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07 January 2015

S U M M O N S

MEETING: Standards and Governance Committee
DATE: 15 January 2015
TIME: 6.00 pm
PLACE: Committee Room 1, Town Hall, Gosport
Democratic Services contact: Vicki Stone

LINDA EDWARDS
BOROUGH SOLICITOR

MEMBERS OF THE BOARD

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

Councillor Allen	Councillor Dickson
Councillor Bateman	Councillor Forder
Councillor Chegwyn	Councillor Wright

FIRE PRECAUTIONS

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

In the event of the fire alarm sounding, 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).

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

This meeting may be filmed or otherwise recorded. By attending this meeting, you are consenting to any broadcast of your image and being recorded.

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 11 September 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, 13 January 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, 13 January 2015).

6. **ERNST & YOUNG – ANNUAL AUDIT LETTER 2013/14 AND 2013/14
AUDIT SCALE FEE VARIATION LETTER**

The Annual Audit Letter summarises the findings from the 2013/14 audit which is complete. It summarises the key messages that were reported in our Audit Results Report presented to the Standards and Governance Committee on 11 September 2014 and the Policy and Organisation Board on 29 September 2014. Our Annual Audit Letter is an important report that has been prepared in line with the requirements of the Audit Commission's Code of Audit Practice.

The Audit Commission has asked us to agree a 2013/14 audit scale fee variation of £900 with you, following their consultation on a permanent supplement to the audit scale fee for 2014/15 and subsequent years.

PART II
Contact Officer
Helen Thompson
Ernst & Young

7. **ERNST & YOUNG – CERTIFICATION OF CLAIMS AND RETURNS
ANNUAL REPORT 2013/14, ANNUAL AUDIT AND CERTIFICATION
FEES LETTER 2014/15 AND AUDIT PROGRESS REPORT**

The certification of claims and returns annual report summarises the findings from the work completed to enable us to certify the Council's 2013/14 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 annual audit and certification fees letter for 2014/15 sets out the indicative fee for the audit and certification of claims.

The audit progress report confirms the completion of the certification of claims and returns annual report for 2013/14 and the progress made on the 2014/15 audit.

8. **ANY OTHER ITEMS**

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

**A MEETING OF THE STANDARDS AND GOVERNANCE COMMITTEE
WAS HELD ON 11 SEPTEMBER 2014**

Councillors Allen, Bateman, Carter (P), Chegwyn, Dickson (P), Forder (P), Scard (P) and Wright (P)

It was reported that in accordance with Standing Order 2.3.6, Councillors Burgess and Mrs Hook had been nominated to replace Councillors Bateman and Allen for this meeting.

It was reported that in accordance with Standing Order 2.3.4, Councillor Forder would be replacing Councillor Gill on this Committee.

7. APOLOGIES

Apologies for inability to attend the meeting were submitted on behalf of Councillor Allen and Bateman.

8. DECLARATIONS OF INTEREST

There were no declarations of interest.

9. MINUTES

RESOLVED: That the minutes of the meetings of the Standards and Governance Committee held on 5 June 2014 and 3 April 2014 be approved and signed by the Chairman as true and correct records.

10. DEPUTATIONS

There were no deputations

11. PUBLIC QUESTIONS

There were no public questions.

PART II

12. INTERNAL AUDIT ANNUAL REPORT FOR 2013/14

Consideration was given to the report of the Head of Internal Audit which advised Members of the internal audit annual report for 2013/14.

Members were advised that there were no updates to the report.

The Head of Internal Audit advised Members that fraud training had been provided to the Housing unit which had been well received. He also confirmed that the 3 year partnership arrangement currently in place with Test Valley was progressing well and that a vacancy within the Audit team would be filled imminently

RESOLVED: That the Committee note the contents of the report and make any observations and/or recommendations to the Council on any issue that the Committee feels should be drawn to their attention and that the Committee note the opportunity to continue with the current wider shared management role for internal audit as laid out in Appendix A 3.1 of the report of the Head of Internal Audit.

13. ERNST & YOUNG AUDIT RESULTS REPORT

Consideration was given to a report of the Council's external auditors Ernst & Young, which summarised the findings from the 2013/14 audit.

Members were advised that the audit was substantially complete and included the messages arising from the audit of the Council's financial statements and the results of the work Ernst & Young had undertaken to assess the Council's arrangements to secure value for money in its use of resources.

Helen Thompson of Ernst & Young summarised the Audit Results report by sharing the 'Key Findings'. With respect to Value for Money Ernst & Young had identified that the Council had good arrangements in place.

The Committee were also advised that it was recognised that the Council's review plans to respond to forthcoming challenges were positive.

RESOLVED: That the conclusions set out in the Audit Results Report 2013/14 be noted and that the letter of management representation be approved and presented to Policy and Organisation Board for final approval.

14. GOVERNANCE ISSUES

Consideration was given to a report of the Monitoring Officer advising the Standards and Governance Committee of recent legislation and guidance relating to a number of governance issues.

Members were advised that due to new legislation which came into force on 6th August 2014, members of the public wishing to take photographs, film and audio record at public meetings excluding private meetings must be permitted to do so.

