

Please ask for:

Lisa Young

Direct dial:

(023) 9254 5651

E-mail:

Lisa.young@gosport.gov.uk

20 March 2018

S U M M O N S

MEETING: Standards and Governance Committee
DATE: 28 March 2018
TIME: 6.00 pm
PLACE: Committee Room 1, Town Hall, Gosport
Democratic Services contact: Lisa Young

MICHAEL LAWTHER
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)

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 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 meeting held on 20 December 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 26 March 2018. 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, 26th March 2018)

6. **EY – AUDIT PLANNING REPORT 2017-18**

The Audit Planning Report 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 2017/18. The audit opinion and value for money work will be completed in line 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.

PART II
Kevin Suter
Ernst & Young

7. **INTERNAL AUDIT PLAN 2018/19**

*This report provides the Standards and Governance Committee with the planned annual coverage of the Internal Audit resource for 2018/19.
Report to follow*

PART II
Chris Davis

8. **INTERNAL AUDIT MONITORING STATEMENT FROM 1ST NOVEMBER 2017 – 28TH FEBRUARY 2018**

To table the performance of the Internal Audit Section for 2017/18 (1st November 2017 – 28th February 2018) against the agreed audit plan (March 2017) to the Members with responsibility for governance.

PART II
Chris Davis

Provide Members with an update on the team and their development and provision of audits services to Test Valley Borough Council

9 **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 20 DECEMBER 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 (P), Mrs Prickett (P), Scard (P)

15. APOLOGIES

There were none.

16. DECLARATIONS OF INTEREST

There were none.

17. MINUTES

RESOLVED: That the minutes of the meetings of the Standards and Governance Committee held on 5 July 2017 be approved and signed by the Chairman as a true and correct record.

18. DEPUTATIONS

There were no deputations.

19. PUBLIC QUESTIONS

There were no public questions.

PART II

20. EY – ANNUAL AUDIT LETTER

Consideration was given to the annual audit letter report summarising the findings from the 2016/17 audit which was now complete. It summarised the key messages that were reported in the Audit Results Report presented to the Policy and Organisation Board on 27 September 2017. The Annual Audit Letter is an important report that has been prepared in line with the requirements of the National Audit Office's Code of Audit Practice.

Helen Thompson was invited to address the Committee.

The Committee was advised that unqualified audit opinions on the Value for Money conclusion and the Financial Statements had been issued on 29th September following their reporting to the Policy and Organisation Board and that this report summarised the substantial message of the letter.

The Committee was advised that there were no key areas of risk, and no areas of concern. The Committee was advised that there was no concern regarding the change in CIPFA code.

The Committee was advised that the small audit differences had been highlighted at the Policy and Organisation Board, none of which caused concern.

The Committee was advised that the significant risk identified within the value for money conclusion centred on the change in Senior Management and that no significant weakening of arrangements had been identified in the work undertaken.

Helen Thompson advised the Committee that she would no longer be responsible for the audit of the Council as she had completed a five year term. Kevin Suter would be her replacement in the New Year.

Members thanked Helen for her work over the previous five years.

RESOLVED: The Annual Audit letter be received.

21. EY – Certification of claims and returns annual report 2016- 17

Consideration was given to the certification of claims and returns annual report which summarised the findings from the work completed to enable EY to certify the Council's 2016/17 housing benefit subsidy claim. It reported the key messages from the work that had been undertaken, including any changes that were agreed with council officers and, where relevant, details of matters reported to the grant paying department. The annual report had been prepared in line with the requirements of Public Sector Audit Appointments Limited (PSAA), which overaw the certification of claims and returns.

Helen Thompson was invited to address the Board.

The Committee was advised that the report finalised the work of the 2016/17 Audit and that the report summarised the work carried out to enable EY to certify the Council's 2016/17 housing benefit subsidy claim.

The Committee was advised that the deadline of 30 November had been met and that large value of the claim was in excess of £28,000,000.

The Committee was advised that a qualification letter in respect of the claim had been issued and that the qualification related to a relatively small number of minor issues that were required to be reported to the DWP.

The Committee was advised that such errors were not uncommon with the complexity of changes to the claims and that the processes currently in place were acceptable.

The Committee was advised that there would be a rebate of 20% of the fees as Council Officers had undertaken the initial testing.

Members were advised that in the instance of overpayment, the Council would seek to reclaim money overpaid.

The Committee was advised of the errors that had occurred, regarding spare room subletting, errors relating to earnings, and that these had all been reported to the DWP as required.

RESOLVED: That the conclusions set out in the certification of claims and returns annual report 2016/17 be approved.

22. LOCAL GOVERNMENT OMBUDSMAN: ANNUAL REVIEW 2017

Consideration was given to the report of the Chief Executive advising the Committee of the Annual Review Letter 2017 received from the Local Government Ombudsman.

