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17th June 2015

S U M M O N S

MEETING: Standards and Governance Committee
DATE: 25th June 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 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)

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 meetings held on 26th March 2015 and 21st May 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, 23 June 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, 23 June 2015).

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

The audit planning memorandum sets out the work that we plan to complete to enable us to issue the audit opinion on your 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.

PART II
Helen Thompson
Ernst & Young

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

In accordance with the Public Sector Internal Audit Standards 2013, the Head of Internal Audit is required to present an Annual Report to the appropriate body that has responsibility for both governance and the Internal Audit function.

PART II
Chris Davis

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 26 MARCH 2015**

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

It was reported that in accordance with Standing Order 2.3.6, Councillor Mrs Batty had been nominated to replace Councillor Wright for this meeting.

25. APOLOGIES

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

26. DECLARATIONS OF INTEREST

There were no declarations of interest.

27. MINUTES

RESOLVED: That the minutes of the meeting of the Standards and Governance Committee held on 15 January 2015 be approved and signed by the Chairman as a true and correct record.

28. DEPUTATIONS

There were no deputations

29. PUBLIC QUESTIONS

There were no public questions.

PART II

30. ERNST & YOUNG – AUDIT PROGRESS REPORT

Consideration was given to a report of the Council's external auditors Ernst & Young that summarised the work completed to date in respect of the 2014/15 audit and the outline plan for the completion of the remaining work.

The Committee were advised by Ernst & Young that following a number of meetings held with key officers, the initial planning for the audit had been carried out, which had identified the Council's material income and expenditure systems.

It was reported by Ernst & Young that detailed testing of Housing Benefit and Local Council Tax support controls had been started along with the substantive testing of income and expenditure transactions had commenced.

In response to a Member's question, it was clarified by the Head of Internal Audit & Risk Assurance that following a successful recruitment cycle, two new trainee positions had been filled and would address issues relating to Internal Audit staffing levels.

Members were referred to Appendix A of the report which detailed a timetable identifying the key stages of the planned audit.

RESOLVED: That the Standards and Governance Committee review and note the audit progress report in respect of the completion of the 2014/15 audit.

31. INTERNAL AUDIT PLAN 2015/16

Consideration was given to the report of the Head of Internal Audit & Risk Assurance that provided the Committee with the planned annual coverage of the Internal Audit resource in 2015/16.

Following a Member's question in relation to Eastleigh Borough Council ceasing involvement with the audit partnership arrangement currently in place, it was advised that partnership with Test Valley would continue with the Head of Internal Audit & Risk Assurance working off site for 2 days per week. It was further reported that following the revised arrangements, more time would be available to professionally train the two new members of staff who were commencing their employment on 7th April 2015.

RESOLVED: That the Standards and Governance Committee comment on and approve the Internal Audit Plan for 201/16 as attached in Appendix A of the report.

32. INTERNAL AUDIT MONITORING STATEMENT TO 31.01.15 & RISK MANAGEMENT UPDATE

Consideration was given to a report of the Head of Internal Audit and Risk Assurance to table the performance of the Internal Audit Section in the ten months of 2014/2015 (1 April 2014 – 31 January 2015) against the agreed audit plan, to the Members with responsibility for governance. The report also provided Members with an update in risk management.

Members were advised that the report gave an overview of internal audit activity against assurance work that had been completed in accordance with the approved internal audit plan.

It was reported that in the ten month period to the end of January 2015, adequate progress had been made in delivering the revised internal audit plan.

Clarification was sought in relation to the risk scoring mechanism detailed in the report and it was suggested that further training be provided to Members on Risk Management. **RESOLVED:** That the Standards and Governance Committee:

- a) review the performance of Internal Audit from 1 April 2014 to 31 January 2015
- b) note the current status of the Council Strategic Risk Register and approve the updated Risk Management Policy and Risk Management Strategy;
- c) approve the Risk Management Strategy (Appendix A) and the Risk Management Policy (Appendix B) attached to the report; and
- d) note the update on the planned coverage for 2014/15 as at 31 January 2015, the future of the revised internal audit partnership with Test Valley Borough Council and the current position of risk management within the Council.