On response to concerns raised by Members the Monitoring Officer advised that the Council could not stop the public using social media at public meetings provided they did not disrupt the meeting. Members agreed that the Filming Protocol be amended by deleting the second paragraph and including a reference to social media in the first paragraph.

Concern was raised in relation to members of the public who objected to being filmed and it was clarified that Democratic Services would be updating agendas, summonses, deputation forms, and placing notices on the door of the meeting rooms advising that filming may take place and that by attending they consented to being filmed or recorded.

It was further clarified that anybody wishing to use any audio/filming equipment must not interfere or disrupt the proceedings of the meeting and that a designated area would be identified.

RESOLVED: That the Standards and Governance Committee recommend to Council that:-

- a) The code of Conduct for Members including Co-opted Members be amended as set out in Appendix 1 to this report
- b) The change to the Constitution in Section 2.8 of this report be made and;

That the Standards & Governance Committee:-

AGENDA ITEM 03

- a) Agree the Protocol for the filming and recording of public meetings set out in Appendix 2 is subject to the second paragraph being deleted and reference to social media (without the specific examples) being included in the first paragraph is adopted
- b) Agree the threshold in Section 2.16 of the report
- c) Note the other proposed changes to the Constitution in Section 2.6 and 2.7 of the report.

15. ANNUAL REVIEW LETTER 2013/14

Consideration was given to the report of the Borough Solicitor and Deputy Chief Executive on the Local Government Ombudsman's annual review for 2013/14.

The Ombudsman's Advice Team received thirteen complaints and enquiries during 2013/14. Of these, seven were concerned with Benefits and Tax, two with Environmental Services and Public Protection, two with Highways and two with Housing Services. During this period eight of the complaints received by the Ombudsman were referred back to the Council for local resolution, four were closed after initial enquiries and a decision was made on one case, with the complaint not being upheld.

Members were advised that the Ombudsman had changed the way of recording under a new business model and that this year's figures could not therefore be directly compared to those recorded in previous years.

RESOLVED: That the report be noted.

16. ANY OTHER BUSINESS

There was no other business.

The meeting concluded at 6.52pm

CHAIRMAN

Board/Committee:	Standards and Governance Committee Meeting
Date of Meeting:	15 January 2015
Title:	EY – Annual Audit Letter 2013/14 and 2013/14 Audit Scale Fee variation letter
Author:	Helen Thompson
Status:	Standards and Governance Committee to receive, consider and approve the Annual Audit Letter and the additional 2013/14 fee proposed by the Audit Commission.

Purpose

The Annual Audit Letter summarises the findings from the 2013/14 audit which is complete. It summarises the key messages that were reported in our Audit Results Report presented to the Standards and Governance Committee on 11 September 2014 and the Policy and Organisation Board on 29 September 2014. Our Annual Audit Letter is an important report that has been prepared in line with the requirements of the Audit Commission's Code of Audit Practice.

The Audit Commission has asked us to agree a 2013/14 audit scale fee variation of £900 with you, following their consultation on a permanent supplement to the audit scale fee for 2014/15 and subsequent years.

Recommendation

- Receive the Annual Audit Letter and consider the conclusions reached by the auditor before final approval by the Policy and Organisation Board.
- Approve the Audit Commission's 2013/14 supplementary scale fee variation in respect of the additional audit procedures required to provide assurance over business rates income and expenditure in the Collection Fund for 2013/14.

1 Background

- 1.1 The Audit Commission's Code of Audit Practice requires us to issue an Annual Audit Letter to those charged with governance on the work we have carried out to discharge our statutory audit responsibilities.

- 1.2 The Audit Commission has asked us to agree a 2013/14 audit scale fee variation of £900 with you, following their consultation on a permanent supplement to the audit scale fee for 2014/15 and subsequent years. The supplementary fee relates to the additional audit procedures required to provide assurance on business rate income and expenditure in the Collection Fund, following the removal of the requirement for the auditor to certify the national non-domestic rates return for 2013/14.

2 Annual Audit Letter

2.1 Financial statements

We issued an unqualified audit opinion on 29 September 2014.

2.2 Value for money conclusion

We issued an unqualified value for money conclusion on 29 September 2014.

2.3 Report to those charged with governance

We presented our Audit Results Report to the Standards and Governance Committee on 11 September 2014, and Policy and Organisation Board on 29 September 2014.

2.4 Whole of government accounts

We reported our findings on the Whole of Government Accounts return to the NAO on 30 September 2014. There were no issues to highlight to the NAO.

2.5 Annual Governance Statement

The Annual Governance Statement complied with guidance and was consistent with our understanding of the Council.

2.6 Use of audit powers

There were no matters that we needed to report in the public interest or take formal audit action on.

2.7 Audit certificate

On 29 September 2014 we certified the closure of the 2013/14 audit.

3 Audit Commission's audit scale fee variation

3.1 The Audit Commission has consulted on a supplement to the 2014/15 audit scale fee of £900. This reflects the additional audit procedures that are required to provide assurance over the business rates income and expenditure in the Collection Fund, following the removal of the requirement for the auditor to certify the national non-domestic rates return from 2013/14.

