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27 June 2017

S U M M O N S

MEETING: Standards and Governance Committee
DATE: 5 July 2017
TIME: 6.00 pm
PLACE: Committee Room 1, Town Hall, Gosport
Democratic Services contact: Lisa Young

MICHAEL LAWOTHER
BOROUGH SOLICITOR

MEMBERS OF THE BOARD

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

Councillor Allen	Councillor Mrs Forder
Councillor Mrs 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)

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IMPORTANT NOTICE:

- If you are in a wheelchair or have difficulty in walking and require access to the Committee Room on the First Floor of the Town Hall for this meeting, assistance can be provided by Town Hall staff on request

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

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AGENDA

1. **APOLOGIES FOR NON-ATTENDANCE**

2. **DECLARATIONS OF INTEREST**

All Members 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 correct records the Minutes of the Committee meetings held on 23 March 2017 and 18 May 2017.

4. **DEPUTATIONS – STANDING ORDER 3.4**

(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 Monday 3rd July 2017. The total time for deputations in favour and against a proposal shall not exceed 10 minutes).

5. **PUBLIC QUESTIONS – STANDING ORDER 3.5**

(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 Monday, 3rd July 2017)

6. **EY- 2016/17 AUDIT PROGRESS REPORT, AND 2017/18 ANNUAL FEE LETTER**

The audit progress report provides the Committee with an update on the progress made on the 2016/17 audit and re-confirms key upcoming changes which the Council will need to consider.

PART II
Helen Thompson
Ernst & Young

7. **INTERNAL AUDIT ANNUAL REPORT 2016/17**

Report to Follow

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.

Standards and Governance Committee
5 July 2017

**A MEETING OF THE STANDARDS AND GOVERNANCE COMMITTEE
WAS HELD ON 23 MARCH 2017**

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

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

35. APOLOGIES

Apologies for inability to attend the meeting were submitted on behalf of Councillors Allen, Beavis, and Mrs Furlong.

36. DECLARATIONS OF INTEREST

There were no declarations of interest.

37. MINUTES

RESOLVED: That the minutes of the meeting of the Standards and Governance Committee held on 24 November 2016 be approved and signed by the Chairman as a true and correct record.

38. DEPUTATIONS

There were no deputations

39. PUBLIC QUESTIONS

There were no public questions.

PART II

40. CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2015-16

Consideration was given to the certification of claims and returns annual report 2016 which summarised the results of the work carried out by the Council's external auditors Ernst & Young.

Members of the Committee were advised that the audit work had been completed and certified and that section 1 of the report outlined the results of the 2015-16 certification work and highlighted issues that had been identified. It was confirmed by Ernst & Young that the issues identified represented a very small percentage of the total value of the subsidy claimed.

Members of the Committee were advised that fees for certification and other returns work were summarised in section 2 of the report and that the housing benefits subsidy claim fees for 2015-2016 had been published by the Public Sector Audit Appointments (PSAA) in March 2015 and were now available on their website.

A Member asked for clarification on the extended testing processes and was advised by David White that a sample of 20 cases were tested and that if any error was identified additional testing of cases followed.

Following a question from a Member in relation to the underpayment in Housing Benefit, Helen Thompson advised that this had been corrected and an imbursement would be made to the claimant.

Member's congratulated the diligence of officers in keeping the error rates on cases as low as possible.

Members were advised by Ernst and Young that the Council's indicative certification fee for 2016/17 had been set as a scale fee and reported that from 2018/19, the Council would be responsible for appointing their own auditor and that this was likely to include making their own arrangements for the certification of the housing benefit subsidy claim in accordance with the requirements established by the Department for Work and Pensions (DWP).

RESOLVED: That the report be noted.

41. AUDIT PLAN 2016/2017

Consideration was given to the 2016/17 Audit Plan which summarised the initial assessment of the key risks driving the development of an effective audit for the Council and outlined the planned audit strategy in response to those risks.

Ernst & Young informed Members that there had been no change to the criteria on which the assessment of the Council's arrangements to secure value for money would be based, and that the approach would focus on:

- reviewing how new arrangements had worked in practise since their inception;
- reviewing the quality of information provided to Committees, Boards and Full Council to enable Members to make informed decisions since the new arrangements came into place; and
- assessing the financial impact of the arrangements both in terms of direct revenue savings and the Council's most recent medium term financial planning.