33. ANY OTHER BUSINESS

Standards and Governance Committee 26 March 2015

There was no other business.

The meeting concluded at 18:35

CHAIRMAN

**A MEETING OF THE STANDARDS AND GOVERNANCE COMMITTEE
WAS HELD ON 21 May 2015**

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

It was reported that in accordance with Standing Order 2.3.6 Councillor Wright had been nominated to replace Councillor Mrs Cully for this meeting.

1. APOLOGIES

Apologies for inability to the meeting were submitted on behalf of Councillors Mrs Cully and Dickson.

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

3. DEPUTATIONS

There were no deputations

4. PUBLIC QUESTIONS

There were no public questions.

PART II

5. ELECTION OF CHAIRMAN

RESOLVED: That Councillor Carter be appointed as Chairman of the Standards and Governance Committee for the Municipal Year 2015-2016.

6. ELECTION OF VICE-CHAIRMAN

RESOLVED: That Councillor Scard be appointed as Vice-Chairman of the Standards and Governance Committee for the Municipal Year 2015-2016.

The meeting concluded at 5.29pm

CHAIRMAN

AGENDA ITEM NO. 06

Board/Committee:	Standards and Governance Committee Meeting
Date of Meeting:	25 June 2015
Title:	EY – Audit Planning Memorandum for 2014/15
Author:	Helen Thompson
Status:	For consideration by Standards and Governance Committee

Purpose

The audit planning memorandum sets out the work that we plan to complete to enable us to issue the audit opinion on your 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.

Recommendation

- Review the audit planning memorandum and note the risks we have identified to our work on the audit opinion and value for money conclusion, and our planned response to those risks.
- Recommend the Audit Plan for 2014/15 to the Policy and Organisation Board as those charged with governance.

1 Background

- 1.1 The Audit Commission's Code of Audit Practice requires us to communicate details of the audit opinion and value for money conclusion risks that we have identified to those charged with governance. We have set out the risks that we have identified in our audit planning memorandum for 2014/15 together with details of our response to them.

2 Audit planning memorandum 2014/15

Context for the audit

- 2.1 The audit planning memorandum covers the work that we plan to perform in order to provide you with:
- our audit opinion on whether the financial statements of Gosport Borough Council give a true and fair view of the financial position as at 31 March 2015 and of the income and expenditure for the year then ended; and
 - a statutory conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.
- 2.2 We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on your Whole of Government Accounts return.
- 2.3 When planning the audit we take into account several key inputs:
- strategic, operational and financial risks relevant to the financial statements;
 - developments in financial reporting and auditing standards;
 - the quality of systems and processes;
 - changes in the business and regulatory environment and
 - management's views on all of the above.
- 2.4 By considering these inputs, our audit is focused on the areas that matter to the Council and our feedback is more likely to be relevant to you. Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.
- 2.5 The Local Audit and Accountability Act 2014 (the 2014 Act) closes the Audit Commission and repeals the Audit Commission Act 1998. The 2014 Act require the Comptroller and Auditor General to prepare a Code of Audit of Practice that must be laid before parliament before 1 April 2015.
- 2.6 Although the new Code of Audit practice will apply after the 1 April 2015, transitional provisions within the 2014 Act provide for the Audit Commission's 2010 Code to continue to apply to the audit work in respect of the 2014/15 financial year.

3 Risk Assessment

- 3.1 The Audit Commission requires auditors to communicate details of the risks that we have identified in relation to the audit opinion and value for money conclusion to those charged with governance. This report should be reviewed and noted as part of the Council's governance arrangements.

4 Conclusion

- 4.1 The audit planning memorandum for 2014/15 is attached for consideration by the Committee and for comment before making recommendations to the Policy and Organisation Board as those charged with governance.

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 audit planning memorandum 2014/15
Report author/ Lead Officer:	Helen Thompson, Audit Director, Ernst & Young

Gosport Borough Council

Year ending 31 March 2015

Audit Plan

June 2015

Ernst & Young LLP



Building a better
working world

Policy and Organisation Board
Gosport Borough Council
Town Hall
High Street
Gosport
Hampshire
PO12 1EB

11 June 2015

Dear Committee Members

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Policy and Organisation Board with a basis to review our proposed audit approach and scope for the 2014/15 audit in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, Standing Guidance, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

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

We welcome the opportunity to discuss this plan with you on 1 July 2015 and to understand whether there are other matters which you consider may influence our audit.