The Committee were advised that the complaints that were upheld were regarding housing services and allotments and had been addressed and staff retraining had been undertaken.

RESOLVED: That the report of the Chief Executive be noted.

23. INTERNAL AUDIT MONITORING STATEMENT FROM 1ST APRIL 2017 – 31ST OCTOBER 2017

Consideration was given to the report of the Head of Internal Audit and Risk Assurance tabling the performance of the Internal Audit Section for 2017/18 (1st April 2017 – 31st October 2017) against the agreed audit plan (March 2017) to the Members with responsibility for governance. The report informed Members of the fraud prevention work being carried out and provided Members with an update on the team and their development and provision of audit services to Test Valley Borough Council.

The Principal Auditor advised the Committee that of the 41 assignments scheduled, 51% had been completed and that the audit was on track.

In answer to a Member's question the Board was advised that 170 audit days were provided to Test Valley Borough Council, and that additional days had recently been provided, and that Gosport Borough Council would receive additional income for these.

Members requested that the figures of the income received from Test Valley Borough Council be distributed to the Committee following the meeting.

Members welcomed the progress of the Audit staff and congratulated the Principal Auditor on undertaking an accredited counter fraud course.

The Committee was advised that of the 'poor' gradings, the Emergency Planning/Business Continuity risk had been immediately rectified by updating contact details.

The Grants to Voluntary Organisation 'poor' grading was still being resolved, it had been identified that some additional work needed to be undertaken to ensure that the funding was being used appropriately. The Committee was advised that the organisations were currently required to present back to the Council on their work.

Members recognised the importance of the grants to the organisation and welcomed the reassurance that the funds were being used correctly.

RESOLVED: That

- a. That the performance of Internal Audit from 1st April 2017 to 31st October 2017 be noted.
- b. The fraud prevention work, developments in the team and provision of services to Test Valley Borough Council be noted.

The meeting concluded at 18:30.

CHAIRMAN

AGENDA ITEM NO 06

Board/Committee:	Standards and Governance Committee Meeting
Date of Meeting:	28 March 2018
Title:	EY – Audit Planning Report 2017-18
Author:	Kevin Suter
Status:	Standards and Governance Committee to consider the 2017-18 Audit Plan

Purpose

The Audit Planning Report 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 2017/18. The audit opinion and value for money work will be completed in line 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.

Recommendation

- Review the Audit Planning Report and note the risks and areas of focus we have identified, and our planned response to them.
- Recommend the Audit Planning Report for 2017/18 to the Policy and Organisation Board as those charged with governance.

1 Background

- 1.1 The National Audit Office'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 Report for 2017/18 together with details of our planned response to them.

2 Audit Planning Report 2017-18

Audit Scope

- 2.1 The Audit Planning Report 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 2018 and of the income and expenditure for the year then ended; and
 - a 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, to the extent and in the form required by them, on the Council's Whole of Government Accounts return.
- 2.3 Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

3 Risk Assessment

- 3.1 The NAO 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 report for 2017/18 is attached for consideration by the Committee and for comment, and for recommendation 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:	Audit Planning Report 2017-18
Report author/ Lead Officer:	Kevin Suter, Associate Partner, Ernst & Young



Gosport Borough Council

Audit planning report

Year ended 31 March 2018

February 2018



Gosport Borough Council
Town Hall, High Street
Gosport
Hampshire PO12 1EB

26 February 2018

Dear Standards & Governance Committee and Policy & Organisation Board Members

Audit planning report

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 Standards & Governance Committee and Policy & Organisation Board with a basis to review our proposed audit approach and scope for the 2017/18 audit 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. It is also to ensure that our audit is aligned with the Committee/Board'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.

This report is intended solely for the information and use of the Standards & Governance Committee and Policy & Organisation Board and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 28 March 2018 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Kevin Suter

For and on behalf of Ernst & Young LLP

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Contents



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the 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 (updated February 2017)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Standards & Governance Committee and Policy & Organisation Board and management of Gosport Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Standards & Governance Committee and Policy & Organisation Board, and management of Gosport Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Standards & Governance Committee and Policy & Organisation Board and management of Gosport Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Overview of our 2017/18 audit strategy