A Member asked for clarification on reporting fraud. Helen Thompson advised that Ernst & Young were prescribed by legislation in terms of what external audit are required to investigate, specifically the Local Audit and Accountability Act 2014 and guided by the PSAA. Depending on the nature of the complaint it was felt that in the first instance allegations of fraud should be brought to the attention of Internal Audit and the Police for investigation. External Audit would give appropriate consideration to any matters drawn to their attention, and would advise whether or not they were the appropriate people to investigate an allegation of fraud.

RESOLVED: That

- a) The audit plan and the risks identified in the auditors work on the audit opinion and value for money conclusion, and their planned response to those risks be noted; and
- b) Audit Plan for 2016/17 be recommended to the Policy and Organisation Board as those charge with governance.

42. QUARTERLY INTERNAL AUDIT MONITORING STATEMENT FROM 1ST OCTOBER 2016 – 9TH MARCH 2017

Consideration was given to the report of the Head of Internal Audit & Risk Assurance which tabled the performance of the Internal Audit Section in 2016/17 (1st October 2016 – 9th March 2017) against the agreed audit plan.

Members were informed of the fraud prevention work being carried out and were provided with an update on the team and their development and provision of Audit Services to Test Valley Borough Council.

A Member asked for clarification on how many Officers held Council Credit Cards and the limits in place to control usage. The Head of Internal Audit and Risk Assurance advised Members that there were strong controls on financial limits and that restrictions were in place that meant Officers could not draw out cash. He further added that the cards were not currently contactless and that he would send an email to Members of the Committee detailing how many officers held cards.

A Member asked for the cost of upgrading all the car parking machines to allow for the new £1 coin in the Borough and the Head of Internal Audit and Risk Assurance advised that he would send an email detailing this information. The Member further highlighted the need for the signage on Housing Car Parks to be updated (as per the internal audit report). The Head of Internal Audit and Risk Assurance advised that he would contact Streetscene to implement.

RESOLVED: That the Standards and Governance Committee note the fraud prevention work, developments in the team and provision of Services to Test Valley Borough Council since the last meeting.

43. INTERNAL AUDIT PLAN 2017/18

Consideration was given to the report of the Head of Internal Audit & Risk Assurance which provided the Standards and Governance Committee with the planned annual coverage of the Internal Audit resource for 2017/18.

RESOLVED: That the Internal Audit Plan for 2017/18 as attached in Appendix One be approved.

44. ANY OTHER BUSINESS

There was no other business

The meeting concluded at 18:38.

CHAIRMAN

**A MEETING OF THE STANDARDS AND GOVERNANCE COMMITTEE
WAS HELD ON 18 MAY 2017**

Councillors Allen (P), Ms Ballard (P), Beavis (P), Carter (P), Chegwyn (P), Mrs Cully (P) Mrs Forder (P), Mrs Furlong (P), Mrs Jones (P), Mrs Morgan, Mrs Prickett (P), Scard (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 2017-2018.

6. ELECTION OF VICE-CHAIRMAN

RESOLVED: That Councillor Scard be appointed as Vice-Chairman of the Standards and Governance Committee for the Municipal Year 2017-2018.

The meeting concluded at 5.27pm

CHAIRMAN

AGENDA ITEM NO 06

Board/Committee:	Standards and Governance Committee
Date of Meeting:	05 July 2017
Title:	EY- 2016/17 Audit Progress Report, and 2017/18 Annual Fee Letter
Author:	Helen Thompson
Status:	Standards and Governance Committee to receive and consider the 2016/17 Audit Progress Report and the 2017/18 Annual Fee Letter

Purpose

The audit progress report provides the Committee with an update on the progress made on the 2016/17 audit and re-confirms key upcoming changes which the Council will need to consider.

The annual fee letter for 2017/18 sets out the indicative fee for the audit of the Council's financial statements. The indicative fee for the certification of the Council's 2017/18 housing benefit subsidy claim is to follow, as the scale fee has not yet been set by Public Sector Audit Appointments Limited (PSAA).

Recommendation

- Note the audit progress report for 2016/17 and the annual fee letter for 2017/18.

1 Background

- 1.1 The audit progress report provides the Committee with details of progress made on, and the planned outputs from, the 2016/17 audit, and an update on key forthcoming changes in local government audit arrangements.
- 1.2 The annual fee letter for 2017/18 sets out the work that we propose to undertake for the 2017/18 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 2017/18.