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 Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Audit Committee, and is prepared for the sole use of the audited body. 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. Overview

Context for the audit

This Audit Plan covers the work that we plan to perform to provide you with:

- ▶ our audit opinion on whether the financial statements of Gosport Borough Council give a true and fair view of the financial position as at 31 March 2015 and of the income and expenditure for the year then ended; and
- ▶ a statutory conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

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

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

- ▶ strategic, operational and financial risks relevant to the financial statements;
- ▶ developments in financial reporting and auditing standards;
- ▶ the quality of systems and processes;
- ▶ changes in the business and regulatory environment; and
- ▶ management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council. Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

In parts three and four of this plan we provide more detail on the above areas and we outline our plans to address them. Our proposed audit process and strategy are summarised below and set out in more detail in section five.

We will provide an update to the Standards and Governance Committee and the Policy and Organisation Board on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September 2015.

Our process and strategy

Financial statement audit

We consider materiality in terms of the possible impact of an error or omission on the financial statements and set an overall planning materiality level. We then set a tolerable error to reduce the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality to an appropriately low level. We also assess each disclosure and consider qualitative issues affecting materiality as well as quantitative issues.

To the fullest extent permissible by auditing standards, we will seek to rely on the work of internal audit wherever possible. We have determined that we will take a wholly substantive approach for all areas of our audit, except for housing benefits and local council tax support where we will seek to rely on the controls in your systems. In completing our work, to the fullest extent permissible by auditing standards, we will seek to place reliance on the work of Internal Audit wherever possible. To this end we have a good working arrangement with Internal Audit and regularly discuss audit coverage and the issues arising from our respective audit work.

Arrangements for securing economy, efficiency and effectiveness

Our approach to the value for money (VFM) conclusion for Gosport Borough Council for 2014/15 is based on criteria specified by the Audit Commission relating to whether there are proper arrangements in place within the Council for:

- ▶ securing financial resilience; and
- ▶ challenging how the Council secures economy, efficiency and effectiveness.

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

Further detail is included in section four of this Audit Plan.

2. The Local Audit and Accountability Act 2014

The Local Audit and Accountability Act 2014 (the 2014 Act) closes the Audit Commission and repeals the Audit Commission Act 1998.

The 2014 Act requires the Comptroller and Auditor General to prepare a Code of Audit Practice. This must be laid before Parliament and approved before 1 April 2015.

Although this new Code will apply from 1 April 2015, transitional provisions within the 2014 Act provide for the Audit Commission's 2010 Code to continue to apply to audit work in respect of the 2014/15 financial year. This plan is therefore prepared on the basis of the continued application of the 2010 Code of Audit Practice throughout the 2014/15 audit.

3. Financial statement risks

We outline below our assessment of the financial statement risks facing the Council, identified through our knowledge of the Council's operations and discussion with those charged with governance and officers.

At our meeting, we will seek to validate these with you.

Significant risks (including fraud risks)

Risk of management override

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. We identify and respond to this fraud risk on every audit engagement.

Our approach will focus on:

- ▶ testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- ▶ reviewing accounting estimates for evidence of management bias, and
- ▶ evaluating the business rationale for significant unusual transactions.

Respective responsibilities in relation to fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ▶ identifying fraud risks during the planning stages;
- ▶ enquiry of management about risks of fraud and the controls to address those risks;
- ▶ understanding the oversight given by those charged with governance of management's processes over fraud;
- ▶ consideration of the effectiveness of management's controls designed to address the risk of fraud;
- ▶ determining an appropriate strategy to address any identified risks of fraud; and
- ▶ performing mandatory procedures regardless of specifically identified fraud risks.

We will consider the results of the National Fraud Initiative and may refer to it in our reporting to you.