Overview of our 2017/18 audit strategy

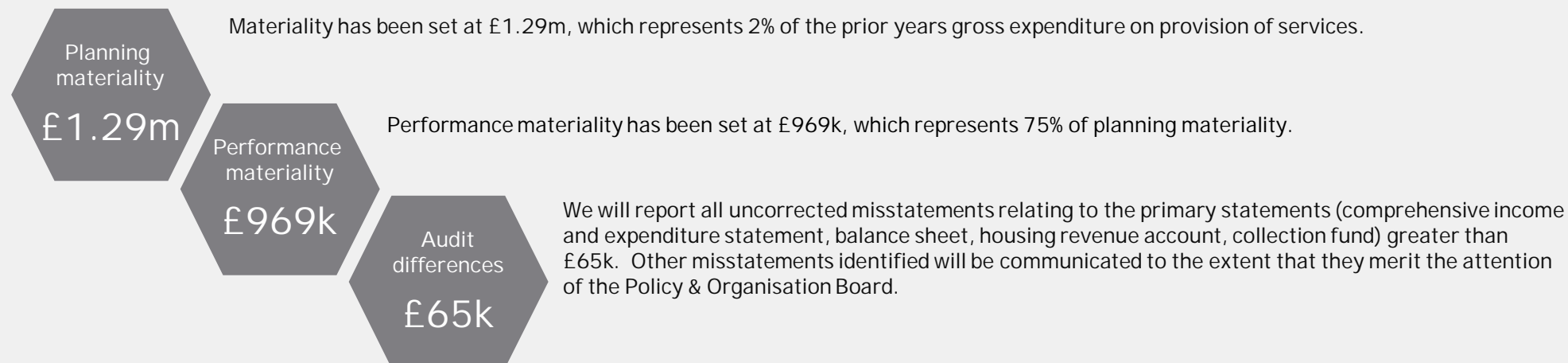
The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Standards & Governance Committee and Policy & Organisation Board with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Risk of Management Override	Fraud risk	No change in risk or focus	As identified in ISA 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 would otherwise appear to be operating effectively.
Valuation of Land and Buildings	Other risk	No change in risk or focus	The fair value of Property, Plant and Equipment (PPE) represents a significant balance in the Council's accounts and is subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.
Pension Liability Valuation	Other risk	No change in risk or focus	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Overview of our 2017/18 audit strategy (continued)

Materiality



Overview of our 2017/18 audit strategy

Audit scope

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 2018 and of the income and expenditure for the year then ended; and
- § Our 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.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

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.

Audit team changes

Key changes to our team.



Partner in charge – Kevin Suter

Kevin takes over from Helen Thompson as the Engagement Lead. Kevin has significant public sector audit experience over 20 years, with a portfolio of Local Authorities, Local Government Pension Funds and National Park Authority audits.



02 Audit risks





Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Risk of Management Override*

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

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.

What will we do?

- Perform mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.
- Review accounting estimates for evidence of management bias.
- Evaluate the business rationale for significant unusual transactions.
- Review accounting policies for compliance with the Local Authority Accounting Code of Practice, and the appropriateness of any tailoring.

Financial statement impact

We have assessed that the risk of management override is most likely to affect the estimates in the financial statements, as well as accounting policies. These areas impact both on the Balance Sheet and Comprehensive Income and Expenditure Statement.

Audit risks

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
<p>Valuation of Land and Buildings</p> <p>The fair value of Property, Plant and Equipment (PPE) represents a significant balance in the Council's accounts and is subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p>	<p>We will:</p> <ul style="list-style-type: none">• Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;• Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre) and challenge the key assumptions used by the valuers;• Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for Investment Property;• Review assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated; and• Test to confirm that accounting entries have been correctly processed in the financial statements.
<p>Pension Asset Valuation</p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council.</p> <p>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We will:</p> <ul style="list-style-type: none">• Liaise with the auditors of Hampshire County Council Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Gosport Borough Council;• Assess the work of the Pension Fund actuary (Aon Hewitt) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and• Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.



03

Value for Money Risks





Value for Money

Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2017/18 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- § Take informed decisions;
- § Deploy resources in a sustainable manner; and
- § Work with partners and other third parties.

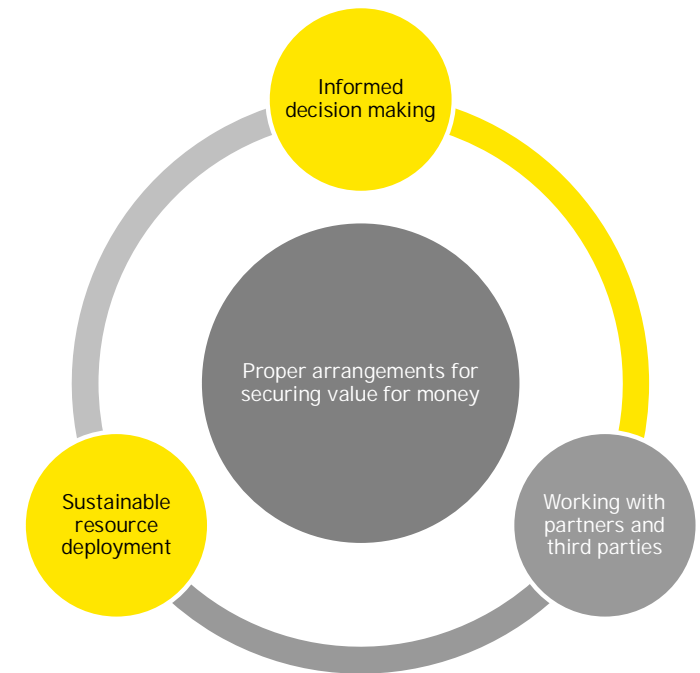
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of no significant risks at the planning stage of our audit, but we will keep this assessment under review and update the Standards & Governance Committee and Policy & Organisation Board as soon as possible if risks are identified during the remainder of our audit.