2 2016/17 Audit Progress Report

- 2.1 The progress report provides a high level summary of our progress to date and the planned outputs from the 2016/17 audit. A timetable for this work is appended to the report. It also provides an update on key changes in local audit arrangements which are due to take effect in 2018/19, and for which the Council will need to plan in the forthcoming period.

3 2017/18 Annual Fee Letter 2017/18

- 3.1 For the 2017/18 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. There are no planned changes to the overall work programme for 2017/18. It is therefore proposed by the PSAA that scale fees are set at the same level as the scale fees applicable for 2016/17. These fees reflect the significant reductions made to scale fees since 2012/13.
- 3.2 The fee letter details the work that we propose to undertake for the 2017/18 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.
- 3.3 The indicative fee for the certification of the Council's 2017/18 housing benefit subsidy claim is to follow, as the scale fee has not yet been set by Public Sector Audit Appointments Limited (PSAA).

4 Risk Assessment

- 4.1 There are no risks associated with the progress report or fee letter.

5 Conclusion

- 5.1 The 2016/17 progress report and 2017/18 fee letter are attached for consideration.

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:	Audit Progress Report 2016/17 Annual Fee Letter 2017/18
Report author/ Lead Officer:	Helen Thompson, Executive Director, Ernst & Young

Gosport Borough Council

Standards and Governance Committee Progress Report

June 2017



Building a better
working world

Standards and Governance Committee
Gosport Borough Council
Town Hall
High Street
Gosport
Hampshire
PO121EB

19 June 2017

Audit Progress Report

We are pleased to attach our Audit Progress Report.

This progress report summarises the work we have undertaken since the last meeting of the Standards and Governance Committee in March 2017. The purpose of this report is to provide the Committee with an update of our plans for the 2016/17 audit, to ensure they are aligned with your service expectations.

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 on behalf of Ernst & Young LLP
Enc.

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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 \(www.psaa.co.uk\)](http://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 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.

2016/17 audit

Financial statements audit

We issued our 2016/17 Audit Plan in March 2017 where we outlined how we intend to carry out our responsibilities as auditor, including our proposed audit approach. Our Plan was presented to the March meeting of the Standards and Governance Committee.

Interim visit

We carried out our interim visit in March 2017, to undertake outstanding documentation and walkthroughs of material systems, complete controls testing and undertake early substantive testing. We have not identified any additional risks from this work that we need to make the Committee aware of, nor are there any issues arising from our work that we need to report to you at this stage.

Post Statements audit

Anticipating the move to faster closing, whereby the Council will have to publish its audited statement of accounts by 31 July 2018 for the 2017/18 financial year, we commenced our post statements work on the 2016/17 statement of accounts on 19 June 2017, which is earlier than has traditionally been the case for the Council.

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 to the Policy and Organisation Board, at their September meetings.

We have set out an outline timetable for the audit in Appendix 1.

Value for money assessment

We have identified one significant risk to our value for money conclusion, as reported in our Audit Plan.

We expect to complete our detailed work during our post statements audit visit.

2016/17 Grant Certification Work

We have liaised with Head of Benefit Services to set-up the initial testing of cases for the 2016/17 housing benefit subsidy claim, which will be undertaken by officers this year. This testing commenced June 2017. This is significantly earlier than in previous years, and well ahead of the certification deadline of 30 November 2017. This will allow us to identify any areas requiring further testing earlier than has been the case in previous years and to conclude our work earlier, provided that no unforeseen issues are identified. The remaining aspects of our certification work will be carried out in September and October 2017.

We will present our grant claims certification report to the March 2018 meeting of the Standards and Governance Committee.

Looking ahead

Local appointment of auditors for financial statements audits

As the Committee will be aware, the Council has joined the PSAA Ltd sector-led process to carry out the procurement and appointment of external auditors on behalf of local government bodies for 2018/19 onwards.

Firms meeting the qualification criteria for the procurement process submitted tenders for the local government audit contract in May 2017. The contract is divided into six lots, with each firm eligible to win a maximum of one lot. The precise make-up of each lot will be determined in the period following the outcome of the tendering process and will be based principally on ensuring auditor independence, trying to achieve continuity of appointed auditor where possible, and appointing a common auditor for bodies with a close association between them.

