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29 June 2016

S U M M O N S

MEETING: Standards and Governance Committee
DATE: 7 July 2016
TIME: 6pm
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 Mrs Forder
Councillor Ms Ballard	Councillor Mrs Furlong
Councillor Beavis	Councillor Mrs Jones
Councillor Chegwyn	Councillor Mrs Morgan
Councillor Mrs Cully	Councillor Mrs Prickett

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).

NOTE:

- i. Councillors are requested to note that, if any Councillor who is not a Member of the Board wishes to speak at the Board meeting, then the Borough Solicitor is required to receive not less than 24 hours prior notice in writing or electronically and such notice shall indicate the agenda item or items on which the member wishes to speak.
- ii. Please note that mobile phones should be switched off or to silent for the duration of the meeting.
- iii. 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 are required to disclose, at this point in the meeting or as soon as possible thereafter, any disclosable pecuniary interest or personal 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 24 March 2016 & 19 May 2016

4. DEPUTATIONS – STANDING ORDER 3.5

(NOTE: The Board is required to receive a deputation(s) on a matter which is before the meeting of the Board provided that notice of the intended deputation and its object shall have been received by the Borough Solicitor by 12 noon on Tuesday, 5 July 2016. 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 Board 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 Board provided that notice of such Question(s) shall have been submitted to the Borough Solicitor by 12 noon on Tuesday, 5 July 2016).

6. ERNST & YOUNG – 2016-17 FEE LETTER AND 2015-16 AUDIT PROGRESS REPORT

The annual audit and certification fee letter for 2016/17 sets out the indicative fees for the audit of the Council's financial statements and certification of claims.

The audit progress report provides the Committee with an update on the progress made on the 2015/16 audit and highlights key upcoming changes which the Council will need to consider.

PART II
Helen Thompson
Ernst & Young

7. INTERNAL AUDIT ANNUAL REPORT 2015/16

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 Davies
Head of Internal
Audit & Risk
Assurance

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 24 MARCH 2016**

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

25. APOLOGIES

An apology for inability to attend the meeting was submitted on behalf of Councillor Scard.

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 10 September 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 AND YOUNG – CERTIFICATION OF CLAIMS AND RETURNS
ANNUAL REPORT 2014/15**

Consideration was given to the report of the Council's external auditors Ernst and Young, which summarised the results of work undertaken on the Council's 2014-15 claims and returns.

The Committee were advised by Ernst and Young that they had certified the housing benefits subsidy claim and had issued a qualification letter in respect of the 2014-15 claim.

It was further advised that the certification work had found some minor errors, which had been corrected by the Council and had no significant impact on the Authority.

RESOLVED: That the report be noted.

31. ERNST AND YOUNG – AUDIT PLAN 2015/16

Consideration was given to the Audit Plan which summarised Ernst and Young's initial assessment of the key risks and outlined their planned audit strategy in response to those risks.

Following a Members question regarding the reduction in fees compared to 2014/15 it was clarified by Ernst and Young that the 25% reduction was due to the closure of the Audit Commission. It was also reported that although changes had been made within the team the impact of the audit and quality remained at the same level.

RESOLVED: That the report be noted.

32. INTERNAL AUDIT MONITORING STATEMENT FROM 1 JULY 2015 TO 29 FEBRUARY 2016

Consideration was given to the report of the Head of Internal Audit and Risk Assurance which tabled the performance of the Internal Audit Section in the period 1 July 2015 to 29 February 2016 against the agreed internal audit plan to the Members with responsibility for governance.

Following a Members question in relation to the review of gas servicing, the Head of Internal Audit and Risk Management advised that checks and performance indicators were in place and being monitored quarterly. It was further advised that remedial action had been agreed with Management.

It was suggested by a Member that identified risks and management of those risks be reported at forthcoming meetings.

RESOLVED: That the Standards and Governance Committee reviewed and agreed the performance of Internal Audit from 1 July 2015 to 29 February 2016.

33. INTERNAL AUDIT PLAN 2016/17

Consideration was given to the report of the Head of Internal Audit and Risk Assurance providing the Committee with the planned annual coverage of the Internal Audit resource for 2016/17.