04

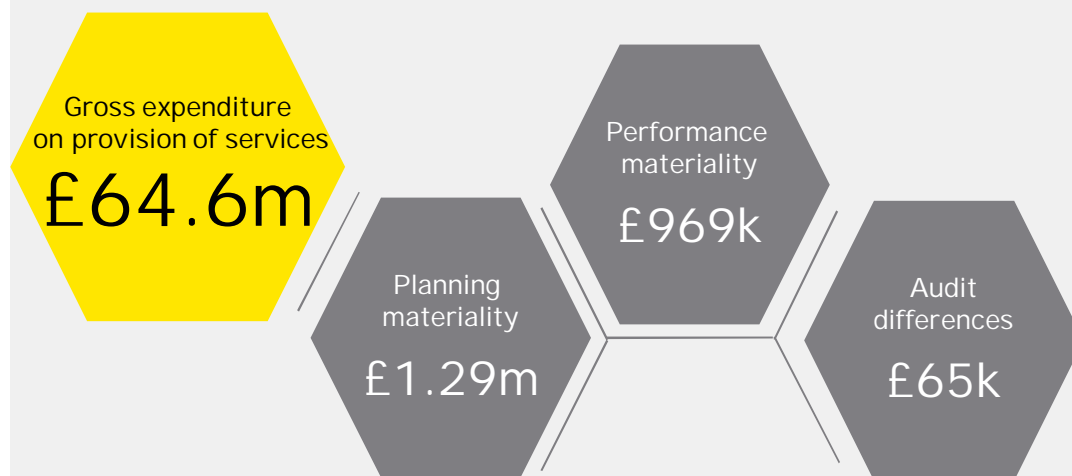
Audit materiality



Materiality

Materiality

For planning purposes, materiality for 2017/18 has been set at £1.29m. This represents 2% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. We believe that gross expenditure provides us with a basis for determining the nature, timing and extent of risk assessment procedures to identify our assessment of the risks of material misstatement. We have provided supplemental information about audit materiality in Appendix D.



We request that the Standards & Governance Committee and Policy & Organisation Board confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £969k which represents 75% of planning materiality. The rationale for using 75% is based on the anticipation of identifying few or no errors during the audit. This expectation has been built on our experience of the Council in prior years.

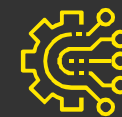
Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, housing revenue account and collection fund.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Policy & Organisation Board, or are important from a qualitative perspective.



05

Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice 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 an audit report that covers:

1. Financial statement audit

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

We also 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 Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2017/18 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

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; and
- 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 & Organisation Board.

Internal audit:

We will regularly meet with the Head of Internal Audit, and 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, in our detailed audit plan, where they raise issues that could have an impact on the financial statements, the Narrative Statement or the Annual Governance Statement.



06

Audit team



Audit team

Audit team structure:

Kevin Suter
Associate Partner

David White
Manager

Adrienne Lim
Senior

Working together with the Council

We are working together with officers to identify continuing improvements in communication and processes for the 2017/18 audit.

We will continue to keep our audit approach under review to streamline it where possible.

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	Management's valuation experts: - Savills (UK) Limited as valuers for Housing Revenue Account properties - Capita Property & Infrastructure as valuers for General Fund properties and investment properties.
Pensions disclosure	PwC as consulting actuary appointed by the NAO, and EY internal pensions specialists Aon Hewitt – Actuary to Hampshire Pension Fund

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.



07 Audit timeline





Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2017/18.

From time to time matters may arise that require immediate communication with the Standards & Governance Committee and Policy & Organisation Board and we will discuss them with the Chairs as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Committee/Board timetable	Deliverables
Planning: Risk assessment and setting of scopes Walkthrough of key systems and processes	November December		
Risk assessment and setting of scopes	January		
	February		
Interim audit testing	March	Standards & Governance Committee	Audit Planning Report
	April		
	May	Policy & Organisation Board	Audit Planning Report
	June		
Year end audit Audit Completion procedures	July	Policy & Organisation Board	Audit Results Report Audit opinions and completion certificates
	August		Annual Audit Letter



Audit timeline

Faster Close – Key Messages

Earlier deadline for production of the financial statements

The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the accounts by 31 July.

