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2 September 2015

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

**MEETING:** Standards and Governance Committee  
**DATE:** 10<sup>th</sup> September 2015  
**TIME:** 6.00 pm  
**PLACE:** Committee Room 1, Town Hall, Gosport  
**Democratic Services contact:** Vicki Stone

LINDA EDWARDS  
BOROUGH SOLICITOR

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### MEMBERS OF THE BOARD

Councillor Carter (Chairman)  
Councillor Scard (Vice-Chairman)

Councillor Bateman	Councillor Dickson
Councillor Chegwyn	Councillor Forder
Councillor Mrs Cully	Councillor Gill

## **FIRE PRECAUTIONS**

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

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**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).

**Please note that mobile phones should be switched off or on silent for the duration of the meeting.**

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## **AGENDA**

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 pecuniary interest in any item(s) being considered at this meeting.*

3. **MINUTES**

*To approve as a correct record the Minutes of the Committee meeting held on 25<sup>th</sup> June 2015.*

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, 8<sup>th</sup> September 2015. 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, 8<sup>th</sup> September 2015)*

6. **ERNST & YOUNG – AUDIT RESULTS REPORT**

This report summarises the findings from the 2014/15 audit which is substantially complete. It includes the messages arising to date from our audit of your financial statements and your arrangements to secure value for money in your use of resources.

The report includes only matters of governance interest that have come to our attention in performing the audit under the requirements of the Audit Commission's Code of Audit Practice and International Standards of Auditing (ISAs).

This is an important report that is a requirement of ISA 260 and must be presented to you in your role, and subsequently to the Policy and Organisation Board in their role as those charged with governance, before they approve the financial statements.

PART II  
Helen Thompson  
Ernst & Young

7. **LETTER OF REPRESENTATION 2014/15**

To enable Members of the Standards and Governance Committee to consider the draft Letter of Representation 2014/15 before its submission to Policy and Organisation Board for consideration and approval.

PART II  
Julian Bowcher

Standards and Governance Committee  
10 September 2015

8. **INTERNAL AUDIT MONITORING STATEMENT TO 30.06.15**  
To advise the Committee of the performance of the Internal Audit Section in the first three months of 2015/16 (1<sup>st</sup> April 2015 – 30<sup>th</sup> June 2015) against the agreed audit plan.

PART II  
Chris Davis

Provide Members with an update on the new team and their development.

9. **LOCAL GOVERNMENT OMBUDSMAN ANNUAL REVIEW LETTER 2014/15**  
Report to follow.

PART II  
Linda Edwards

**ANY OTHER ITEMS**

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

**AGENDA ITEM NO. 03**

**A MEETING OF THE STANDARDS AND GOVERNANCE COMMITTEE  
WAS HELD ON 25 JUNE 2015**

Councillors; Bateman (P), Carter (P), Chegwyn (P), Mrs Cully (P), Dickson, Forder, Gill (P) and Scard (P)

It was reported that in accordance with Standing Order 2.3.6, Councillor Burgess had been nominated to replace Councillor Dickson and Councillor Allen had been nominated to replace Councillor Forder for this meeting.

**7. APOLOGIES**

Apologies for inability to attend the meeting were submitted on behalf of Councillors Dickson and Forder.

**8. DECLARATIONS OF INTEREST**

There were no declarations of interest.

**9. MINUTES**

**RESOLVED:** That the minutes of the meeting of the Standards and Governance Committee held on 26 March 2015 and 21 May 2015 be approved and signed by the Chairman as a true and correct record.

**10. DEPUTATIONS**

There were no deputations

**11. PUBLIC QUESTIONS**

There were no public questions.

**PART II**

**12. ERNST & YOUNG – AUDIT PLANNING MEMORANDUM FOR 2014/15**

Consideration was given to the audit planning memorandum the report of the External Auditors, Ernst & Young, setting out the work that was planned to be completed to enable the issue of the audit opinion on Gosport Borough Council's financial statements and the value for money conclusion for 2014/15. The audit opinion and value for money work will be completed in line with the requirements of the Audit Commission's Code of Audit Practice.

Members sought clarification regarding the uncorrected audit misstatements and the threshold figure. The Committee were advised that any fraudulent entry will be reported to Members and confirmed misstatements greater than £63,900 that remain uncorrected at the point of accounts being brought to members in September would also be highlighted.