The Head of Internal Audit and Risk Assurance reported that the Principal Auditor position had been filled on a 4 day weekly basis.

It was further reported that both trainees in the Audit Team were progressing well towards their professional qualifications.

RESOLVED: That the Internal Audit plan for 2016/17 Internal Audit plan as attached in Appendix One be approved.

34. ANY OTHER BUSINESS

There was no other business

The meeting concluded at 18:40.

CHAIRMAN

**A MEETING OF THE STANDARDS AND GOVERNANCE COMMITTEE
WAS HELD ON 19 MAY 2016**

Councillors Allen (P), Ms Ballard (P), Beavis (P), Carter (P), Chegwyn (P), Mrs Forder (P), Mrs Furlong (P), Mrs Jones, Mrs Morgan, Mrs Prickett (P), Scard (P), Mrs Cully (P),

1. APOLOGIES

Apologies for inability to attend the meeting were submitted on behalf of Councillor Mrs Jones and Mrs Morgan.

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

3. DEPUTATIONS

There were no deputations

4. PUBLIC QUESTIONS

There were no public questions.

5. ELECTION OF CHAIRMAN

RESOLVED: That Councillor Carter be appointed as Chairman of the Standards and Governance Committee for the Municipal Year 2016-2017.

6. ELECTION OF VICE-CHAIRMAN

RESOLVED: That Councillor Scard be appointed as Vice-Chairman of the Standards and Governance Committee for the Municipal Year 2016-2017.

The meeting concluded at 5.45pm

CHAIRMAN

AGENDA ITEM NO. 06

Board/Committee:	Standards and Governance Committee Meeting
Date of Meeting:	07 July 2016
Title:	EY – 2016-17 Fee letter and 2015-16 audit progress report
Author:	Helen Thompson
Status:	For consideration and approval by Standards and Governance Committee

Purpose

The annual audit and certification fee letter for 2016/17 sets out the indicative fees for the audit of the Council's financial statements and certification of claims.

The audit progress report provides the Committee with an update on the progress made on the 2015/16 audit and highlights key upcoming changes which the Council will need to consider.

Recommendation

- Note the annual audit and certification fee letter for 2016/17 and the audit progress report 2015/16.

1 Background

- 1.1 The annual audit and certification fee letter for 2016/17 sets out an overview of the work that we propose to undertake for the 2016/17 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 National Audit Office (NAO) for 2016/17.
- 1.2 The audit progress report provides the Committee with an update on our progress to date, details of the planned outputs from the 2015/16 audit, and an update on key forthcoming changes in local government financial reporting and audit arrangements.

2 Annual Audit and Certification fee letter 2016/17

- 2.1 The PSAA has set the scale fee for each audited body, based on the five year procurement exercise carried out in 2012, with a further 25% reduction applied from 2015/16 onwards

reflecting the closure of the Audit Commission.

- 2.2 The fee letter details the work that we propose to undertake for the 2016/17 audit and reflects the risk-based approach to audit planning set out in the NAO's Code of Audit Practice. The audit fee has been based on a number of key assumptions that are detailed in the letter. The certification fee is based on the actual 2014/15 benefits certification fee and incorporates the same 25% reduction.

3 2015-16 Audit Progress report

- 3.1 The progress report provides a high level summary of our progress to date and the planned outputs from the 2015/16 audit. A timetable for this work is appended to the report. It also provides information on key changes in local government financial reporting and audit arrangements which are due to take effect in 2017/18 and 2018/19 respectively, and for which the Council will need to plan in the forthcoming period.

4 Risk Assessment

- 4.1 There are no risks associated with the annual audit and certification fees letter for 2016/17 or the audit progress report.

5 Conclusion

- 5.1 The fees set by the PSAA for the 2016/17 annual audit and certification of claims is attached, together with the audit progress report, for the Committee's information.

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 annual audit and certification of fees letter for 2016/17 and the audit progress report for 2015/16.
Report author/ Lead Officer:	Helen Thompson, Executive Director, Ernst & Young

Ian Lycett
Chief Executive
Gosport Borough Council
Town Hall
High Street
Gosport
PO12 1EB

20 April 2016

Ref: GBC/16-17/Fee Letter

Direct line: 023 8038 2099

Email: HThompson2@uk.ey.com

Dear Ian

Annual Audit and Certification Fees 2016/17

We are writing to confirm the audit and certification work that we propose to undertake for the 2016/17 financial year at Gosport Borough Council.