3.2 The Audit Commission also acknowledged that auditors were required to complete additional audit procedures to be able to gain assurance for the 2013/14 financial statements opinion. In recognising that this equally applies to 2013/14, the Audit Commission asked us to agree a scale fee variation of £900 with you. This is detailed in our letter dated 24 November 2014 that is attached.

4 Risk Assessment

4.1 The Annual Audit Letter forms part of the auditor's statutory role and should be reviewed and noted as part of the Council's governance arrangements. The supplement to the audit fee scale for 2013/14 is provided at the request by the Audit Commission.

5 Conclusion

- 5.1 The Annual Audit Letter and the 2013/14 audit scale fee variation letter are attached for consideration and approval.

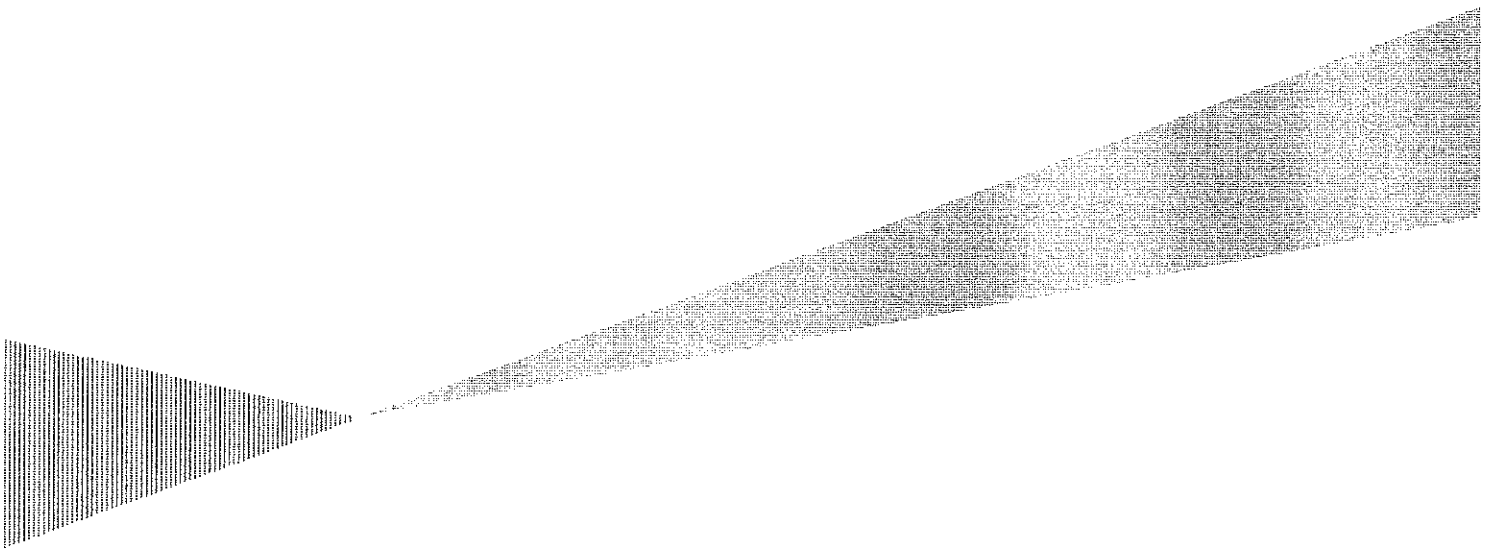
Financial Services comments:	N/A
Legal Services comments:	N/A
Crime and Disorder:	N/A
Equality and Diversity:	N/A
Service Improvement Plan implications:	N/A
Corporate Plan:	N/A
Risk Assessment:	N/A
Background papers:	The Audit Results Report – ISA260 (Ernst & Young)
Enclosures:	The Annual Audit Letter and 2013/14 Scale Fee variation (Business Rates) letter (Ernst & Young)
Report author/ Lead Officer:	Helen Thompson, Audit Director, Ernst & Young

Gosport Borough Council

Annual Audit Letter

Year ending 31 March 2014

October 2014



Building a better
working world



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The Members of Gosport Borough Council
Town Hall
Gosport
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PO12 1EB

16 October 2014

Dear Members,

Annual Audit Letter

The purpose of this Annual Audit Letter is to communicate to the Members of Gosport Borough Council and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to their attention.

We have already reported the detailed findings from our audit work to those charged with governance of Gosport Borough Council in the following report:

2013/14 Audit Results Report for Gosport
Borough Council

Issued 1 September 2014 and presented to
the Standards & Governance Committee on
11 September 2014

Updated and issued 16 September 2014 and
presented to members of the Policy &
Organisation Board on 29 September 2014

The matters reported here are the most significant for the Authority.

We would like to take this opportunity to thank the officers of Gosport Borough Council for their assistance during the course of our work.

Yours faithfully

Helen Thompson
For and behalf of Ernst & Young LLP
Enc

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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 Annual Audit Letter 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.