**RESOLVED:** That

- The audit planning memorandum and the risks identified in the auditors work on the audit opinion and value for money conclusion, and their planned response to those risks be noted; and
- Audit Plan for 2014/15 be recommended to the Policy and Organisation Board as those charged with governance.

**13. INTERNAL AUDIT ANNUAL REPORT 2014/15**

Consideration was given to a report of the Head of Internal Audit and Risk Assurance presenting an Annual Report to the appropriate body that has responsibility for both governance and the Internal Audit function in accordance with the Public Sector Internal Audit Standards 2013

A member questioned whether there had been any adjustments to the Risk Management scores since March 2015. The Committee were advised that there was no change and further informed that the mid-cycle meeting of the Corporate Risk Management Group was due to meet next week where the scores would be re-assessed and amended as necessary.

In answer to a further question from members the Committee were updated by the Head of Internal Audit and Risk Assurance that resourcing in the department had improved with two trainee posts filled. Support for the recruits was via one half day training on a weekly basis along with regular supervision; this was proving successful. Further to the aforementioned support Members were assured that reports were checked by senior staff prior to distribution.

In answer to a Member's question, the Committee were advised that Eastleigh Borough Council had removed themselves from the partnership due, it was believed, to cost cutting on their part.

The Committee were advised that from 1<sup>st</sup> September 2015 the responsibility for investigating benefit fraud would be taken over by the Department for Work and Pensions (DWP). Although the workload of the section would reduce as a result this would be offset by the transfer of a member of staff to the DWP.

Members were advised that the level of fraud referrals had increased due to partially as a result of raising awareness within the Housing Service Unit. It was requested that the percentage of benefit fraud as a proportion of the total benefits paid for 2014/15 be provided to Members of the Committee.

Members were also advised that the two recommendations from the Office of Surveillance Commissioners, who undertook an inspection during December 2014, had been addressed by Management; and that resolution on RIPA powers and training for key officers would be held on 9<sup>th</sup> September 2015.

**RESOLVED:** That the Standards and Governance Committee note the report.

**14. ANY OTHER BUSINESS**

There was no other business.

The meeting concluded at 18:25

CHAIRMAN

## AGENDA ITEM NO. 06

<b>Board/Committee:</b>	<b>Standards and Governance Committee Meeting</b>
<b>Date of Meeting:</b>	10 September 2015
<b>Title:</b>	EY – Audit Results Report
<b>Author:</b>	Helen Thompson
<b>Status:</b>	For consideration by Standards and Governance Committee

### **Purpose**

This report summarises the findings from the 2014/15 audit which is substantially complete. It includes the messages arising to date from our audit of your financial statements and your arrangements to secure value for money in your use of resources.

Our report includes only matters of governance interest that have come to our attention in performing the audit under the requirements of the Audit Commission's Code of Audit Practice and International Standards of Auditing (ISAs).

This is an important report that is a requirement of ISA 260 and must be presented to you in your role, and subsequently to the Policy and Organisation Board in their role as those charged with governance, before they approve the financial statements.

### **Recommendation**

Review and note the conclusions to date set out in the Audit Results Report

#### **1      Background**

- 1.1      The Audit Commission's Code of Audit Practice require us to report to those charged with governance on the work we have carried out to discharge our statutory audit responsibilities, together with any governance issues identified.

#### **2      Report**

##### **2.1      Financial statements**

As of 2 September 2015, we expect to issue an unqualified audit opinion by the statutory deadline of 30 September 2015. Work on the whole of government accounts return is progressing. We will provide a verbal update on progress at the Committee.

##### **2.2      Value for money conclusion**

We have yet to complete our work on the value for money conclusion

but expect to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources.

**2.3 Audit certificate**

At the date of this report, we expect to issue the audit certificate alongside the audit opinion and value for money conclusion.

**2.4 Audit fees**

We anticipate that the audit will be completed within the agreed audit fee of £70,725.

**3 Risk Assessment**

3.1 The Audit Results Report – ISA260 should be reviewed and noted as part of the Council's governance arrangements.

**4 Conclusion**

4.1 The Audit Results Report – ISA260 is attached for consideration and approval.

<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>	Audit Results Report 2014/15
<b>Report author/ Lead Officer:</b>	Helen Thompson, Executive Director, Ernst & Young

# Gosport Borough Council

## Standards & Governance Committee Summary

For the year ended 31 March 2015

Audit Results Report – ISA (UK and Ireland) 260

September 2015



Building a better  
working world

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**Section 1**

# **Executive summary**

# Executive summary – key findings

## Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Policy and Organisation Board – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This interim report to the Standards and Governance Committee summarises the findings from the 2014/2015 audit to date. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

### Financial statements

- ▶ As of 2 September 2015, we expect to issue an unqualified opinion on the financial statements. Our audit results to date demonstrate, through the few matters we have to communicate, that the Council has prepared its financial statements well.