Indicative audit fee

For the 2016/17 financial year Public Sector Audit Appointments Ltd (PSAA) has set the scale fee for each audited body, following consultation on its Work Programme and Scale of Fees.

The fee reflects the risk-based approach to audit planning set out in the National Audit Office's Code of Audit Practice for the audit of local public bodies.

The audit fee covers the:

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

For Gosport Borough Council our indicative fee is set at the scale fee level. This indicative fee is based on certain assumptions, including:

- our accounts opinion and value for money conclusion are unqualified;
- officers meet the agreed timetable of deliverables;
- prompt responses are provided to our draft reports;
- the Council provides appropriate quality of documentation;
- the overall control environment remains effective and internal controls operate effectively for the key processes identified within our audit strategy; and
- we can rely on the work of internal audit as planned.

Meeting these assumptions will help ensure the delivery of our audit at the indicative audit fee which is set out in the table below.

As we have not yet completed our audit for 2015/16, our audit planning process for 2016/17 will continue as the year progresses. Fees will be reviewed and updated as necessary, within the parameters of our contract.

Certification fee

The PSAA has set an indicative certification fee for housing benefit subsidy claim certification work at each audited benefits authority. The indicative fee is based on actual 2014/15 benefit certification fees, and incorporating a 25 per cent reduction.

The indicative certification fee is based on the expectation that an audited body is able to provide the auditor with complete and materially accurate housing benefit subsidy claim with supporting working papers, within agreed timeframes.

The indicative certification fee for 2016/17 relates to work on the housing benefit subsidy claim for the year ended 31 March 2017. We have set the certification fee at the indicative fee level. We will update our risk assessment after we complete 2015/16 benefit certification work, and to reflect any further changes in the certification arrangements.

Summary of fees

	Indicative fee 2016/17 £	Planned fee 2015/16 £	Actual fee 2014/15 £
Total Code audit fee	53,044	53,044	70,725
Certification of housing benefit subsidy claim	13,703	14,666	18,270
Total	66,747	67,710	88,995
Non audit work	N/a	N/a	N/a

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

Billing

The indicative audit fee will be billed in four quarterly instalments of £16,686.75.

Audit plan

We expect to issue our audit plan in March 2017. This will communicate any significant financial statement risks identified, planned audit procedures to respond to those risks and any changes in fee. It

will also set out the significant 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 and Policy and Organisation Board.

Audit team

The key members of the audit team for the 2016/17 financial year are:

Helen Thompson
Executive Director

HThompson2@uk.ey.com

Tel: 07974 007332

David White
Assistant Manager

DWhite@uk.ey.com

Tel: 07837 385368

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
Executive Director
For and on behalf of Ernst & Young LLP

cc. Julian Bowcher, Borough Treasurer
Councillor Hook, Chair of the Policy and Organisation Board

Gosport Borough Council

Standards and Governance Committee Progress Report

June 2016



Building a better
working world

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

24 June 2016

Dear Committee Members

Audit Progress Report

We are pleased to attach our Audit Progress Report. Its purpose is to provide the Committee with an overview of the progress that we have made with the work that we need to complete during the 2015/16 audit. This report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations. We will bring a progress report to each Committee where we have a specific update for the Committee. For other key audit deliverables you can expect from us throughout the audit please see the timetable attached at the end of this report.

Our audit is undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, 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
Executive Director
For and behalf of Ernst & Young LLP

Contents

2015/16 audit.....	2
Timetable.....	5

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies 2015-16”. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between 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 ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This progress update 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..

2015/16 audit

Fee letter

We issued our 2015/16 fee letter to the Council in April 2015. Our 2016/17 fee letter will be included as a paper for the July 2016 Standards and Governance Committee meeting.

Financial Statements

Our detailed approach to the 2015/16 audit, including our assessment of risks impacting on our responsibilities, was set out in our Audit Plan which was reported to the 24 March 2016 meeting of the Standards and Governance Committee.