1. Executive summary

Our 2013/14 audit work has been undertaken in accordance with the Audit Plan we issued on 6 August 2014 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

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

As auditors we are responsible for:

- ▶ forming an opinion on the financial statements;
- ▶ reviewing the Annual Governance Statement;
- ▶ forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- ▶ undertaking any other work specified by the Audit Commission.

Summarised below are the conclusions from all elements of our work:

Audit the financial statements of Gosport Borough Council for the financial year ended 31 March 2014 in accordance with International Standards on Auditing (UK & Ireland).	On 29 September 2014 we issued an unqualified audit opinion for the Authority.
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	On 29 September 2014 we issued an unqualified value for money conclusion.
Issue a report to those charged with governance of the Authority (the Policy & Organisation Board) communicating significant findings resulting from our audit.	On 16 September 2014 we issued our report to the Authority. On 29 September 2014 we presented our report to the Board meeting.
Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.	We reported our findings to the National Audit Office on 30 September 2014.
Consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.	No issues to report.
Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	No issues to report.
Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.	No issues to report.

Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

On 29 September 2014 we issued our audit completion certificate

Issue a report to those charged with governance of the Authority summarising the certification of grant claims and returns work that we have undertaken.

On 12 February 2014 we issued our annual certification report to those charged with governance for the 2012/13 financial year.

We will issue our annual certification report to those charged with governance for 2013/14 upon completion of our grants work.

2. Key findings

Financial statements audit

We audited the Authority's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. We issued an unqualified audit report on 29 September 2014.

In our view, the quality of the process for producing the accounts, including the supporting working papers was good

The main issues identified as part of our audit were:

Significant risk 1: Risk of misstatement due to fraud and error

Risk

As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. This risk is inherent across all local government bodies and we do not consider the risk to be greater at Gosport Borough Council than any other local government body

We tested material journal entries and substantively tested all significant accounting estimates, and reviewed for any unusual transactions that had been posted to the ledger. We found no evidence of management bias or override.

Other key findings:

Business rates appeals provision:

We assessed management's approach to estimating the provision and found this to be based on a reasonable approach and that the provision is soundly based.

We audited the business rate balances in the Collection Fund and found them to comply with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2013/14'.

Uncorrected misstatements:

The Council corrected three errors in the previous year's financial statements during 2013/14. These included the categorisation of transport contributions (£215,000) and housing benefits administration grant (£696,000), and a reanalysis of the adjustment between current cost and historic depreciation (£43,000). The Council decided to treat these as prior period adjustments (PPAs) in the 2013/14 financial statements. In our view, the sums involved were not sufficiently material to justify a prior period adjustment under accounting standards (International Accounting Standard 8). Management chose not to reverse the adjustments, and we therefore requested that the reasons for this decision were included in the letter of management representation. We were satisfied that the financial statements at 31 March 2014 were materially correct.

Value for money conclusion

We are required to carry out sufficient work to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In accordance with guidance issued by the Audit Commission, in 2013/14 our conclusion was based on two criteria:

- ▶ the organisation has proper arrangements in place for securing financial resilience; and
- ▶ the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 29 September 2014. Our audit did not identify any significant matters.

Key finding 1:

Arrangements for securing financial resilience:

We assessed the Council's Medium Term Financial Plan and found that the Council has projected its budgets forward to March 2018, and has identified the level of savings required on an annual and cumulative basis

Arrangements for securing economy, efficiency and effectiveness:

Our work focused on the Council's budget setting processes and ability to set balanced budgets within the current spending constraints, without detrimentally affecting service provision. We found that the Council operates well in this context and has sufficient expertise to set realistic budgets whilst continuing to provide its statutory functions.

Objections received

We did not receive any questions or objections to the 2013/14 accounts from members of the public.

Whole of government accounts

We reported to the National Audit Office on 30 September 2014 the results of our work performed in relation to the accuracy of the consolidation pack the Authority is required to prepare for the whole of government accounts.

The Authority's submission was under the thresholds for a full consistency check, therefore we were only required to review the consistency of the submission to the audited financial statements for:

- ▶ property, plant and equipment; and
- ▶ pensions liabilities.

We did not identify any areas of concern

Annual governance statement

We are required to consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with CIPFA / SOLACE guidance

We completed this work and did not identify any areas of concern.

Certification of grants claims and returns

We presented our Annual Certification Report for 2012/13 to Standards and Governance Committee on 3 April 2014. We certified three claims and returns worth £51 million. We did not identify any significant issues from the certification of the claims and returns. We issued one qualification letter in relation to the Housing and Council Tax Benefits claim highlighting a number of relatively minor issues that arose during our work. The Housing and Council Tax Benefits claim and Pooling of Housing Capital receipts return were both amended by minor amounts as a result of our work.

We will issue the Annual Certification Report for 2013/14 in January 2015.

3. Control themes and observations

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit is not designed to express an opinion on the effectiveness of internal control we are required to communicate to those charged with governance at the Authority any significant deficiencies in internal control.

We did not identify 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.