### Value for money

- ▶ We have yet to complete our work on the value for money conclusion but expect to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources.

### Whole of Government Accounts

- ▶ Work on the whole of government accounts return is progressing. We do not expect to report any significant matters to the National Audit Office (NAO) regarding the whole of government accounts submission.

### Audit certificate

- ▶ The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the audit opinion.

## **Section 2**

# **Extent and purpose of our work**

# Extent and purpose of our work

## The Council's responsibilities

- ▶ The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.
- ▶ The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## Purpose of our work

- ▶ Our audit was designed to:
  - ▶ express an opinion on the 2014/2015 financial statements and the consistency of other information published with them;
  - ▶ report on an exception basis on the Annual Governance Statement;
  - ▶ consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion); and
  - ▶ discharge the powers and duties set out in the Audit Commission Act 1998 and the Code of Audit Practice.

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Council's accounting policies and key judgments.

As a component auditor, we also follow the NAO group instructions and report the results on completion of the whole of government accounts work through the Assurance Statement to the NAO and to the Council.

This report is intended solely for the information and use of the Council. It is not intended to be, and should not be, used by anyone other than the specified party.

## Section 3

# Addressing audit risks

# Addressing audit risks – significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Audit risk identified within our audit plan	Audit procedures performed	Assurance gained and issues arising
Significant audit risks (including fraud risks)		
<p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>We identify and respond to this fraud risk on every audit engagement.</p>	<p>We are:</p> <ul style="list-style-type: none"><li>▶ testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</li><li>▶ reviewing accounting estimates for evidence of management bias, including PPE revaluations and indexation, the Business Rates Appeals provision and pensions (IAS19); and</li><li>▶ evaluating the business rationale for significant unusual transactions.</li></ul>	<p>Our work to date has not identified any evidence of fraud or management bias, or any significant unusual transactions.</p> <p>This work is, however, still in progress and will be completed before we report to the Policy &amp; Organisation Board in September 2015.</p>

**Section 4**

# **Financial statements audit – issues and findings**

# Financial statements audit – issues and misstatements arising from the audit

## Progress of our audit

- ▶ Our work programme is still in progress and will be completed prior to the Policy and Organisation Board meeting on 23 September 2015. We will provide an update of progress at the Standards and Governance Committee meeting on 10 September 2015 by which time our work should be substantially completed. These procedures include receipt of:
  - ▶ a Letter of Representation; and
  - ▶ responses from the Council's external valuation experts, Capita Property & Infrastructure and Savills, to our enquiries.
- ▶ Subject to the satisfactory resolution of our work programme, we anticipate that we will issue an **unqualified audit** report on the financial statements.

## Uncorrected misstatements

- ▶ To date, we have not identified any misstatements within the draft financial statements which management has chosen not to adjust.

## Corrected misstatements

- ▶ During the audit a number of numerical and disclosure misstatements have been identified by our Team or by Management. These have been corrected during the course of our work and further details are provided of the most significant amendments at Appendix A .

## Other matters

- ▶ As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following:
  - ▶ qualitative aspects of your accounting practices; estimates and disclosures;
  - ▶ matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
  - ▶ any significant difficulties encountered during the audit; and
  - ▶ other audit matters of governance interest

We have **no matters** we wish to report at the time of preparing this report and will update, if necessary, the Standards and Governance Committee at its meeting on 10 September 2015.

# Financial statements audit – application of materiality

## Our application of materiality

- ▶ When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	
Planning Materiality and Tolerable error	<p>We determined planning materiality to be £1.237 million (2014 £1.278 million), which is 2% of gross expenditure reported in the accounts of £61.872 million.</p> <p>We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p> <p>We set a tolerable error for the audit. Tolerable error is the application of planning materiality at the individual account or balance level. It is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality. The level of tolerable error drives the extent of detailed audit testing required to support our opinion.</p> <p>We have set tolerable error at the upper level of the available range because there were no prior year adjustments related to fraud and no material uncorrected errors in the prior period.</p>
Reporting Threshold	<p>We agreed with the Standards and Governance Committee that we would report to the Committee all uncorrected audit differences in excess of £63,900 in our Audit Plan for 2014/15 . We have reduced this level marginally on assessing the draft financial statements to £62,000 (2014: £63,909).</p>