4. Economy, efficiency and effectiveness

Our approach to the value for money (VFM) conclusion for Gosport Borough Council for 2014/15 is based on criteria specified by the Audit Commission relating to whether there are proper arrangements in place at the Council for securing:

1. financial resilience, and
2. economy, efficiency and effectiveness in the use of resources.

The Audit Commission VFM guidance for 2014/15 requires that auditors consider and assess the significant risks of giving a wrong conclusion and carry out as much work as is appropriate to enable them to give a safe conclusion on arrangements to secure VFM.

Our assessment of what is a significant risk is a matter of professional judgement, and is based on consideration of both quantitative and qualitative aspects of the subject matter in question.

For those significant risks identified by our risk assessment that are relevant to our VFM conclusion, where these risks will not be addressed by our financial statements audit work or work undertaken by the Council, Audit Commission or other review agency, we consider the need to undertake local VFM work.

We have not identified any significant risks to the value for money (VFM) conclusion.

We will keep our risk assessment under review throughout our audit and communicate to the Policy and Organisation Board any revisions to the specific risks identified here and any additional local risk-based work we may need to undertake as a result. In particular, 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.

5. Our audit process and strategy

5.1 Objective and scope of our audit

Under the Audit Commission's Code of Audit Practice (the 'Code') our principal objectives are to review and report on, the Council's:

- ▶ financial statements; and
- ▶ arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

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

i Financial statement audit

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

We will also review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require.

ii Arrangements for securing economy, efficiency and effectiveness

The Code sets out our responsibility to satisfy ourselves that the Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In arriving at our conclusion, we will rely as far as possible on the reported results of the work of other statutory inspectorates on corporate or service performance.

In examining the Council's corporate performance management and financial management arrangements, we consider the following criteria and areas of focus specified by the Audit Commission:

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

5.2 Audit process overview

Processes

Our initial assessment of the key processes across the Council has identified the following key processes where we will seek to test key controls:

- ▶ housing benefits and local council tax support.

We have also identified the following key processes that we will test substantively:

- ▶ accounts receivable
- ▶ accounts payable
- ▶ business rates
- ▶ council tax

- ▶ cash and bank (cash receipting)
- ▶ housing rents
- ▶ payroll
- ▶ pensions
- ▶ property, plant and equipment
- ▶ financial statement close process
- ▶ treasury management.

In developing this strategy, and the proposed audit fee, we have assumed that the Council will have implemented a control framework sufficient to mitigate the risks of material misstatements.

Analytics

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

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

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

Internal audit

As in prior years, we will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, where they raise issues that could have an impact on the year-end financial statements work that we complete.

Use of experts

We will use specialist EY resource as necessary to help us to form a view on judgments made in the financial statements. Our plan currently includes involving specialists in pensions, valuations.

Mandatory procedures required by auditing standards

As well as the financial statement risks outlined in section three, we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- ▶ addressing the risk of fraud and error;
- ▶ significant disclosures included in the financial statements;
- ▶ entity-wide controls;
- ▶ reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and

- ▶ auditor independence.

Procedures required by the Code

- ▶ reviewing, and reporting on as appropriate, other information published with the financial statements, including the Governance Statement;
- ▶ reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO; and
- ▶ reviewing and examining, where appropriate, evidence relevant to the Council's corporate performance management and financial management arrangements, and its reporting on these arrangements.

5.3 Materiality

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition. We have determined that overall materiality for the financial statements of the Council is £1.278 million based on two per cent of Gross Revenue Expenditure.

We will communicate uncorrected audit misstatements greater than £63,900 to you.

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

5.4 Fee

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

The indicative fee scale for the audit of Gosport Borough Council is £70,725.

5.5 Your audit team

The engagement team is led by Helen Thompson, who has significant experience on Gosport Borough Council. Helen is supported by Mike Bowers who is responsible for the day-to-day direction of audit work and who is the key point of contact for the Borough Treasurer and Nigel Smith who leads the team on the day to day regularity audit.

5.6 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the VFM work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the committee cycle in 2014/15. These dates are determined to ensure our alignment with the Audit Commission's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Policy and Organisation Board and we will discuss them with the Chair as appropriate.