We adopt a risk based approach to the audit and, as part of our ongoing continuous planning we have continued to meet key officers regularly to ensure the 2015/16 audit runs as smoothly as possible and identify any risks at the earliest opportunity. Since the last Committee meeting in March, we have held the following meetings:

- ▶ 17 May – meeting held between Helen Thompson (Executive Director, Ernst & Young) and Ian Lycett (Chief Executive); Julian Bowcher (Borough Treasurer and s151 officer); and Linda Edwards (Borough Solicitor and Monitoring Officer), to discuss forthcoming changes to the senior leadership team at the Council.

Planning and interim visit

We completed our walkthroughs of the key financial systems in January/February 2016. We did not identify any significant issues from this work.

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

Internal Audit

Internal Audit is a key part of the Council's internal control environment that we review during our assessment process. This process helps us to assess the level of risk of material errors occurring in the financial statements and informs the level of testing that we are required to complete in support of the audit opinion.

We have considered Internal Audit's progress with their annual audit plan and the results of their testing of financial systems and, where it is appropriate to do so, have undertaken procedures to enable us to place reliance upon this testing.

Post statements visit

Our audit visit is scheduled to commence on 4 July 2016. The timing of our visit and our working paper requirements have been communicated to officers.

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.

Our audit results report, setting out the findings of our work and overall conclusions, will be presented to the Standards and Governance Committee and Policy and Organisation Board at their September meetings.

Value for money

As reported to you in our audit plan, we identified one risk in relation to our value for money conclusion. This related to the ability of the Council to deliver the savings required in its medium term financial strategy. Our work to review the Council's arrangements is ongoing; at this stage we have nothing we wish to report.

Our assessment will continue throughout the audit and should anything come to our attention which may change this assessment we will update this Committee in due course.

Local appointment of auditors

As previously reported to the Committee, the Department of Communities and Local Government (DCLG) has announced that it has decided not to extend the existing arrangements for external audit contracts beyond the end of 2017/18. This will mean from 2018/19 onwards, local authorities will be responsible for appointing their own auditors, and directly managing the resulting contract and the relationship.

Although the new approach to local audit does not come into play until 2018/19, bodies will need to start putting in place the mechanism required to deliver this. As part of the process, bodies will need to set up auditor panels to advise on the selection, appointment and removal of external auditors, and on maintaining an independent relationship with them. These will need to be in place by early 2017, with the procurement process taking place in spring 2017 and external auditors being appointed by December 2017.

Existing external audit arrangements will remain unchanged for the 2015/16, 2016/17 and 2017/18 years.

It is our intention that we will continue to keep you regularly updated throughout the process as more information becomes available to us and we will of course be happy to take any further questions you may have.

Accelerating your financial close arrangements

On 17 February 2015 the Accounts and Audit Regulations 2015 were laid before Parliament, having been made under the Local Audit and Accountability Act 2014 on 12 February 2015.

A key area of the regulations is that, from the 2017/18 financial year, the timetable for the preparation and approval of accounts will be brought forward to a draft accounts deadline of 31 May and an audit deadline of 31 July. These changes provide challenges for both the preparers and the auditors of the financial statements. The good news is that with good planning, communication and joint working, those deadlines are highly attainable.

The majority of local authorities are on the right trajectory, having met the current reporting deadlines consistently for the last few years; the challenge now is upping the speed of that trajectory to achieve the faster deadlines. We have included below some suggestions which will help achieve this new statutory deadline. We will continue to engage with officers to ensure that the Council is well placed to meet these new statutory deadlines.

As with any project, the key to success is in the planning, together with timely engagement and collaboration between the preparers of the financial statements and the auditors of those statements. We appreciate that each client starts from a slightly different base position. Therefore, there is no one size fits all solution. However, there are areas where consideration can be given now:

- ▶ revisit the current project timetable;
- ▶ carry out an early in-year financial hard close;
- ▶ review the format of your accounts;
- ▶ review your approach to estimates;
- ▶ review your year-end journals process;
- ▶ review the operation of your ledger system; and
- ▶ consider how fit for purpose is your current financial reporting system?

Over the coming year, we will organise regular meetings with your finance team and use this as a mechanism to discuss options for early close and early substantive testing. We will continue to provide the Committee with regular updates on our progress in this area. We are also happy to discuss the wider process with you in more detail when we next meet.