We also identified related party transactions as an area where misstatement at a level lower than our overall materiality level might influence the reader. Therefore we have substantively tested the disclosure of related party transactions.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

# Financial statements audit – internal control, written representations and whole of government accounts

## Internal control

- ▶ It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.
- ▶ We have tested the controls of the Council only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.
- ▶ We have reviewed the Annual Governance Statement to assess whether:
  - ▶ it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
  - ▶ it is consistent with other information that we are aware of from our audit of the financial statements.
- ▶ We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

## Request for written representations

- ▶ We plan to request a standard management representation letter to gain management's confirmation in relation to a number of matters.
- ▶ At the time of preparing this report we do not anticipate the need to request any additional representations. We will update the Standards and Governance Committee at its meeting in September 2015.

## Whole of Government Accounts

- ▶ Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.
- ▶ Work on the whole of government accounts return is progressing. We are currently carrying out our work in this area and will report any matters that arise to the Standards & Governance Committee.

**Section 5**

**Arrangements to  
secure economy,  
efficiency and  
effectiveness**

# Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that Gosport Borough Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.

## Criteria 1 – arrangements for securing financial resilience

- ▶ 'Whether the Authority has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future'
- ▶ Since presenting the Audit plan to you we have classified 'financial resilience' as a significant risk to the value for money conclusion.
- ▶ We have no issues to report in relation to this criterion at the time of preparing this report and we will update the Standards and Governance Committee at its September 2015 meeting.

## Criteria 2 – arrangements for securing economy, efficiency and effectiveness

- ▶ 'Whether the Authority is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity'
- ▶ We did not identify any significant risks in relation to this criterion.
- ▶ We have no issues to report in relation to this criterion at the time of preparing this report and we will update the Standards and Governance Committee at its September 2015 meeting.

Our work in relation to these two value for money criteria will be completed before we report our final conclusions to the Policy and Organisation Board in September 2015. We will also report any concerns that we may have identified on any other matters that we identify relating to aspects of your corporate performance and financial management framework which are not covered by the scope of the two specified criteria above.

# Addressing audit risks – significant VFM risks

We identified the following VFM risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the value for money conclusion is the risk that the auditor may issue the wrong value for money conclusion. Where auditors identify a significant value for money conclusion risk they will need to undertake additional audit work to enable them to reach an appropriate conclusion.

## VFM risk identified within our Audit Plan

Financial resilience

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During the course of the audit, we will update our assessment of the robustness of your Medium Term Financial Strategy and the associated savings plans. This will include a review of the reasonableness of the underlying assumptions relating to the level of grant income; levels of assumed pay and non-pay inflation; the funding of capital schemes and inclusion of their revenue implications in the MTFS; and savings targets and the identification of savings.

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**Section 6**

# **Independence and audit fees**

# Independence and audit fees

## Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 11 June 2015.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code and Standing Guidance. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.
- ▶ We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Standards and Governance Committee on 10 September 2015 and subsequently at the meeting of the Policy and Organisation Board on 23 September 2015.

- ▶ We confirm that we have met the reporting requirements to the Standards and Governance Committee. We will subsequently report to the Policy and Organisation Board on 23 September 2015, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements was set out in our Audit Plan of 11 June 2015.

## Audit fees

- ▶ The table below sets out the scale fee and our final proposed audit fees.

	Proposed final fee 2014/2015	Scale fee 2014/2015	Variation comments
	£	£	
Audit Fee: Code work	70,725	70,725	0
Certification of claims and returns	18,270	18,270	0
Non-Audit work	N/A	N/A	N/A

- ▶ Our actual fee is in line with the agreed fee at this point in time, subject to the satisfactory clearance of the outstanding audit work.
- ▶ We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

**Section 7**

# **Appendix A**

# Appendix A – corrected audit misstatements

- ▶ The following corrected misstatements have been identified during the course of our audit and warrant communicating to you.
- ▶ These items have been corrected by management within the revised financial statements.