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Mr J Bowcher
Borough Treasurer
Gosport Borough Council
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High Street
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24 November 2014

Ref: GBC/HT/SFV NDR
Your ref:

Direct line: 023 8038 2099

Email: HThompson2@uk.ey.com

Dear Julian

Gosport Borough Council - 2013/14 Audit Scale Fee – late variation

We issued our formal 'Annual Audit Letter' on the 16 October 2014, to formally report the outcome from our work in respect of the 2013/14 audit year. Within our 'Audit Results Report' dated 29 September 2014, we set out the 'final' audit fees, as required by the Audit Commission.

However, the Audit Commission has recently consulted on a supplement to the 2014/15 audit scale fees. In that consultation, the Audit Commission applied a permanent variation of £900 to the base scale fee. This reflects the additional audit procedures required to gain sufficient audit assurance around business rate income and expenditure within the Collection Fund.

This additional work is required because the certification work on Business Rates (the NNDR3 grant claim) is no longer within the Audit Commission's grant regime – it was withdrawn for 2013/14. Auditors were previously able to use the certification work on the NNDR3 claim as the required assurance for the audit opinion on the financial statements (including the Collection Fund). As a result, the 2013/14 grant certification scale fee was reduced by £1,535, to reflect this.

The Audit Commission has now acknowledged that auditors were required to undertake these additional audit procedures to be able to gain assurance for the 2013/14 financial statements opinion. Indeed, business rates were included as an audit risk within our Audit Plan. In recognising that this applies equally to 2013/14, the Audit Commission has asked us to agree a scale fee variation of £900 to that audit fee with you.

The revised final scale fee in respect of the 2013/14 audit is set out in the table below

	2013-14	2013-14
	Reported final fee (within Audit Results Report)	Amended final fee (revised and final)
	£	£
Audit Code Scale Fee	69,825	70,725

We appreciate that any increase to the audit scale fee is unwelcome news, but we hope that the narrative above sets out the Audit Commission's rationale for the increase. We think that this increase should be seen in the context of the Audit Commission reducing the 2015/16 scale fee by a further 25%, as a result of its latest procurement exercise

If you wish to discuss this in more detail please do let us know, so we can arrange a call or a meeting. Otherwise, we would be grateful if this letter could be included within the agenda for the Standards & Governance Committee on 15 January 2015, at which we agreed to present the Annual Audit Letter for 2013/14, as we are required to report the final audit fee to 'those charged with governance' of the Council

We look forward to catching up with you in due course.

Yours sincerely

Helen Thompson
Director
Ernst & Young LLP

Board/Committee:	Standards and Governance Committee Meeting
Date of Meeting:	15 January 2015
Title:	EY – Certification of claims and returns annual report 2013/14, annual audit and certification fees letter 2014/15 and audit progress report
Author:	Helen Thompson
Status:	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 2013/14 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 annual audit and certification fees letter for 2014/15 sets out the indicative fee for the audit and certification of claims.

The audit progress report confirms the completion of the certification of claims and returns annual report for 2013/14 and the progress made on the 2014/15 audit.

Recommendation

- Review and approve the conclusions set out in the certification of claims and returns annual report 2013/14.
- Note the annual audit and certification fees letter for 2014/15 and the audit progress report 2014/15.

Background

1

- 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 2013/14 grant claims and returns.
- 1.2 The annual audit and certification fee letter for 2014/15 sets out the work that we propose to undertake for the 2014/15 financial year at Gosport Borough Council. The fee reflects the risk-based approach to audit planning set out in the Code of Audit Practice and the work mandated by the Audit Commission for 2014/15.
- 1.3 The audit progress report 2014/15 provides the Committee with details

of the work completed in respect of the 2013/14 audit and the planned outputs from the 2014/15 audit.

Certification of claims and returns annual report 2013/14

2

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 two claims and returns with a total value of £32 million. We met submission deadline for both the housing benefit subsidy claim and the pooling of housing capital receipts return.

Housing benefit subsidy claim

- 2.3 The housing 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 2013/14 claim with your officers. The overall impact of these adjustments was an increase to the level of subsidy due to the Council by £422.

Pooling of housing capital receipts

- 2.5 Pooling of housing capital receipts applies to all local authorities who have a housing function. We certified the Council's 2013/14 claim without requiring any changes or amendments.

Annual Audit and Certification fees letter 2014/15

3

The Audit Commission has set the scale fee for each audited body following the five year procurement exercise carried out in 2012.

- 3.1 Consequently the fee is not liable to increase in that period without a change in scope.

- 3.2 The fee letter details the work that we propose to undertake for the 2014/15 audit and reflects the risk-based approach to audit planning set out in the Code of Audit Practice and the work mandated by the Audit. The fee that has been based on a number of key assumptions that are detailed in the letter and the latest information available to the Audit Commission in respect of the certification of claims in respect of 2014/15.

Progress report

4

The progress report confirms the completion of the work required for the 2013/14 audit and certification of grant claims and returns. The report also provides a high level summary of the progress we have made in respect of the 2014/15 audit and certification work. A timetable for this work is appended to the report.

