000. The threshold below which auditors undertook only limited tests remained at £500,000. Above this threshold, certification work took account of the audited body's overall control environment for preparing the claim or return. The exception was the housing and council tax benefits subsidy claim where the grant paying department sets the level of testing.

Where auditors agree it is necessary audited bodies can amend a claim or return. An auditor's certificate may also refer to a qualification letter where there is disagreement or uncertainty, or the audited body does not comply with scheme terms and conditions.

### **Statement of responsibilities**

In March 2013 the Audit Commission issued a revised version of the 'Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns' (statement of responsibilities). It is available from the Chief Executive of each audited body and via the Audit Commission website.

The statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

This annual certification report is prepared in the context of the statement of responsibilities. It is addressed to those charged with governance and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

## **Summary**

Section 1 of this report outlines the results of our 2012-13 certification work and highlights the significant issues.

We checked and certified three claims and returns with a total value of £51 million. We met all submission deadlines. We issued one qualification letter in respect of the Housing and Council Tax Benefits claim. Details of the qualification issues are included in section 1. Our certification work found a few more minor errors which the Council corrected in respect of the Housing and Council Tax Benefits claim and the Pooling of Housing Capital Receipts return. The amendments made resulted in a small increase in the amount payable to the Council by the Department for Work and Pensions for the Housing and Council Tax Benefits claim; and a small reduction in the amount payable to the Department for Communities and Local Government for the Pooling of Housing Capital Receipts return.

Fees for certification work are summarised in section 2. The Audit Commission applied a general reduction of 40% to certification fees in 2012-13. We have included the actual fees for 2011-12 to assist year on year comparisons.

We welcome the opportunity to discuss the contents of this report with you at the 3 April 2014 Standards and Governance Committee.

Yours faithfully



Helen Thompson  
Director  
Ernst & Young LLP

Enc

Certification of claims and returns annual report 2012-13

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## 1. Summary of 2012-13 certification work

We certified three claims and returns in 2012-13. The main findings from our certification work are provided below.

### Housing and council tax benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£36,066,047
Limited or full review	Full
Amended	Amended – subsidy increased by £1,079
Qualification letter	Yes
Fee - 2011-12	£35,313
Fee - 2012-13	£20,759
<b>Recommendations from 2011-12:</b>	<b>Findings in 2012-13</b>
None	N/A

Councils run the Government's housing and council tax benefits scheme for tenants and council taxpayers. Councils responsible for the scheme claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid.

In our initial sample testing of rent rebate cases we found one case where Employment and Support Allowance (ESA) had been entered twice, which would always lead to an underpayment of benefit. As there is no subsidy due on underpayments this item was not classified as an error for subsidy purposes.

The certification guidance requires auditors to complete more extensive '40+' testing (extended testing) if initial testing identifies errors in the calculation of benefit or compilation of the claim that could impact on the level of subsidy that is payable.

We found one case in our initial sample of rent allowance cases where an error had been made by entering the gross amount of wages rather than net wages. If this were to be repeated the error could lead to an overpayment. The results of the 40+ testing identified five further cases where similar errors had led to an underpayment of benefit, which had no effect on the level of subsidy payable. Two further cases were identified that resulted in overpayments totalling £0.47. The overpayments have therefore been extrapolated to £67.67 and the subsidy claim amended.

There was one case in our initial sample of council tax cases where the claim form could not be traced and the Council was unable to provide evidence that it had been received, total value of £83.21. A further sample of 40 cases covering each benefit type did not identify any further missing claim forms. The Council has removed the one case where the claim form was missing from its subsidy claim.

Our testing of system parameters identified a minor error in the Employment Support Allowance entry, which resulted in an overpayment of housing benefits totalling £7.98 and a total of £3.04 in relation to council tax benefits. The subsidy claim was amended for these amounts. We also identified one error in the allocation of 'modified scheme' rent allowance cases between the rent allowances headline cell and the modified scheme cell on the subsidy claim form. Officers therefore tested remaining cases and adjusted the headline cells and modified schemes cells on the claim form by a net total of £1,053.

The overall impact of these adjustments was an increase to the level of subsidy due to the Council by £1,079. We were required to report the underpayments and the results of the 40+ testing to the DWP in a qualification letter.

### National non-domestic rates return

Scope of work	Results
Value of return presented for certification	£14,389,191
Limited or full review	Full
Amended	No
Qualification letter	No
Fee – 2011-12	£2,470
Fee – 2012-13	£2,992
<b>Recommendations from 2011-12:</b>	<b>Findings in 2012-13</b>
None	N/A

The Government runs a system of non-domestic rates using a national uniform business rate. Councils responsible for the scheme collect local business rates and pay the rate income over to the Government. Councils have to complete a return setting out what they have collected under the scheme and how much they need to pay over to the Government.