## Balance sheet, statement of comprehensive income and expenditure and disclosure notes.

Item of account	Nature	Type	Balance sheet	Comprehensive income and expenditure statement
	Description	F, P, J	Debit/(credit)	Debit/(credit)
1. Comprehensive Income and Expenditure Statement	Income and expenditure have both been overstated in total by £803k, across: <ul style="list-style-type: none"> <li>- Cultural and Related services'</li> <li>- Highways, Roads &amp; Transport ,and</li> <li>- Housing</li> </ul>	F	N/A	Dr Income £803k Cr Expenditure £803k
2. Disclosure note 17: Cash and cash Equivalents.	Correct the analysis of cash and cash equivalents F between 'Money Market Funds' and 'Call Accounts'. The corrected analysis will be: <ul style="list-style-type: none"> <li>- Money Market Funds £3,500k</li> <li>- Call Accounts £2,650k</li> </ul>		N/A	N/A

## Key

- ▶ F – Factual misstatement
- ▶ P – Projected misstatement based on audit sample error and population extrapolation
- ▶ J – Judgemental misstatement

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ED None

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## AGENDA ITEM NO. 07

<b>Board/Committee:</b>	<b>Standards and Governance Committee Meeting</b>
<b>Date of Meeting:</b>	10 September 2015
<b>Title:</b>	Letter of Representation 2014/15
<b>Author:</b>	Borough Treasurer
<b>Status:</b>	For consideration by Standards and Governance Committee

### **Purpose**

To enable Members of the Standards and Governance Committee to consider the draft Letter of Representation 2014/15 before its submission to Policy and Organisation Board for consideration and approval.

### **Recommendation**

Members are requested to consider the draft Letter of Representation 2014/15 prior to final approval by policy and Organisation Board

#### **1 Background**

- 1.1 The Letter of Representation is a formal letter from the Council to the Council's external auditor (Ernst and Young) that provides assurances on key matters that are contained in the audited Statement of Accounts for 2014/15.

#### **2 Report**

- 2.1 The letter of Representation (Appendix A) is a requirement of the external audit to assist in determining whether the financial statements give a true and fair view of the financial position of the Council as at 31 March 2015 and once approved it is signed by the Borough Treasurer and the Chairman of Policy and Organisation Board.

#### **3 Risk Assessment**

- 3.1 Failure to submit an acceptable Letter of Representation to Ernst and Young would potentially prevent them from being able to give an Audit Opinion as to whether the financial statements give a true and fair view of the financial position of the Council as at 31 March 2015.

#### **4 Conclusion**

- 4.1 The report submits the draft Letter of Representation 2014/15 for consideration and approval.

<b>Financial Services comments:</b>	As contained in the report.
<b>Legal Services comments:</b>	None
<b>Service Improvement Plan implications:</b>	None
<b>Corporate Plan:</b>	None
<b>Risk Assessment:</b>	As contained in the report.
<b>Background papers:</b>	None
<b>Appendices/Enclosures:</b>	Appendix A -2014/15 Letter of Representation
<b>Report author/ Lead Officer:</b>	Julian Bowcher



# GOSPORT

## Borough Council

Town Hall, High Street,  
Gosport, Hampshire, PO12 1EB.  
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Website: [www.gosport.gov.uk](http://www.gosport.gov.uk)  
Switchboard: (023) 9258 4242  
Chief Executive: Ian Lycett

Helen Thompson  
Ernst & Young  
Wessex House  
19 Threefield Lane  
Southampton  
SO14 3QB

*Please ask for:*

Julian Bowcher

*Direct dial:*

(023) 9254 5301

*E-mail:*

Julian.bowcher@gosport.gov.uk

*My Ref:*

JB/ks

September 2015

Dear Helen Thompson,

### 2014/15 LETTER OF REPRESENTATION

This representation letter is provided in connection with your audit of the financial statements of Gosport Borough Council ("the Council") for the year ended *31 March 2015*. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Gosport Borough Council as of *31 March 2015* and of its expenditure and income for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

#### A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations (England) 2011 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Gosport Borough Council is committed to equal opportunities for all.

**This document can be provided in large print, on CD or tape, in Braille or in another language, please ask.**

*delivering  
for Gosport*

2. We acknowledge our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and of its expenditure and income of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. We believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 that are free from material misstatement, whether due to fraud or error.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

#### **B. Fraud**

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have disclosed to you all significant facts relating to any frauds, suspected frauds or allegations of fraud known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by "whistle-blowers"), whether involving management or employees who have significant roles in internal control. Similarly, we have disclosed to you our knowledge of frauds or suspected frauds affecting the entity involving others where the fraud could have a material effect on the financial statements. We have also disclosed to you all information in relation to any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others, that could affect the financial statements.
4. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.