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

Audit phase	Timetable	Policy and organisation Board / Standards and Governance Committee timetable	Deliverables
High level planning	December 2014 / January 2015	January 2015	Audit Fee letter
Risk assessment and setting of scopes	January – February 2015	June and July 2015	Audit Plan
Testing routine processes and controls	January – February 2015	June and July 2015	Audit Plan
Year-end audit	August – September 2015	September 2015	
Completion of audit	September 2015	September 2015	Report to those charged with governance via the Audit Results Report Audit report (including our opinion on the financial statements; and overall value for money conclusion). Audit completion certificate Reporting to the NAO on the Whole of Government Accounts return.
Conclusion of reporting	October 2015	January 2016	Annual Audit Letter

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

6. Independence

6.1 Introduction

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

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

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

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

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

6.2 Relationships, services and related threats and safeguards

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

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Council.

At the time of writing, there are no long outstanding fees.

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

At the time of writing, there are no non-audit fees. No additional safeguards are required.

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

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

Self-review threats

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

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

Management threats

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

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

Other threats

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

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

Overall Assessment

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

6.3 Other required communications

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

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended 27 June 2014 and can be found here:

<http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2014>

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2014/15 £	Out-turn 2013/14 £	Published fee 2013/14 £	Explanation
Opinion Audit and VFM Conclusion	70,725	70,725	69,825	2013/14 out-turn higher due to £900 additional fee for NDR.
Total Audit Fee – Code work	70,725	70,725	69,825	
Certification of claims and returns	18,270	19,934	19,934	Only Housing Benefits claim to be certified in 2014/15.
Non-audit work	Nil	Nil	Nil	

All fees exclude VAT.

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

- ▶ officers meeting the agreed timetable of deliverables;
- ▶ the operating effectiveness of the internal controls for the key processes outlined in section 5.2 above;
- ▶ we can rely on the work of internal audit as planned;
- ▶ the Audit Commission making no significant changes to the use of resources criteria on which our conclusion will be based;
- ▶ our accounts opinion and use of resources conclusion being unqualified;
- ▶ appropriate quality of documentation is provided by the Council; and
- ▶ the Council has an effective control environment.

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

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

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the Standards and Governance Committee and Policy and Organisation Board. These are detailed here:

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

Required communication	Reference
Independence Communication of all significant facts and matters that bear on EY's objectivity and independence Communication of key elements of the audit engagement director's consideration of independence and objectivity such as: <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance
Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<ul style="list-style-type: none"> ▶ Report to those charged with governance
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Report to those charged with governance
Fee Information <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance ▶ Annual Audit Letter if considered necessary
Certification work <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary

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AGENDA ITEM NO. 07

Board/Committee:	Standards and Governance Committee
Date of Meeting:	25 June 2015
Title:	Internal Audit Annual Report 2014/15
Author:	Head of Internal Audit & Risk Assurance
Status:	FOR DECISION

Purpose

In accordance with the Public Sector Internal Audit Standards 2013, the Head of Internal Audit is required to present an Annual Report to the appropriate body that has responsibility for both governance and the Internal Audit function.

Recommendation

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

1 Background

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

2 Report

- 2.1 The attached report within Appendix A highlights that the Council has adequate and effective risk management control and governance arrangements in place to manage the achievement of the Council's strategic priorities and objectives.

3 Risk Assessment

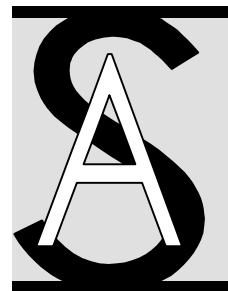
- 3.1 The report has a minimal direct impact on the overall risk of the Council. The work performed and the professional advice given by Internal Audit provides management with a high degree of assurance as stated within the attached report.

4 Conclusion

- 4.1 The overall opinion provided by internal audit, from the work undertaken in 2014/15 is detailed in the attached Appendix A under section 2.3.