We found no errors on the national non-domestic rates return and we certified the return without qualification.

### Pooling of housing capital receipts

Scope of work	Results
Value of return presented for certification	£580,470
Limited or full review	Full
Amended	Yes
Qualification letter	No
Fee – 2011-12 (Full)	£604
Fee – 2012-13	£2,053
<b>Recommendations from 2011-12:</b>	<b>Findings in 2012-13</b>
None	N/A

Councils pay part of a housing capital receipt into a pool run by the Department of Communities and Local Government (DCLG). Regional housing boards redistribute the receipts to those councils with the greatest housing needs. Pooling applies to all local authorities who have a housing function, including those that are debt-free and those with closed Housing Revenue Accounts, who typically have housing receipts in the form of mortgage principal and right to buy discount repayments.

The testing carried out identified that capital receipts arising from the disposal of council dwellings had been misclassified on the return, by a minor amount of £10. This minor error was corrected and resulted in a small reduction in the amount payable to the DCLG by £8. We certified the return without qualification.



## 2. 2012-13 certification fees

For 2012-13 the Audit Commission replaced the previous schedule of maximum hourly rates with a composite indicative fee for certification work for each body. The indicative fee was based on actual certification fees for 2010-11 adjusted to reflect the fact that a number of schemes would no longer require auditor certification. There was also a 40 per cent reduction in fees reflecting the outcome of the Audit Commission procurement for external audit services.

The indicative fee for Gosport Borough Council for 2012-13 was £20,650. We have completed the work required at an actual fee of £25,804 for the three claims and returns (£40,108 in 2011/12), which is an increase of £5,154. The additional fee for the housing and council tax benefit claim has not yet been agreed by the Audit Commission. The increase in fees for the national non-domestic rates return and the pooling of housing capital receipts return have been agreed.

Claim or return	2011-12	2012-13	2012-13
	Actual fee	Indicative fee	Actual fee
	£	£	£
Housing and council tax benefits claim	35,313	18,860	20,759
HRA subsidies	1,721	N/A	N/A
National non-domestic rates return	2,470	1,450	2,992
Pooling of housing capital receipts return	604	340	2,053
<b>Total</b>	<b>40,108</b>	<b>20,650</b>	<b>25,804</b>

Fees fell overall compared to 2011-12 because of the Audit Commission's 40% reduction. We completed additional testing in respect of your housing and council tax benefits claim in 2012-13 and were required by the Department of Work and Pensions to report our findings to them. We were also required under the Audit Commission's certification instructions to complete a full review for the national non-domestic rates and pooling of housing capital receipts returns in 2012/13. This additional work resulted in the increase in actual 2012-13 fees compared to the indicative fees.

### **3. Looking forward**

For 2013-14, the Audit Commission has calculated indicative certification fees based on the latest available information on actual certification fees for 2011-12, adjusted for any schemes that no longer require certification. The Audit Commission has indicated that the national non-domestic rates return will not require certification from 2013-14.

The Council's indicative certification fee for 2013-14 is £22,600. The actual certification fee for 2013-14 may be higher or lower than the indicative fee, if we need to undertake more or less work than in 2011-12 on individual claims or returns. Details of individual indicative fees are available at the following link:

<http://www.audit-commission.gov.uk/audit-regime/audit-fees/201314-fees-and-work-programme/individual-certification-fees/>

We must seek the agreement of the Audit Commission to any proposed variations to indicative certification fees. The Audit Commission expects variations from the indicative fee to occur only where issues arise that are significantly different from those identified and reflected in the 2011-12 fee.

The Audit Commission has changed its instructions to allow appointed auditors to act as reporting accountants where the Commission has not made or does not intend to make certification arrangements. This removes the previous restriction saying that the appointed auditor cannot act if the Commission has declined to make arrangements. This is to help with the transition to new certification arrangements, such as those DCLG will introduce for business rates from 1 April 2013.