These changes provide risks for both the preparers and the auditors of the financial statements:

- The Council now has less time to prepare the financial statements and supporting working papers. Risks to the Council include internal quality assurance arrangements, late working papers, and slippage in delivering data for analytics work in format and to the timescales required.
- As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within the same compressed timetable. Slippage at one client could potentially put delivery of others at risk.

To mitigate this risk we will require:

- good quality draft financial statements and supporting working papers by the agreed deadline;
- appropriate Council staff to be available throughout the agreed audit period; and
- complete and prompt responses to audit questions and information requests.

If you are unable to meet key dates within our agreed timetable, we will notify you of the impact on the timing of your audit, which may include postponing your audit until later in the summer and redeploying the team to other work to meet deadlines elsewhere.

Where additional work is required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify you of the impact on the fee and the timing of the audit. Such circumstances may result in a delay to your audit while we complete other work elsewhere.

To support the Council we will:

- Work with the Council to engage early to facilitate early substantive testing where appropriate.
- Provide an early review on the Council's streamlining of the Statement of Accounts where non-material disclosure notes are removed.
- Facilitate faster close workshops to provide an interactive forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for the 2017/18 financial year.
- Work with the Council to implement EY Client Portal, this will:
 - Streamline our audit requests through a reduction of emails and improved means of communication;
 - Provide on-demand visibility into the status of audit requests and the overall audit status;
 - Reduce risk of duplicate requests; and
 - Provide better security of sensitive data.
- Agree the team and timing of each element of our work with you.
- Agree the supporting working papers that we require to complete our audit.



08

Independence



Introduction

The FRC Ethical Standard and ISA (UK) 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 upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of 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 Ernst & Young (EY) including consideration of all relationships between the 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. ▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation] 	<ul style="list-style-type: none"> ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose 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 the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▶ Written confirmation that all covered persons are independent; ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, 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 services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

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, analysed in appropriate categories, are disclosed.

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 the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

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

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include 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 you. 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 you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, no non-audit services have been undertaken, therefore the current ratio of non-audit fees to audit fees is zero. 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 you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 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 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 the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

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

Relationships, services and related threats and safeguards

Other threats

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

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

Other communications

EY Transparency Report 2017

Ernst & Young (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 in place 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 1 July 2017 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2017>



09

Appendices



Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code.

	Planned fee 2017/18	Scale fee 2017/18	Final Fee 2016/17
	£	£	£
Total Fee – Code work	53,044	53,044	54,255*
Certification of claims and returns (housing benefits)	16,701	16,701	10,801**
Total fees	69,745	69,745	65,056

All fees exclude VAT

*A scale fee variation of £1,211 was charged for additional work in reviewing the change in the Council's approach to calculating its Minimum Revenue Provision. This was agreed with management and PSAA.

**The final fee shown for 2016-17 includes a 20% refund to the Council in recognition that officers performed the initial case testing this year. The fee variation has been agreed with management but remains subject to final agreement with PSAA.

The audit fee covers the:

- ▶ Audit of the financial statements
- ▶ Value for money conclusion
- ▶ Whole of Government accounts.

The indicative fee is set at the scale fee level and is based on the 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, especially in light of the earlier deadlines for the 2017/18 audit;
- ▶ Appropriate quality of documentation is provided by the Council;
- ▶ There is an effective control environment;
- ▶ Prompt responses are provided to our draft reports.; and
- ▶ Our accounts opinion and value for money conclusion being unqualified.



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




Required communications with Those Charged with Governance

We have detailed the communications that we must provide to the Standards & Governance Committee and Policy & Organisation Board.

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Standards & Governance Committee and Policy & Organisation Board of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit planning report
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 	Audit results report




Appendix B

Required communications with Those Charged with Governance (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <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 	Audit results report
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management 	Audit results report
Fraud	<ul style="list-style-type: none"> • Enquiries of the Policy & 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 	Audit results report
Related parties	<ul style="list-style-type: none"> • Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • 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 	Audit results report

Appendix B

Required communications with Those Charged with Governance (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <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 	Audit Planning Report and Audit Results Report
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 	Audit results report
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 & 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 & Organisation Board may be aware of 	Audit results report
Internal controls	Significant deficiencies in internal controls identified during the audit	Audit results report
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
Auditors report	<ul style="list-style-type: none"> • Key audit matters that we will include in our auditor's report • Any circumstances identified that affect the form and content of our auditor's report 	Audit results report
Fee Reporting	<ul style="list-style-type: none"> • Breakdown of fee information when the audit plan is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work 	Audit planning report Audit results report
Certification work	Summary of certification work undertaken	Certification report

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Reading other information published with the financial statements, and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

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 of the circumstances that may ultimately influence our judgement about materiality. 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 accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

AGENDA ITEM NO.7

Committee:	Standards & Governance Committee
Date of Meeting:	28 March 2018
Title:	Internal Audit Plan 2018/19
Author:	Head of Internal Audit & Risk Assurance
Status:	For Decision

Purpose

This report provides the Standards and Governance Committee with the planned annual coverage of the Internal Audit resource for 2018/19.