4.1

Risk Assessment

5

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.

5.1

There are no risks associated with the annual audit and certification fees letter for 2014/15 or the audit progress report.

5.2

Conclusion

6

The certification of claims and returns annual report 2013/14 is attached for consideration and approval. The fees set by the Audit Commission for the 2014/15 annual audit and certification of claims is attached, together with the audit progress report, for the Committee's information.

6.1

Financial Services comments:	N/A
Legal Services comments:	N/A
Crime and Disorder:	N/A
Equality and Diversity:	N/A
Service Improvement Plan implications:	N/A
Corporate Plan:	N/A
Risk Assessment:	N/A
Background papers:	N/A
Enclosures:	The certification of claims and returns annual 2013/14 report, the annual audit and certification of fees letter for 2014/15 and the audit progress report.
Report author/ Lead Officer:	Helen Thompson, Audit Director, Ernst & Young



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INVESTOR IN PEOPLE

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

24 December 2014

Ref: GBC/Claims/2013-14
Your ref:

Direct line: 02380 382099

Email: HThompson2@uk.ey.com

Dear Members

Certification of claims and returns annual report 2013-14 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 2013-14 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 2013-14, 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 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.

7/4

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 2013-14 certification work and highlights the significant issues.

We checked and certified one claim and one return with a total value of £32 million. We met the submission deadlines for both the claim and the return. We issued a qualification letter in respect of the Housing Benefit claim that we certified. Details of the qualification issues are included in section 1. Our certification work identified a few, more minor, errors which the Council corrected. 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 Benefits claim. There were no amendments required to be made to the Pooling of Housing Capital Receipts return.

Fees for our certification work are summarised in section 2. The Audit Commission reduced the certification fees in 2013-14 to reflect that we were not required to certify the non-domestic rates return, and that council tax benefits ceased to be paid from 1 April 2013. We have included the actual fees for 2012-13 to assist year on year comparisons.

We welcome the opportunity to discuss the contents of this report with you at the Standards and Governance Committee on 15 January 2015.

Yours faithfully

Helen Thompson
Director
Ernst & Young LLP

Enc

Certification of claims and returns annual report 2013-14

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1. Summary of 2013-14 certification work

We certified one claim and one return in 2013-14. The main findings from our certification work are provided below.

Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£30,767,024
Limited or full review	Full
Amended	Amended – subsidy increased by £422
Qualification letter	Yes
Fee - 2012-13	£20,759
Fee - 2013-14	£19,554
Recommendations from 2012-13:	Findings in 2013-14
None	N/A

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

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.

In our initial sample testing of rent rebate for tenants of Non-HRA properties we found one case where the claimant had been recorded on the system as being in receipt of income support (IS), when they had ceased receiving IS and had gained paid employment for one week. However, there was no impact on the subsidy paid because the income from employment was below the IS threshold of £71.70 per week. There was therefore no over or under payment of benefit.

This type of error could also result in an overpayment if, for example, the claimant had been recorded as in receipt of IS on the system, but was employed with an income of more than the IS threshold. Therefore an additional sample of 40 cases from a sub-population of Non-HRA property tenants who were recorded on the system as being employed. No further errors were identified and there was no impact on subsidy.

In our initial testing of rent rebates for council tenants we identified one case where an assumption had been made about the income earned by a claimant's non-dependent son (aged over 18), in the absence of pay slips. The assumption made was that the son's earnings were in excess of £401 per week leading to the application of the highest non-dependent deduction. The son's actual income was lower, giving rise to a lower level non-dependent deduction per week and an underpayment of benefit. There is no eligibility to subsidy for underpaid benefit. The case was not therefore classified as an error for subsidy purposes.

Testing of the initial sample of private sector rent allowances identified one case where gross wages were used in the benefit calculation instead of wages net of tax and national insurance. This type of error will always lead to an underpayment of benefit. There was therefore no impact on the level of subsidy purposes and the case was not classified as an error.

Our review of the Housing Benefit claim form also identified minor amendments relating manual adjustments that had been made during the claim preparation process. The overall impact of these adjustments was an increase to the level of subsidy due to the Council by £422.

We reported the errors arising from our initial testing, and the results of the 40+ testing, to the DWP in a qualification letter.

Pooling of housing capital receipts

Scope of work	Results
Value of return presented for certification	£1,471,761
Limited or full review	Limited
Amended	No
Qualification letter	No
Fee – 2012-13	£2,053
Fee – 2013-14	£380
Recommendations from 2012-13:	Findings in 2013-14
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 that we carried out did not identify any errors or the need for any amendments to be made to the return that was submitted to us. We therefore certified the return without qualification or amendment.

2. 2013-14 certification fees

For 2013-14 the Audit Commission provided a composite indicative fee for certification work for each body. The indicative fee was based on actual certification fees for 2011-12 adjusted to reflect the fact that the Non Domestic Rates return no longer required auditor certification. The fees for certifying the Housing Benefits claim were also reduced following the closure of the Council Tax benefits scheme.

The indicative fee for Gosport Borough Council for 2013-14 was £19,934. We have completed the work required within this indicative fee.