Ernst & Young LLP

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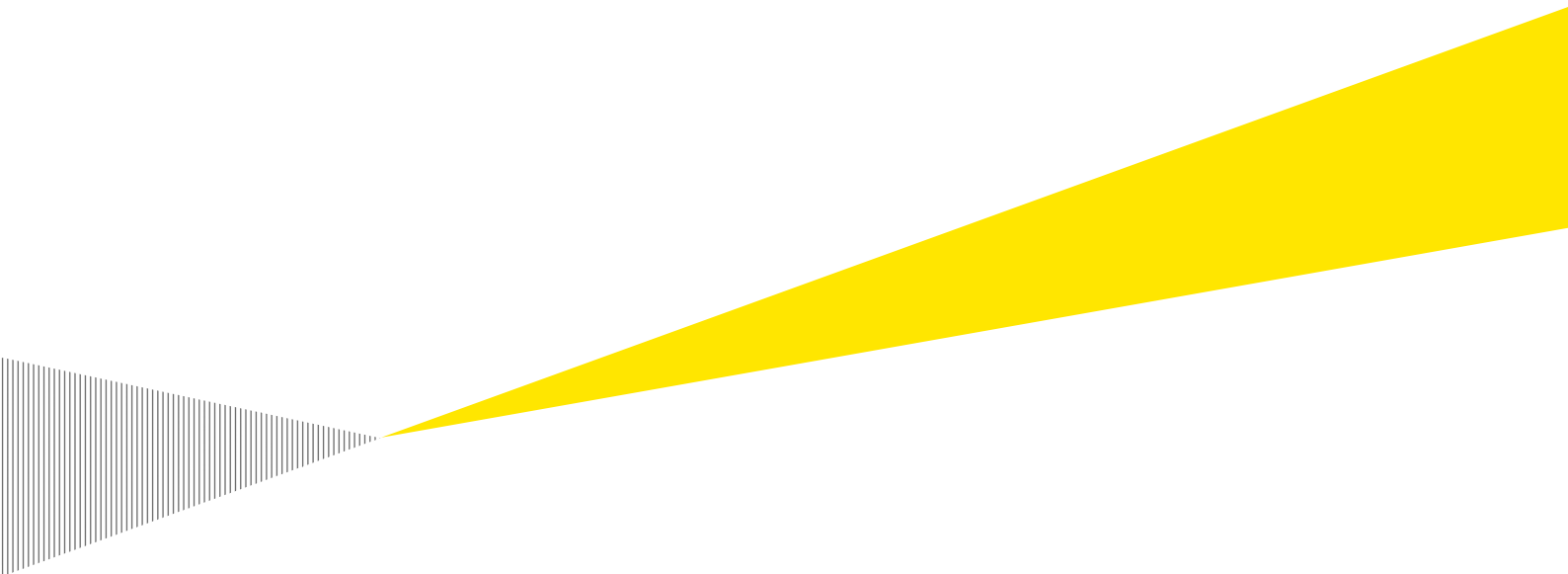
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# Gosport Borough Council

## Standards and Governance Committee Progress Report

March 2014



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

26 March 2014

## **Audit Progress Report**

We are pleased to attach our Audit Progress Report.

It sets out the work we have completed since our last report to the Committee. Its purpose is to provide the Committee with an overview of the completed 2012/13 audit, and an outline of our plans for the 2013/14 audit. This report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations.

Our audit is 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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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



## Work completed: 2012/13

We are presenting our annual report on the certification of claims and returns to the Committee today. We have written to the Council confirming the final certification of claims and returns fees for 2012/13. A copy of the letter is attached to this progress report. This completes our work in relation to the 2012/13 financial year.

<b>Progress against key deliverables</b>			
<b>Key deliverable</b>	<b>Timetable in plan</b>	<b>Status</b>	<b>Comments</b>
Fee Letter	December 2012	Completed	Reported to Standards and Governance Committee January 2013
Audit Plan	April 2013	Completed	Reported to Standards and Governance Committee June 2013
Report to Those Charged with Governance	September 2013	Completed	Reported to Standards and Governance Committee September 2013
Audit Report (including opinion, vfm conclusion)	September 2013	Completed	Reported to Standards and Governance Committee September 2013
Audit Certificate	September 2013	Completed	Reported to Standards and Governance Committee September 2013
WGA submission to NAO	September 2013	Completed	Reported to Standards and Governance Committee September 2013
Annual Audit Letter	October 2013	Completed	Reported to Standards and Governance Committee January 2014
Report on the audit of Grant Claims	December 2013	Completed	Reported to Standards and Governance Committee April 2014

## 2013/14 audit

### Fee letter

We issued our 2013/14 fee letter to the Council in April 2013.

### Financial Statements

We adopt a risk based approach to the audit and, as part of our ongoing continuous planning, we have held a number of meetings with key officers and other stakeholders to ensure the 2013/14 audit runs as smoothly as possible and identify any risks at the earliest opportunity.