Financial Services comments:	Nil
Legal Services comments:	none
Crime and Disorder:	Nil
Equality and Diversity:	Nil
Service Improvement Plan implications:	The information provided within the report has a direct link to improving the overall governance arrangements within the Council. The performance of the Internal Audit section is a key operational indicator monitored closely against the agreed Annual Audit Plan.
Corporate Plan:	Internal Audit's work supports all Council Services in pursuit of their overall corporate and strategic priorities.
Risk Assessment:	See section 3
Background papers:	None
Appendices/Enclosures:	
Appendix 'A'	Internal Audit Annual Report 2014/15
Report author/ Lead Officer:	Chris Davis 02392 545306

**Audit
Services**



Delivering a Quality Audit Service

Gosport Borough Council

Standards & Governance Committee

Internal Audit Annual Report Year ending 31 March 2015

Head of Internal Audit & Risk Assurance: Chris Davis

Presented at the Standards & Governance Committee on: 25 June 2015

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1.0 Introduction

- 1.1** In accordance with the CIPFA/CIIA Public Sector Internal Audit Standards 2013, I am required to report on an annual basis on the overall adequacy and effectiveness of the Council's internal control arrangements. I am also required to draw attention to any issues particularly relevant to the preparation of the Statement on Internal Control (Statement) required under Section 4 (2&3) of the Accounts & Audit Regulations 2011 (Regulations). This statement has now been subsumed into the Council's Annual Governance Statement (AGS). The role of internal audit is to provide management with an objective assessment of the adequacy and effectiveness of internal control, risk management and governance arrangements. Internal Audit is therefore a key part of Gosport Borough Council's internal control system and integral to the framework of assurance that the Committee can place reliance on to assess its internal control system.
- 1.2** The Regulations requires the Council to ensure that the financial management of its activities is adequate and effective, to undertake an annual review of the effectiveness of its systems of internal control and to include any significant issues in the Annual Governance Statement. In preparing the Statement, assurances have been sought from Internal and External Audit and from the evaluation of the revised Council's Control Assurance Framework.

1.3 Definition of Internal Audit

The definition of internal audit is set out below:

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

1.4 Annual Governance Statement

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

- increased awareness of internal controls and control weaknesses, and risk management among Section 151 Officers, Councillors and senior management;

- greater awareness of the importance of risk identification and monitoring amongst staff at all levels;
- better appreciation of the benefits of a strong internal audit function;
- greater awareness of the wider assurance sources that operate within the organisation and the importance of the role that they fulfil; and
- increased and encouraged audit committee activity.

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

2.0 The Statement of Assurance

2.1 Context

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

The matters raised in this report are only those that came to our attention during our internal audit work, for the 2014/15 year, and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

2.2 Limitations in our scope

No significant limitations of scope were encountered with senior management during 2014/15 (allowing us to be independent). There was turnover in the year as previously reported to the Committee. Though additional support (within existing budgets) from external providers assisted us in delivering the core work and a high degree of audit plan.

2.3 Internal Audit Opinion

We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of Gosport Borough Council's risk management, control and governance processes. In our opinion, based upon the work undertaken, for the 12 months ended 31 March 2015 Gosport Borough Council has adequate and effective risk management control and governance processes to manage the achievement of the organisation's objectives.

2.4 Scope of the Internal Audit Opinion

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

- The results of all internal and external audits (including other inspectorates) undertaken during the year ended 31 March 2015;
- Whether or not any critical or essential recommendations have not been accepted by management (none) and the consequent risks;
- The results of follow-up action taken in respect of audits from previous years;
- The affects of any material changes in the Council's objectives or activities;
- Matters arising from previous reports to the Committee and/or Council;

2.5 The Basis of the Opinion

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

2.6 Risk Management

Gosport Borough Council continues to have a well-developed strategic risk register which is active on the Council performance management software (Covalent). The Corporate Risk Management Group meets on a 2 monthly basis and this focused group has enhanced the culture of risk throughout the Council. Meetings took place in April, August, October, January and March in this financial year. Much work of the Group in the year has been focussed in updating the Council policies and procedures around risk and rolling these out to Section Heads.

2.7 Governance

The Council is committed to the principles of good governance, which is already demonstrated through many aspects of good practice in relevant areas. Finally, the Council has responded, where necessary, to the External Audit Annual Audit Letter 2013/14 (issued October 2014) and management are implementing, again where necessary, areas that require improvements and these were followed up (where appropriate) by Internal Audit as part of their 2014/15 planned work.