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 2015/16 Audit Committee cycle.

Audit phase	EY Timetable	Deliverable	Reported	Status
High level planning	Ongoing	Audit Fee Letter	June 2015	Completed
Risk assessment and setting of scope of audit	January - February 2016	Audit Plan	March 2016	Completed
Understanding and testing routine processes and controls	January - February 2016	Audit results report to those charged with governance	September 2016	Largely complete
Year-end audit	July - August 2016	Audit results report to those charged with governance Audit report (including our opinion on the financial statements and a conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources) Whole of Government Accounts Submission to NAO based on their group audit instructions Audit Completion certificate	September 2016	Work is planned to start 4 July 2016.
Annual Reporting	October 2016	Annual audit letter	December 2016	-

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AGENDA ITEM NO. 07

Board/Committee:	Standards and Governance Committee
Date of Meeting:	7 July 2016
Title:	Internal Audit Annual Report 2015/16
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 2015/16 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 2015/16
Report author/ Lead Officer:	Chris Davis 02392 545306



Gosport Borough Council

Standards & Governance Committee

Internal Audit Annual Report Year ending 31 March 2016

Head of Internal Audit & Risk Assurance: Chris Davis

Presented at the Standards & Governance Committee on: 7 July 2016

Contents:

Section		Page Reference
1	Introduction	1 - 2
2	The Statement of Assurance	2 - 4
3	Internal Audit Performance	5 - 6

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 2015 (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 2015/16 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 2015/16 (allowing us to be independent).

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 2016 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 2016;
- 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 3 monthly basis and this focused group has further enhanced the culture of risk throughout the Council. Meetings took place in May, July, September, December and March in this financial year. Much work of the Group in the year has been focussed in updating the operational risk registers, reporting progress on these to the core group and senior management and a small sub group developing the risk module software.

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 2014/15 (issued December 2015) 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 2015/16 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 2015/16 remains spread across the lower two categories. The internal audit team in total made 186 (125 previous year) recommendations to

management (all accepted). The profile against last year was 2 (1 previous year) essential, 65 (48 previous year) important and 119 (76 previous year) advisory.

2.9 Fraud

The Council continues to be active in detecting and preventing benefit and corporate fraud. From 01/09/15, the responsibility for investigating benefit fraud was taken over by the DWP. The Council retained a corporate fraud resource to assist and support in investigating all other types of fraud, including housing tenancy fraud. The internal team identified over £50K in fraudulent overpayments of housing benefit, council tax benefit and income support/job seekers allowance prior to transfer of benefit fraud to DWP. 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 provided to the external housing Customer Opinion Panel (COP). 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 and fraud proofing key processes.

2.10 Acceptance of Recommendations

The two essential recommendations (of a total of 186 recommendations) made during the year were fully accepted by management. Through the continued process of consultation, professional independent dialogue (including the weight of audit evidence) as well as quality assurance all other lower category recommendations (important [65 in total] and advisory [119 in total]) were also accepted. In total Internal Audit recommended to senior management 186 (125 previous year) recommendations in the year.

2.11 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 2016.

3.0 Performance of Internal Audit

3.1 Internal Audit Resource

Internal Audit had a full complement of staff at the early stage of the year when recruiting two trainee auditors. With close support from senior internal audit staff they have developed throughout the year as reported to Committee. The section also had turnover at the Principal Auditor level after Christmas but successfully recruited a new member (professionally qualified) to the team on a part time basis (4 day week). The team is now at full strength and continues to develop with the two trainees successfully gaining passes in their respective professional examinations. As at year end March 2016 the internal audit partnership now with Test Valley Borough Council had generated a further £32,431 in 2015/16. Over the last nine years the service has generated over £447,116 providing senior audit management support and additional audit services to both Eastleigh and Test Valley Councils. It has been another challenging year managing the two sites, developing the two trainees, managing the turnover and losing a dedicated member of the corporate fraud team to the DWP. The joint audit management role with Test Valley Borough Council continues to the 31 March 2017 when the current arrangement will be reviewed.

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 2015/16 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 – including partner Council auditors) 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.