#### **C. Compliance with Laws and Regulations**

1. We have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

## **D. Information Provided and Completeness of Information and Transactions**

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement.
  - Additional information that you have requested from us for the purpose of the audit and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council, the Policy & Organisation Board and Standards & Governance Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date:
  - Full Council [15 July 2015]
  - Policy & Organisation Board [1 July 2015]
  - Standards & Governance Committee [25 June 2015]
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

## **E. Liabilities and Contingencies**

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent. The Council has not provided financial guarantees to any third parties; therefore no specific disclosure is made within the financial accounts.

## **F. Subsequent Events**

1. Other than described in Note 5 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

## **G. Accounting Estimates**

1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
2. Accounting estimates recognised or disclosed in the financial statements:
  - We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent.
  - The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
  - The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
  - No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

## **H Retirement benefits**

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

## **I Contingent Liabilities**

1. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the financial statements).

We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance, except for matters of routine, normal, recurring nature (e.g., examinations by bank and insurance examiners, examinations by taxing authorities, none of which involves any allegations of noncompliance with laws or regulations that should be considered for disclosure in the financial statements or as a basis for recording a loss contingency).

## **J Use of the Work of an Expert**

### **1. IAS 19 valuation**

We agree with the findings of the Aon Hewitt engaged to provide IAS 19 valuation services for the defined benefit pension scheme as set out in note 31 and have adequately considered the qualifications of the experts in determining the amounts and disclosures included in the financial statements and the underlying accounting records.

We did not give or cause any instructions to be given to the experts with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the experts.

*Yours Faithfully,*

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Borough Treasurer – Julian Bowcher

I confirm that this letter has been discussed and agreed at the Policy & Organisation Board on 23 September 2015

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Chairman of Policy & Organisation Board– Co

## AGENDA ITEM NO. 08

<b>Board/Committee:</b>	Standards and Governance Committee
<b>Date of Meeting:</b>	10 <sup>th</sup> September 2015
<b>Title:</b>	Internal Audit Monitoring Statement to 30.06.15
<b>Author:</b>	Head of Internal Audit & Risk Assurance
<b>Status:</b>	FOR DECISION

### **Purpose**

To advise the Committee of the performance of the Internal Audit Section in the first three months of 2015/16 (1<sup>st</sup> April 2015 – 30<sup>th</sup> June 2015) against the agreed audit plan.

Provide Members with an update on the new team and their development.

### **Recommendations**

- a) That the Standards and Governance Committee review the performance of Internal Audit from 1<sup>st</sup> April 2015 to 30<sup>th</sup> June 2015.
- b) That the Members note the developments in the team since the last meeting.

### **1 Background**

- 1.1 Members of this Committee approved the 2015/16 Annual Audit on the 26<sup>th</sup> March 2015. This is the first monitoring statement for the current financial year.

### **2 Report**

#### **Internal Audit Coverage for 2015/16**

- 2.1 In the three month period to the end of June 2015 good progress has been made in delivering the agreed internal audit plan.
- 2.2 The team, now at full capacity, has delivered the planned assignments in the 1<sup>st</sup> quarter of 2015/16. The team also completed all the outstanding assignments in good time for External Audit inspection as well as progressing well in the planned 2015/16 audit coverage. The two new recruits have settled in very well to the audit environment and are delivering very good output. Internal audit management support is dedicated to their development through the early stages though moving forward this support will be more targeted and individually based as they begin their professional training (September 2015).

### 2.3 **Internal Audit Activity**

During the last five months up to the 30<sup>th</sup> June 2015 a number of fundamental audits were finalised.

A summary from each of our assurance statements for the fundamental audits now follow:

**Accounting & Bank Reconciliation** – Overall there was one recommendation for this review (important) and this has been accepted by management and remedial action agreed.

#### Audit opinion

The overall opinion has concluded that the processes and systems in place in respect of accounting and bank reconciliation are operating effectively and managed by experienced senior officers who are knowledgeable about their duties. It is that this provides.

**Housing Benefits** – Overall there were four recommendations for this review (1 important and 3 advisory) and these have been accepted by management and remedial action agreed.

#### Audit opinion

Internal controls are good and ensure the activities and procedures are operating to achieve the system objectives. Improved practices and controls seen at the last audit continue to be refined.

**Budgetary Control** - No recommendations were required in this area.

#### Audit opinion

Internal controls are strong and ensure the achievement of the system objectives, good financial management protect the organisation against loss. Testing has shown that these controls are operating in practice.