Tenders are evaluated based on an assessment of audit quality and price, with a 50/50 weighting between these criteria.

The outcome of the tender is expected to be confirmed mid June 2017.

Existing external audit arrangements for the financial statements will remain unchanged for the 2016/17 and 2017/18 financial years.

Local appointment of auditors for grant claim certification

As noted above, from 2018/19, the Council will be responsible for appointing its own auditor, including making their own arrangements for the certification of the housing benefit subsidy claim in accordance with the requirements that will be established by the DWP. This process will be outside the PSAA Ltd sector-led procurement described above, so the Council will need to make its own individual arrangements to appoint an auditor for this work. The appointment process will need to be completed by the end of February 2018.

Further information can be found at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/585740/s1-2017.pdf

Existing external audit arrangements for housing benefit grant claim certification will remain unchanged for the 2016/17 and 2017/18 financial years.

Appendix 1 – Timetable for the 2016/17 audit

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 2016/17 Committee cycle. We will provide formal reports to the Standards and Governance Committee throughout our audit process as outlined below.

Audit phase	EY Timetable	Deliverable	Committee date	Status
High level planning	Ongoing	Audit Fee Letter	November 2016	Complete
Risk assessment and setting of scope of audit	December 2016 – March 2017	Audit Plan	March 2017	Complete
Testing of routine processes and controls	March 2017	Audit Plan and Progress Report	March 2017 and July 2017	Substantially complete
Year-end audit	June - September 2017	Audit results report to those charged with governance Audit report (including our opinion on the financial statements and a conclusion as to whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources) Whole of Government Accounts Submission to NAO based on their group audit instructions Audit Completion certificate	September 2017	In progress
Annual Reporting	October 2017	Annual Audit Letter	November 2017	Not yet started
Grant Claims 2016/17	June - October 2017	Annual certification report	March 2018	In progress

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

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06 April 2017

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Dear David

Annual Audit and Certification Fees 2017/18

We are writing to confirm the audit and certification work that we propose to undertake for the 2017/18 financial year at Gosport Borough Council.

From 1 April 2015, the duty to make arrangements for the audit of the accounts and the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. In October 2015, the Secretary of State confirmed that the transitional arrangements would be extended for one year for audits of principal local government bodies only, to cover the audit of the accounts for 2017/18. The audit contracts previously let by the Audit Commission and novated to PSAA have therefore also been extended for one year to give effect to this decision.

From 2018/19, new arrangements for local auditor appointment set out in the Local Audit and Accountability Act 2014 will apply for principal local government and police bodies. These audited bodies will be responsible for making their own arrangements for the audit of the accounts and certification of the housing benefit subsidy claim. The PSAA will play a new and different role in these arrangements.

Indicative audit fee

For the 2017/18 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. There are no planned changes to the overall work programme for 2017/18. It is therefore proposed by the PSAA that scale fees are set at the same level as the scale fees applicable for 2016/17. These fees reflect the significant reductions made to scale fees since 2012/13.

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:

The overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year;

Officers meeting the agreed timetable of deliverables;

The operating effectiveness of the internal controls for the key processes identified within our audit strategy;

We can rely on the work of internal audit as planned;

Our accounts opinion and value for money conclusion being unqualified;

Appropriate quality of documentation is provided by the Council;

There is an effective control environment; and

Prompt responses are provided to our draft reports.

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

As we have not yet completed our audit for 2016/17, our audit planning process for 2017/18 will continue as the year progresses. Fees will be reviewed and updated as necessary, within the parameters of our contract.

Certification fee

The PSAA sets an indicative certification fee for housing benefit subsidy claim certification work for each audited benefits authority. The indicative fee for 2017/18 will be based on actual 2015/16 benefit certification fees. As the actual 2015/16 benefit certification fee has not been finalised by PSAA at the time of writing they have not yet set the 2017/18 certification fees.

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 2017/18 relates to work on the housing benefit subsidy claim for the year ended 31 March 2018. We will set the certification fee at the indicative fee level. We will update our risk assessment after we complete 2016/17 benefit certification work, and to reflect any further changes in the certification arrangements.