Recommendation

That the Standards and Governance Committee comment on and approve the Internal Audit Plan for 2018/19 as attached in Appendix One.

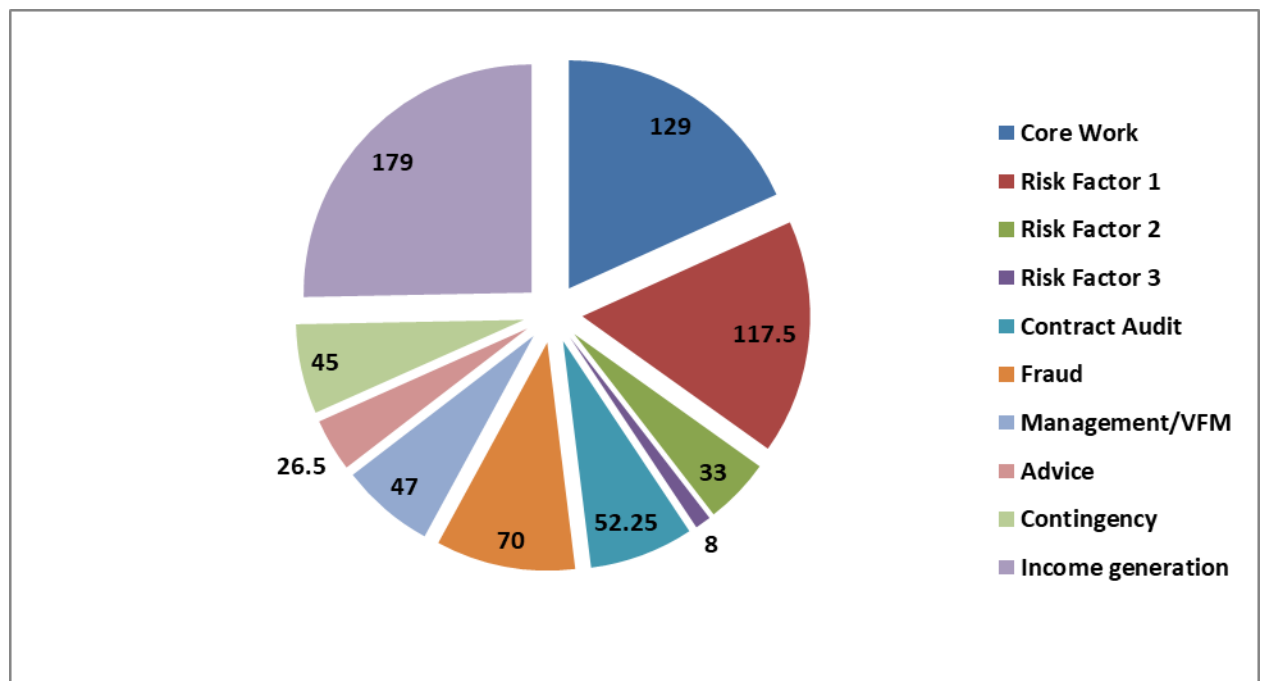
1 Background

- 1.1 The annual internal audit plan has been developed in recognition of the responsibilities of the Borough Treasurer under S.151 of the Local Government Act 1972 and the Accounts and Audit Regulations 2015 and in accordance with the Public Sector Internal Audit Standards (PSIAS) 2013. Internal Audit support the Council in achieving its priorities and objectives by bringing a systematic, disciplined approach to evaluate and improve the management of risk, control and governance processes.

2 Report

- 2.1 The purpose of the audit plan is to ensure that auditors focus on the areas of greater risk and carry out their audits efficiently. It has been designed to review the key risks facing the Council and covers 40% of the total audit universe. At the end of the financial year, the Head of Internal Audit, Risk and Assurance will provide an opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control based on the audit results of the year. Whilst every effort will be to deliver the plan, it is flexible and audit activity can be revised in light of changes in circumstances and emerging risks.

- 2.2 Whilst the PSIAS is specific in identifying the requirements of the planning process, there is also a need for flexibility within the plan in recognition of new initiatives, the continuing impact of changes in legislation and the development of strategies both nationally and locally. The plan will be kept under review for 2018/19 with the developing professional audit team.
- 2.3 The annual audit plan is based on 3.8 WTE internal staff and highlights the key components of the planned output from Internal Audit for 2018/19. This equates to 707.25 audit days for 2018/19. Future monitoring reports will be scheduled (included in the Committee's work plan) for Members throughout the year to compare actual versus planned coverage for the forthcoming year.
- 2.4 2018/19 Audit coverage focuses on the high risk and strategic areas of the Councils activities as highlighted below and within Appendix One.