Claim or return	2012-13	2013-14	2013-14
	Actual fee	Indicative fee	Actual fee
	£	£	£
Housing Benefits claim	20,759	19,554	19,554
National non-domestic rates return	2,992	N/A	N/A
Pooling of housing capital receipts return	2,053	380	380
Total	25,804	19,934	19,934

3. Looking forward

For 2014-15, the Audit Commission has calculated indicative certification fees based on the 2013-14 indicative certification fees, adjusted for those schemes that are not expected to fall within the Audit Commission's arrangements in 2014-15. The Audit Commission has indicated that the Pooling of Housing Capital Receipts return will not require certification from 2014-15.

The Council's indicative certification fee for 2014-15 is £18,270. The actual certification fee for 2014-15 may be higher or lower than the indicative fee, if we need to undertake more or less work than planned. Details of individual indicative fees are available at the following link:

<http://www.audit-commission.gov.uk/audit-regime/audit-fees/proposed-work-programme-and-scales-of-fees-201415/proposed-estimated-indicative-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 2014-15 indicative 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, where they are put in place.

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INVESTOR IN PEOPLE

Ian Lycett
Chief Executive
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11 April 2014

Ref: GBC/HT/Fee Letter

Direct line: 023 8038 2099

Email: HThompson2@uk.ey.com

Dear Ian

Annual Audit and Certification Fees 2014/15

We are writing to confirm the audit and certification work that we propose to undertake for the 2014/15 financial year at Gosport Borough Council. The fee reflects the risk-based approach to audit planning set out in the Code of Audit Practice and the work mandated by the Audit Commission for 2014/15.

Indicative Audit Fee

The audit fee covers the:

- ▶ audit of the financial statements;
- ▶ value for money conclusion; and
- ▶ whole of Government accounts.

The Audit Commission has set the scale fee for each audited body following the five year procurement exercise carried out in 2012. Consequently the fee is not liable to increase in that period without a change in scope.

The 2014/15 scale fee is based on certain assumptions, including:

- ▶ the overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year;
- ▶ we are able to place reliance on the work of internal audit to the maximum extent possible under auditing standards;
- ▶ the financial statements will be available to us in line with the agreed timetable;
- ▶ working papers and records provided to us in support of the financial statements are of a good quality and are provided in line with our agreed timetable; and
- ▶ prompt responses are provided to our draft reports.

Meeting these assumptions will help ensure the delivery of our audit at the indicative audit fee.

The indicative audit fee set out in the table below has initially been set at the scale fee level as the overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year.

As we have not yet completed our audit for 2013/14, our audit planning process for 2014/15 will continue as the year progresses. Fees will be reviewed and updated as necessary, within the parameters of our contract with the Audit Commission.

Certification fee

The Audit Commission has set a composite indicative fee for certification work for each audited body. The indicative fee is based on actual 2012/13 certification fees adjusted to reflect any known schemes that no longer require auditor certification. The Audit Commission has revised the previously published 2013/14 indicative certification fee to reflect further schemes that no longer require auditor certification.

The composite indicative fee is based on the expectation that an audited body is able to provide the auditor with complete and materially accurate claims and returns, with supporting working papers, within agreed timeframes.

The indicative certification fee for 2014/15 relates to work on grant claims and returns for the year ended 31 March 2015. We have set the certification fee at the composite indicative fee level. We will update our risk assessment after we complete our 2013/14 certification work.

Summary of Fees

	Indicative fee 2014/15 £	Planned fee 2013/14 £	Actual fee 2012/13 £
Total Code audit fee	69,825	69,825	69,825
Certification of claims and returns	18,270	19,934	25,804

Any additional work that we may agree to undertake (outside of the Audit Code of Practice) will be separately negotiated and agreed with you in advance.

Billing

The indicative audit fee will be billed in four quarterly instalments of £22,023.75.

Audit Plan

Our plan for the audit of the financial statements will be issued in June 2015. This will detail the significant financial statement risks identified, planned audit procedures to respond to those risks, and any changes in fee. It will also set out the risks identified in relation to the value for money conclusion.

Should we need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with the Borough Treasurer and, if necessary, prepare a report outlining the reasons for the fee change for discussion with the Standards and Governance Committee

Audit team

The key members of the audit team for the 2014/15 financial year are:

Helen Thompson Director	HThompson2@uk.ey.com	Tel: 023 8038 2099
Mike Bowers Manager	MBowers@uk.ey.com	Tel: 07881 518961
Nigel Smith Executive	NSmith3@uk.ey.com	Tel: 07721762001

We are committed to providing you with a high quality service. 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, please contact me. 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.