Summary of fees

	Indicative fee 2017/18 £	Planned fee 2016/17 £	Actual fee 2015/16 £
Total Code audit fee	53,044	53,044	53,044
Certification of housing benefit subsidy claim	TBC	13,703	14,666
Proposed housing benefit subsidy claim scale fee variation			2,035
Proposed code audit scale fee variation in relation to MRP change		1,211	
Total	TBC	67,958	69,745

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 code audit fee will be billed in four quarterly instalments of £13,261. Additionally, we will bill 25% of the indicative certification fee each quarter when it has been determined.

Audit plan

Our plan is expected to be issued in January 2018. 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 2017/18 financial year are:

Helen Thompson hthompson2@uk.ey.com Tel: 07974 007332

Executive Director

David White dwhite@uk.ey.com Tel: 07837 385368

Assistant Manager

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. Councillor Hook, Chair of the Policy and Organisation Board
Chris Ward, Borough Treasurer

AGENDA ITEM NO. 7

Board/Committee:	Standards and Governance Committee
Date of Meeting:	5 July 2017
Title:	Internal Audit Annual Report 2016/17
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 on the activities of Audit during the year and the overall conclusion on the level of assurance that placed on the adequacy and effectiveness of the Council's internal control environment. This report is required to be made 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, which is required to be approved prior the consideration 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

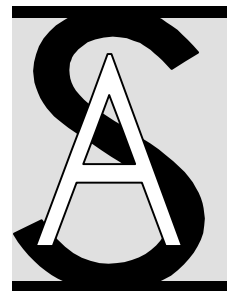
- 3.1 The report has a minimal direct impact on the overall risk of the Council. The work performed and the professional advice given by Internal Audit provides management with a high degree of assurance as stated within the attached report.

4 Conclusion

- 4.1 The overall opinion provided by internal audit, from the work undertaken in 2016/17 is detailed in the attached Appendix A under section 5.1.

Financial Services comments:	There are no financial implications associated with the recommendations contained within this report.
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 2016/17
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 2017

Head of Internal Audit & Risk Assurance: Chris Davis

Presented at the Standards & Governance Committee on: 5 July 2017

1.0 Summary

- 1.1** In 2016/17 Internal Audit raised 5 essential, 72 important and 106 advisory recommendations. Internal Audit also gave 5 strong, 23 good and 5 poor assurance opinions throughout the year.
- 1.2** The final audit plan contained 35 full audits. 2 of the audits were not covered from the 2016/17 plan, details as follows:
- VAT (slipped and will be reviewed in 2017/18)
 - Economic Prosperity (new management structure with PCC to be reviewed in 2017/18)
- 1.3** 94.2% of the revised 2016/17 Audit Plan (33/35 audits) has been completed.
- 1.4** In addition to the planned audits there are 9 areas of on-going work which contribute to risk assurance.
- 1.5** The assurance opinions are shown in Appendix 1.
- 1.6** During 2016/17 Internal Audit carried out 141 days for Test Valley Borough Council in the continued shared management partnership generating £41.4k.

2.0 Purpose of report

- 2.1** This report is to give the Annual Audit Opinion on the effectiveness of the control framework, based on the Internal Audit findings for 2016/17 and highlights any areas of concern.

3.0 Recommendations

- 3.1** Members note the Annual Audit Opinion on the effectiveness of the system of internal control for 2016/17.
- 3.2** Consider any additional actions to be taken in response to matters raised within this report relating to the reviews undertaken.

4.0 Audit Plan Status 2016/17

Percentage of the approved plan completed

- 4.1** 94.2% of the annual audit plan has been completed. Appendix 1 shows the completed audits for 2016/17 including their opinion and number of recommendations. The table overleaf also profiles the recommendations against the previous year (2015/16). All recommendations are being followed up and a full status of each recommendation will be provided to the next Committee in September.

Recommendation	2015/16	2016/17	Direction +/-
Critical	0	0	=
Essential	2	5	+ 3
Important	65	72	+ 7
Advisory	119	106	- 13
	186	183	

- 4.1.1 The above table highlights a very minor deterioration in the overall control framework due to an increase in both essential and important recommendations though in a challenging year this was likely and this will be monitored closely throughout 2017/18.