2.8 Internal Control

Our work has shown that internal controls across the organisation are working effectively. We have made no critical recommendations this year and the trend of the recommendations for 2014/15 remains spread across the lower two categories. The internal audit team in total made 125 (140 previous year) recommendations to management (all accepted). The profile against last year was 1 (3 previous year) essential, 48 (62 previous year) important and 76 (75 previous year) advisory.

2.9 Fraud

The Council continues to be active in detecting and preventing benefit and corporate fraud. Though, from 01/09/15, the responsibility of investigating benefit fraud will be taken over by the DWP. The Council will continue to investigate all other types of fraud, including housing tenancy fraud. The internal team identified over £173K in fraudulent overpayments of housing benefit, council tax benefit and income support/job seekers allowance. In addition the team worked closely with Housing and achieved positive results through the year. Dedicated fraud training was provided to housing officers in the year and publicity of tenancy fraud was published in the tenants newsletter (At Your Service). More dedicated fraud awareness training is planned for 2015/16 throughout the Council. Other proactive work continues in corporate fraud and internal audit work through use of internal forensic data matching.

2.10 Acceptance of Recommendations

The one essential recommendation (of a total of 125 recommendations) made during the year were fully accepted by management. Through the process of consultation, professional independent dialogue (including the weight of audit evidence) as well as quality assurance all other lower category recommendations (important [48 in total] and advisory [76 in total]) were also accepted. In total Internal Audit recommended to senior management 125 (140 previous year) recommendations in the year.

2.11 Other External Inspections

Other than External Audit, the Council were also inspected by the Office of Surveillance Commissioners in December 2014. There were two recommendations from this inspection and both are being addressed by management.

2.12 The Statement on Internal Control

Although Internal Audit cannot provide absolute assurance that control weaknesses or irregularities do not exist, due to time and other constraints of audit coverage, it is my professional opinion that strong assurance can be placed upon the adequacy and effectiveness of the Council's overall internal control system in the year to 31 March 2015.

3.0 Performance of Internal Audit

3.1 Internal Audit Resource

Internal Audit had limited resources throughout the majority of 2014/15. As previously reported to the Committee the Section did try to recruit but were unsuccessful on two occasions. This resource gap was filled with support from the private sector to fulfil the agreed audit coverage for 2014/15. The team is now at full strength with the successful appointment of two trainee auditors. As at year end March 2015 the partnership with Eastleigh (released as at 31.3.15) and Test Valley Borough Councils (from 1.10.13) had generated £360,469 (£54,216 in 2014/15) in it the eight years. It has been a challenging year managing the three sites. A continuation of a two way arrangement with Test Valley Borough Council has been secured for a further two years (till March 2017) following the release of Eastleigh Borough Council from the three way arrangement.

3.2 Meeting Internal Audit Needs

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

3.3 Conflict of Interest

We have not undertaken any work or activity during 2014/15 that would lead us to declare any conflicts of interest. This area is taken extremely serious and rotation of work is undertaken annually. All Auditors sign an annual declaration.

3.4 Compliance with the Public Sector Internal Audit Standards (PSIAS) 2013

The Council engage in a risk based approach to determining the audit needs of the organisation at the start of the year and use a risk based methodology in planning and conducting our audit reviews. Our work has been performed in compliance with the PSIAS.

3.5 External Audit annual review of Internal Audit

Ernst Young LLP, the External Auditors for the Council, have examined the quality of the internal audit work and they can place adequate reliance on our output to support their annual statutory work.

3.6 Internal Quality Assurance Programmes

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

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

- Appraisal of all audit staff and the development of personal development and training plans (part of the Financial Services Learning & Development Plan);
- Regular team meetings, an away day (to discuss process, delivery, efficiency, client needs and outcomes) and fortnightly progress updates with the audit team against the agreed audit plan;
- Liaison with other county auditors through established Hampshire wide groups on fraud and IT related matters;
- Professional training (CPD) as well as attendance on training seminars.
- Performance management (action plan and key local and personal performance indicators);
- The maintenance of the Internal Audit Manual.