- 2.5 Compared with the 2017/18 audit coverage there is increased focus planned on strategic and significant risk areas of the Council as it continues its phased transformational change, There is a reduced focus on the lower risk areas as resource is being concentrated also on fraud as this risk escalates in a changing business environment.
- 2.6 The 2018/19 internal audit plan allows for a total of 179 days to be provided to Test Valley Borough Council (TVBC) as part of a three year agreement as previously reported to Members. This comprises 104 audit management days to provide planning and management of their internal audit resource and audit plan. In addition the in-house team will provide TVBC with 75 internal auditor days to support their team in delivering their audit plan. This will raise in excess of £48,000 in total income from the partnership in 2018/19. The current level of partnership income received at December 2017 was £527,548. The arrangements began back in 2007/08 with Eastleigh Borough Council and it continues with Test Valley Borough Council (from 1.10.13) to date.

- 2.7 Full consultation has taken place in developing the audit plan with all section heads and senior management as well as External Audit. Every effort will be made to ensure that External Audit will continue to be able to place reliance on the work of Internal Audit when preparing and undertaking their External Audit. The team also intend to leverage assurance from other sources (external work on the Council's IT infrastructure (penetration testing) and joint work with Fareham Borough Council (Environmental Health). o enable the Head of Internal Audit & Risk Assurance to support the opinion on the Council's governance, risk and control framework for 2018/19.
- 2.8 In developing the Plan it is recognised that Internal Audit are integral to the review of systems, procedures, processes and controls that may be developed over 2018/19 and that "sign off" by Internal Audit is a requirement of any material changes.
- 2.9 The Plan is endorsed by the Borough Treasurer and the Head of Internal Audit & Risk Assurance as being sound, robust and sufficient to safeguard the Council's internal control framework.

3 Risk Assessment

- 3.1 The work performed by Internal Audit assists in reducing the overall risk exposure in the Council's operations and provides a degree of assurance to management in placing reliance on the adequacy of their controls within their Services.
- 3.2 It is important that External Audit are able to continue to place reliance on the work of the Internal Audit Section otherwise additional costs may be incurred in relation to the cost of external audit. It is believed that the resources allocated to the section will be sufficient to meet this objective.

4 Conclusion

- 4.1 This report outlines the planned internal audit coverage for 2018/19. It covers 40% of the total audit universe and will review the key risks facing the Council in 2018/19.

Financial Services comments:	The Audit Plan for 2018/19 consisting of 707.25 audit days has been provided for within the 2018/19 budget approved by the Council.
Legal Services comments:	None
Crime and Disorder:	None
Equality and Diversity:	None

Service Improvement Plan implications:	The annual internal plan is part of the Sections improvement plan and regular monitoring features as the operational plan for which the section is scrutinised both externally (External Audit) and internally (by the Standards & Governance Committee).
Corporate Plan:	The Internal Audit coverage supports all Council Services in pursuit of their overall corporate objectives.
Risk Assessment:	See Section 3
Background papers:	None
Appendices/Enclosures:	Appendix One – Draft Internal Audit Plan 2018/19
Report author/ Lead Officer:	Chris Davis 023 9254 5306

Appendix One**Draft Internal Audit Plan 2018/19**

Service Unit/ Audit Area	Risk Factor	Quarter Planned	Planned Audit Days 2018/19
Based on audit resource:-			3.8 WTE
Financial Services			
Accountancy			
Budgetary Control & Capital Expenditure	Fundamental /High	4	14.00
Accounting & Bank Reconciliation	Fundamental /High	4	12.00
Fixed Assets	High	1	8.00
Accounts Payable, BACSIP & Cheque production	Fundamental /High	2&4	15.00
Debtors	Fundamental /High	3	10.00
Treasury Management	Fundamental /High	3	5.00
Financial/Fraud/Risk Awareness Workshops	Fraud	1&3	8.00
Cash Collection (incl. internet, credit/debit card income)	Fundamental /High	all	15.00
Miscellaneous Advice	Advice	all	2.25
Payroll			
Payroll & Expenses	Fundamental /High	2&4	10.00
Miscellaneous Advice	Advice	all	1.00
Revenue & Benefits Services			
Council Tax	Fundamental /High	2&3	11.00
Housing Benefits Overpayments Recovery	High	3	5.00
Housing Benefits & LTSC	Fundamental /High	3&4	20.00
NNDR	Fundamental /High	2&3	7.00
Miscellaneous Advice	Advice	all	1.50
Corporate Purchasing			
Central Purchasing (Purchase Ordering)	High	3	10.00
Customer Services			
CRM & CSC	Medium	3	8.00
Misc Advice	Advice	all	3.00