Reactive Work

- 4.2 Reactive Work undertaken by Internal Audit in 2016/17 includes:

- 15 special investigations (including housing fraud referrals) This work has been concluded with several good results (as previously reported) with keys back to Council properties and good results from joint work with the Police. Sound whistleblowing/referrals of alleged fraud exist within the Council and as a result those that require investigating will be examined.
- 25 items of advice, (where the advice exceeds an hours work)

Ongoing Areas

- 4.3 The following 9 areas are on-going areas of work carried out by Internal Audit;

- Anti-Money Laundering monitoring and reporting
- Investigations
- Financial & Contract Rules Waivers
- National Fraud Initiative (NFI) to facilitate national data matching carried out by the Cabinet Office
- National Anti-Fraud Network (NAFN) bulletins and intelligence follow up
- Counter Fraud Programme
- Standards & Governance Committee reporting and attendance
- Audit Planning and Consultation
- Risk Management

5.0 Annual Audit Opinion

- 5.1 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 **good assurance** can be placed upon the adequacy and effectiveness of the Council's overall internal control system in the year to 31 March 2017.

- 5.2 Any significant corporate weaknesses and agreed actions will be reflected in the Annual Governance Statement. The impact of the Internal Audit work for 2016/17 may affect that year's work for External Audit. It may also inform their work for 2017/18 and where they consider there are weaknesses in control that could materially affect the accounts they may need to carry out further work to gain the necessary audit assurance required for a true and fair view of the financial position and compliance with professional codes of practice.
- 5.3 Internal Audit has carried out a self-assessment and confirms that they are compliant with the Public Sector Internal Audit Standards (PSIAS). This assessment is also being overviewed by the Hampshire & IoW Audit Managers Group.

Appendix 1**2016/17 Audit Work (supporting opinion in AGS)**

No critical recommendations in 2016/17

Number	Year	Audit Assignment	Opinion	Essential	Important	Advisory	Total
1	16/17	Controlled Stationery	Good	0	1	4	5
2	16/17	Imprests & Floats	Good	0	0	3	3
3	16/17	Community Safety	Good	0	1	1	2
4	16/17	Cemeteries	Poor	2	3	4	9
5	16/17	Sheltered Housing - Follow up	Poor	0	7	5	12
6	15/16	Council Tax 15/16	Good	0	3	3	6
7	16/17	Choice based lettings	Good	0	1	1	2
8	16/17	Alver Valley	Good	0	1	15	16
9	16/17	Car Parking	Good	0	2	8	10
10	16/17	Time Recording System	Good	0	0	11	11
11	16/17	Cashiers & Cash Collection	Good	0	2	2	4
12	16/17	Treasury Management	Strong	0	0	0	0
13	16/17	Gosport Leisure Centre	Strong	0	3	1	4
14	16/17	Payroll Expenses - probity	Good	0	0	5	5
15	16/17	Procurement/Creditors (limited scope)	Good	0	5	3	8
16	16/17	Urbaser Contract Audit	Strong	0	0	0	0
17	16/17	IT Asset Management	Poor	3	1	0	4
18	16/17	Cemeteries consultancy	N/A	-	-	-	-
19	16/17	Council Tax 16/17	Good	0	0	8	8
20	16/17	Bloxx Internet Usage Review	N/A	0	0	0	0
21	16/17	Building Control Partnership	Good	0	5	1	6
22	16/17	NDR	Good	0	1	9	10
23	16/17	Streetscene Petty Cash & Floats	Probity – N/A	0	0	3	3
24	16/17	S106 & CIL	Good	0	3	2	5
25	16/17	Budgetary Control & Capital Expenditure	Good	0	0	2	2
26	16/17	Accounting and Bank Reconciliation	Good	0	0	1	1

27	16/17	Fixed Assets	Strong	0	0	1	1
28	16/17	Debtors	Good	0	2	0	2
29	16/17	Accounting System	Good	0	2	0	2
30	16/17	Payroll	Good	0	4	3	7

Number	Year	Assignment	Opinion	Essential	Important	Advisory	Total
31	16/17	<i>Housing Benefits and Overpayments recovery (draft)</i>	Strong	0	1	1	2
32	16/17	Data Protection Act	Poor	0	13	0	13
33	16/17	Housing Rent Collection and Recovery	Good	0	4	3	7
34	16/17	Housing Debtors - follow up	Poor	0	3	3	6
35	16/17	Town Hall and Depot Security	Good	0	4	0	4
36	16/17	Utilities and Phones	Good	0	0	3	3
Totals				5	72	106	183

Opinion Rating	Totals	%
Strong	5	15
Good	23	70
Poor	5	15
	33	

33 of 35 (1 review a fraud review + combined procurement and creditors) = 33/35 (94.2%)