### 2.4 **System Reviews**

The following non –fundamental audits were also completed in this period.

**Float and Imprests** – Overall there were four recommendations for this review (1 important and 3 advisory). Remedial action has been agreed with management and target dates have been set and will be followed up.

### Audit opinion

Internal controls are good and operating effectively. There are no significant risks affecting this process and their procedures.

**Grants to Voluntary Organisations** – Overall there was one recommendation for this review (1 advisory). Action has been agreed with management, a target set and will be followed up later in 2015/16.

### Audit opinion

Internal controls are strong and operating effectively. There are no significant risks affecting this process and their procedures.

**Controlled Stationary** – Overall there were seven recommendations for this review (5 important and 2 advisory). Actions have been agreed with management, targets set and will be followed up in quarter three.

### Audit opinion

Internal controls are good and operating effectively. There are no significant risks affecting this process and their procedures.

- 2.5 The Head of Internal Audit has continued his joint role managing the two Internal Audit Sections and had spent 26.85 days engaged off site at Test Valley Borough Council in the first quarter of 2015/16.
- 2.6 Other areas of work in the first three months of 2015/16 included work on the major contracts, supporting management in the composition of the annual governance statement, advice to all areas of the business and developing the new team and forward planning further developments for continuous improvement in our own process and delivery.

## **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 high degree of assurance to management in placing reliance on the adequacy of internal controls within their Services.

## **4 Conclusion**

- 4.1 That the Committee note the update on the planned coverage for 2015/16 as at 30 June 2015 and the development of the new team.

<b>Financial Services comments:</b>	None
<b>Legal Services comments:</b>	None
<b>Crime and Disorder:</b>	Nil
<b>Equality and Diversity:</b>	Nil
<b>Service Improvement Plan implications:</b>	The delivery of the annual audit plan is a key function of the service and is measured quarterly and progress reviewed by the Chief Executive.
<b>Corporate Plan:</b>	It supports the Council in pursuit of excellence through delivering a quality joint internal audit service.
<b>Risk Assessment:</b>	Section 3
<b>Background papers:</b>	None
<b>Appendices/Enclosures:</b>	Nil
<b>Report author/ Lead Officer:</b>	Chris Davis 02392 545306

## AGENDA ITEM NO. 09

<b>Board/Committee:</b>	STANDARDS AND GOVERNANCE COMMITTEE
<b>Date of meeting:</b>	10 SEPTEMBER 2015
<b>Title:</b>	LOCAL GOVERNMENT OMBUDSMAN: ANNUAL REVIEW 2014/15
<b>Author:</b>	BOROUGH SOLICITOR AND DEPUTY CHIEF EXECUTIVE
<b>Status:</b>	FOR NOTING

### **Purpose**

To advise the Committee of the Annual Review 2014/15 received from the Local Government Ombudsman.

### **Recommendation**

That the Committee note the report.

#### **1.0 Background**

- 1.1 The Local Government Ombudsman writes to all local authorities on an annual basis summarising the complaints about the authority which have been dealt with by the Ombudsman during the previous year ending 31 March.
- 1.2 The Ombudsman's Annual Review Letter 2014/15 is attached to this report as Appendix 1.

#### **2.0 Report**

- 2.1 The Ombudsman's Team received sixteen complaints and enquiries during 2014/15. Of these, six were concerned with Corporate Services, four with Housing Services, two with Benefits and Tax, and one each with Adult Care Services, Environmental Services and Public Protection, Highways and Transport and Planning and Development
- 2.2 During this period nine of the complaints received by the Ombudsman were closed after initial enquiries, four were referred back to the Council for local resolution, and a Decision was made on three cases, with two of these complaints being upheld.

#### **3.0 Risk assessment**

- 3.1 It is important that the Council has an effective and robust Customer Complaints Procedure in place in order to minimise the instances of compensation being paid.

#### **4.0 Conclusion**

4.1 It is intended that this review be included on the Council's website.

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Financial implications:	None
Legal implications:	None
Service Improvement Plan implications:	None
Corporate Plan:	None
Risk Assessment:	See above
Background papers:	Local Government Ombudsman Complaint Statistics
Appendix A:	Local Government Ombudsman's Annual Review 2014/15
Report Author/Lead Officer:	Linda Edwards

18 June 2015

*By email*

Mr Ian Lycett  
Chief Executive  
Gosport Borough Council

Dear Mr Lycett

### **Annual Review Letter 2015**

I am writing with our annual summary of statistics on the complaints made to the Local Government Ombudsman (LGO) about your authority for the year ended 31 March 2015. This year's statistics can be found in the table attached.