Yours sincerely

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

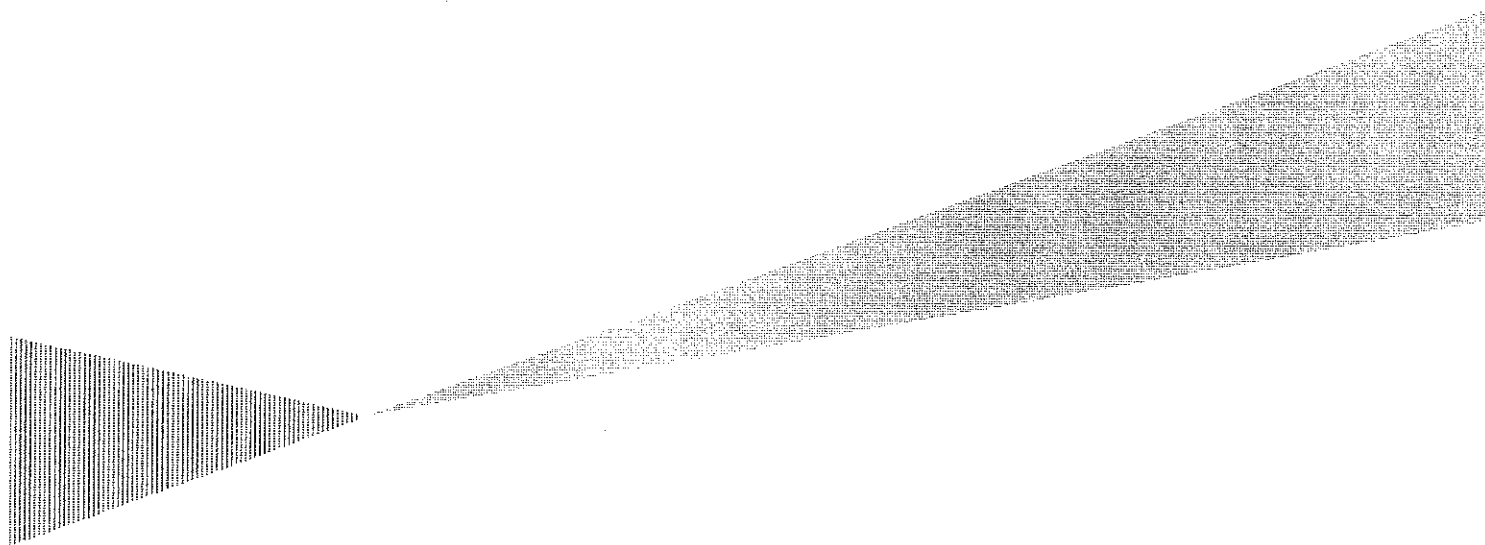
cc Julian Bowcher, Borough Treasurer
Councillor Scard, Chair of the Standards and Governance Committee

7/14

Gosport Borough Council

Audit Progress Report

January 2015



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Standards and Governance Committee
Gosport Borough Council
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PO12 1EB

5 January 2015

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 2013/14 audit, and an outline of our plans for the 2014/15 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: 2013/14

We are presenting our annual audit letter for 2013/14 and the report on the certification of claims and returns to the Committee today. This completes our work in relation to the 2013/14 financial year.

Progress against key deliverables			
Key deliverable	Timetable in plan	Status	Comments
Fee Letter	April 2013	Completed	Reported to Standards and Governance Committee April 2013
Audit Plan	July 2014	Completed	Reported to Policy and Organisation Board August 2014
Report to Those Charged with Governance	September 2014	Completed	Reported to Standards and Governance Committee 11 September 2014 Reported to Policy and Organisation Board on 29 September 2014
Audit Report (including opinion, vfm conclusion)	September 2014	Completed	As above
Audit Certificate	September 2014	Completed	As above
WGA submission to NAO	September 2014	Completed	As above
Annual Audit Letter	October 2014	Completed	Reported to Standards and Governance Committee January 2015
Report on the audit of Grant Claims	September – November 2014	Completed	Reported to Standards and Governance Committee January 2015

2014/15 audit

Fee letter

We issued our 2014/15 fee letter to the Council in April 2014

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 2014/15 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 January/February 2015.

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 June 2015 and the Policy and Organisation Board in July 2015.

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 2014/15 value for money conclusion. The full guidance can be found at <http://www.audit-commission.gov.uk/audit-regime/codes-of-audit-practice/value-for-money-conclusion/>

There are no planned changes to the approach in 2014/15. We will carry out our initial risk assessment in early 2015 and report the risks we have identified, and associated work we will carry out, to Standards and Governance Committee in June 2015 and to Policy and Organisation Board in July 2015.

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 2014/15 Standards and Governance Committee cycle. We will provide formal reports to the Standards and Governance Committee and the Policy and Organisation Board, throughout our audit process as outlined below.

Audit phase	EY Timetable	Deliverable	Reported	Status
High level planning	Ongoing	Audit Fee Letter	January 2015	Completed
Risk assessment and setting of scope of audit	Jan -Feb 2015	Audit Plan	June 2015 and July 2015	In progress
Testing of routine processes and controls	Jan -Feb 2015	Audit Plan	June 2015 and July 2015	In progress
Year-end audit	August - September 2015	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 2015	Work is planned to start during August 2015
Annual Reporting	October 2015	Annual Audit Letter	January 2016	-
Grant Claims	September – November 2015	Annual certification report	January or March 2016	