#### Planning visit

Our work to identify the Council's material income and expenditure systems and to walk through these systems and controls is in progress. The detailed testing of the controls, or the substantive testing of transactions, is planned to be completed during April 2014.

There are no matters arising from our planning work that we need to bring to your attention at this stage.

We will review Internal Audit's testing of financial systems and, where it is appropriate to do so, we will undertake procedures to enable us to place reliance upon this testing.

#### Post statements visit

We have agreed dates for our audit visit, and will have early discussions on the working papers required

Our detailed audit plan, setting out the risks we have identified and the work we will undertake in response, will be presented to the Standards and Governance Committee in July 2014.

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

We will also review and report to the National Audit Office, to the extent and in the form required by them, on your whole of government accounts return.

### Value for money

The Audit Commission has now issued its guidance on the 2013/14 value for money conclusion. The full guidance can be found at <http://www.audit-commission.gov.uk/technicaldirectory/vfm1314/>.

There are no planned changes to the approach in 2013/14. We will carry out our initial risk assessment in early 2014 and report the risks we have identified, and associated work we will carry out, to the July 2014 Standards and Governance Committee.

### Other issues of interest

In addition to our formal reporting and deliverables we provide practical business insights and updates on regulatory matters through our Sector Briefings. The most recent Briefing will be sent to members through the 'Members Information Bulletin'.



## Timetable

We set out below a timetable showing the key stages of the audit, including the value for money work, and the deliverables we will provide to you through the 2013/14 Standards and Governance Committee cycle. We will provide formal reports to the Committee throughout our audit process as outlined below.

Audit phase	EY Timetable	Deliverable	Associated Standards and Governance Committee	Status
High level planning	<b>Ongoing</b>	Audit Fee Letter	April 2013	Completed - Reported to the April 2013 Committee
Risk assessment and setting of scope of audit	<b>Feb – March 2014</b>	Audit Plan	July 2014	In progress
Testing of routine processes and controls	<b>March – April 2014</b>	Audit Plan	July 2014	In progress
Year-end audit	<b>June - September 2014</b>	Audit results report to those charged with governance 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) Whole of Government Accounts Submission to NAO based on their group audit instructions Audit Completion certificate	September 2014	Work is planned to start during June 2014
Annual Reporting	<b>October 2014</b>	Annual Audit Letter	January 2015	-
Grant Claims	<b>September – November 2014</b>	Annual certification report	January or March 2015	

**EY** | Assurance | Tax | Transactions | Advisory

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FINANCIAL SERVICES

17 MAR 2014



INVESTOR IN PEOPLE

Julian Bowcher  
Borough Treasurer  
Gosport Borough Council  
Town Hall  
High Street  
Gosport  
PO12 1EB

14 March 2014

Direct line: 02380 382099

Email: HThompson2@uk.ey.com

Dear Julian

### **Gosport Borough Council - 2012/13 Housing and Council Tax Subsidy Benefit certification fee**

We issued our formal 'Certification of grants and returns annual report' on the 12 February 2014, to report the outcome from our audit work on your grant claims. Within this report, we set out the final audit fees in respect of those claims, subject to any variations to be agreed by the Audit Commission.

The Audit Commission has now formally approved the audit scale fee variation of £1,899 in relation to the Housing and Council Tax Subsidy Benefit claim.

As a result, we need to confirm the reported scale fees with our certification of grants and returns annual report, to report accurately the final fee position. Rather than re-issue the report, which has been issued to members, we confirm the final fees below.

Claim or return	2011-12 Actual fee £	2012-13 Indicative fee £	2012-13 Actual fee (revised and final) £
Housing and council tax benefits subsidy claim	35,313	18,860	20,759
HRA subsidies	1,721*	N/A	N/A
National non-domestic rates return	2,470	1,450	2,992
Pooling of housing capital receipts	604	340	2,053
<b>Total</b>	<b>40,108</b>	<b>20,650</b>	<b>25,804</b>

*Note \*: Following abolition of the housing subsidy system, certification of this claim was not required in 2012/13. Fees for annual reporting and for planning, supervision and review have been allocated directly to the claims and returns.*



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We would be grateful if you could arrange for this letter to be included as part of the next Standards and Governance Committee agenda, for completeness for Members

We will make the necessary arrangements to invoice the additional £1,899 audit fee to you.

Yours sincerely

A rectangular box with a dotted border, used to redact the signature of Helen Thompson.

Helen Thompson  
Director  
Ernst & Young LLP  
United Kingdom