The data we have provided shows the complaints and enquiries we have recorded, along with the decisions we have made. We know that these numbers will not necessarily match the complaints data that your authority holds. For example, our numbers include people who we signpost back to the council but who may never contact you. I hope that this information, set alongside the data sets you hold about local complaints, will help you to assess your authority's performance.

We recognise that the total number of complaints will not, by itself, give a clear picture of how well those complaints are being responded to. Over the coming year we will be gathering more comprehensive information about the way complaints are being remedied so that in the future our annual letter focuses less on the total numbers and more on the outcomes of those complaints.

### **Supporting local scrutiny**

One of the purposes of the annual letter to councils is to help ensure that learning from complaints informs scrutiny at the local level. Supporting local scrutiny is one of our key business plan objectives for this year and we will continue to work with elected members in all councils to help them understand how they can contribute to the complaints process.

We have recently worked in partnership with the Local Government Association to produce a workbook for councillors which explains how they can support local people with their complaints and identifies opportunities for using complaints data as part of their scrutiny tool kit. This can be found [here](#) and I would be grateful if you could encourage your elected members to make use of this helpful resource.

Last year we established a new Councillors Forum. This group, which meets three times a year, brings together councillors from across the political spectrum and from all types of local authorities. The aims of the Forum are to help us to better understand the needs of councillors when scrutinising local services and for members to act as champions for learning from complaints in their scrutiny roles. I value this direct engagement with elected members and believe it will further ensure LGO investigations have wider public value.

## Encouraging effective local complaints handling

In November 2014, in partnership with the Parliamentary and Health Service Ombudsman and Healthwatch England, we published *'My Expectations'* a service standards framework document describing what good outcomes for people look like if complaints are handled well. Following extensive research with users of services, front line complaints handlers and other stakeholders, we have been able to articulate more clearly what people need and want when they raise a complaint.

This framework has been adopted by the Care Quality Commission and will be used as part of their inspection regime for both health and social care. Whilst they were written with those two sectors in mind, the principles of *'My Expectations'* are of relevance to all aspects of local authority complaints. We have shared them with link officers at a series of seminars earlier this year and would encourage chief executives and councillors to review their authority's approach to complaints against this user-led vision. A copy of the report can be found [here](#).

## Future developments at LGO

My recent annual letters have highlighted the significant levels of change we have experienced at LGO over the last few years. Following the recent general election I expect further change.

Most significantly, the government published a review of public sector ombudsmen in March of this year. A copy of that report can be found [here](#). That review, along with a related consultation document, has proposed that a single ombudsman scheme should be created for all public services in England mirroring the position in the other nations of the United Kingdom. We are supportive of this proposal on the basis that it would provide the public with clearer routes to redress in an increasingly complex public service landscape. We will advise that such a scheme should recognise the unique roles and accountabilities of local authorities and should maintain the expertise and understanding of local government that exists at LGO. We will continue to work with government as they bring forward further proposals and would encourage local government to take a keen and active interest in this important area of reform in support of strong local accountability.

The Government has also recently consulted on a proposal to extend the jurisdiction of the LGO to some town and parish councils. We currently await the outcome of the consultation but we are pleased that the Government has recognised that there are some aspects of local service delivery that do not currently offer the public access to an independent ombudsman. We hope that these proposals will be the start of a wider debate about how we can all work together to ensure clear access to redress in an increasingly varied and complex system of local service delivery.

Yours sincerely



Dr Jane Martin  
Local Government Ombudsman  
Chair, Commission for Local Administration in England

## Local authority report – Gosport Borough Council

For the period ending – 31/03/2015

For further information on interpretation of statistics click on this link to go to <http://www.lgo.org.uk/publications/annual-report/note-interpretation-statistics/>

### Complaints and enquiries received

Local Authority	Adult Care Services	Benefits and tax	Corporate and other services	Education and children's services	Environmental services and public protection	Highways and transport	Housing	Planning and development	Total
Gosport BC	1	2	6	0	1	1	4	1	16

### Decisions made

	<u>Detailed investigations carried out</u>						
Local Authority	Upheld	Not Upheld	Advice given	Closed after initial enquiries	Incomplete/Invalid	Referred back for local resolution	Total
Gosport BC	2	1	0	9	0	4	16