Service Unit/ Audit Area	Risk Factor	Quarter	Planned Audit Days 2018/19
Management & VFM Audits			
Corporate Governance	Mnt Support	1,2&4	13.00
AGS production	Mnt Support	1	3.00
Audit Plan and Annual Letter Follow up (E&Y) - Covalent	Mnt Support	1&3	1.00
BPR (Consultancy)	Mnt Support	1&2	8.00
Consultancy work (specify)	Mnt Support	all	10.00
Follow up Reviews (by email - link to TeamMate)	Mnt Support	2&4	6.00
NFI (PA)	Mnt Support	all	6.00
Fraud Investigations	Fraud	all	22.00
Legal, Democratic & Planning Services			
Legal & Democratic Support			
General Data Protection Regulation (GDPR)(compliance) & FoI	High	2&4	10.00
Miscellaneous Advice	Advice	all	1.00
Planning Policy & Development Control			
Development Services advice	Advice	all	0.50
Chief Executives Unit			
CX Misc Advice	Advice	all	3.00
Personnel Services			
Time recording system	Medium	1	2.00
Emergency Planning			
Emergency Planning	High	2	3.00
Corporate Business Continuity	High	2	3.00
Information Technology			
IT Systems Development	High	2	20.00
Information Governance review	High	3	5.00
Cyber Security follow up	High	4	10.00

Service Unit/ Audit Area	Risk Factor	Quarter	Planned Audit Days 2018/19
Housing Services			
Streetscene			
Enforcement	Medium	1	7.50
Ground Maintenance (Sodexo)	CONTRACT	all	11.50
Public Conveniences and Other Cleaning Services (Urbaser)	CONTRACT	all	7.50
Refuse Services and Waste Recycling (Urbaser)	CONTRACT	all	7.50
Open Market (Joint audit with FBC)	Medium	2	7.50
Car Parking	High	1	10.00
Cemetery - new provision (F/U)	Medium	4	3.00
Coastal Protection Project	CONTRACT	2&4	7.00
Gosport Leisure Centre (Client)	Low	4	2.00
Streetscene Miscellaneous Advice	Advice	all	4.25
Countryside			
Alver Valley (Contract & probity work)	High	2	5.00
Miscellaneous Advice	Advice	all	1.00
Environmental Health & Licencing (FBC)			
EH Dog Control F/U (Joint audit with FBC)	Medium	2	6.00
Housing			
RAPS (Rented accommodation in the private sector)	High	2	8.00
Voids process/procedure	Medium	1	5.00
Rent Collection & Recovery	Fundamental / High	4	10.00
Housing Debtors	High	4	3.00
Kier Contract work	CONTRACT	all	18.75
Sheltered Accommodation	High	2	10.00
Housing Fraud	FRAUD	all	48.00
Miscellaneous Advice	Advice	all	1.00
Assets & Facilities Management			
Town Hall Security	High	4	5.00
Depot Security	High	4	2.50
Test Valley Borough Council		1-4	179
Contingency			45
Total Days			707.25

Board/Committee:	Standards and Governance Committee
Date of Meeting:	28 th March 2018
Title:	INTERNAL AUDIT MONITORING STATEMENT FROM 1 ST NOVEMBER 2017 – 28 TH FEBRUARY 2018
Author:	Head of Internal Audit & Risk Assurance
Status:	FOR DECISION

Purpose

To table the performance of the Internal Audit Section for 2017/18 (1st November 2017 – 28th February 2018) against the agreed audit plan (March 2017) to the Members with responsibility for governance.

Provide Members with an update on the team and their development and provision of audits services to Test Valley Borough Council:-

Recommendations

- a. That the Standards and Governance Committee note the performance of Internal Audit from 1st April 2017 to 31st October 2017.
- b. That the Members note the developments in the team and provision of service to Test Valley Borough Council

1. Background

- 1.1 The purpose of this report is to provide the Standards and Governance Committee with an overview of internal audit activity against assurance work completed in accordance with the approved internal audit plan. Members of this Committee approved the 2017/18 Annual Audit on the 23rd March 2017.
- 1.2 There are 38 planned audit assignments for 2017/18.
- 1.3 For 2017/18 Internal Audit will provide Test Valley Borough Council with 170 planned audit days (revised budget £58,000) under the established three year arrangement.

2. Report**2.1 Internal Audit Coverage for 2017/18**

- 2.1.1 In the four month period from November 2017 to February 2018 good progress has continued in delivering the agreed internal audit plan. With additional support to all clients in a fast moving and changing structure (around governance, risk, control and compliance), the developing counter fraud procedures, processes, support and advice and continued support in high profile projects (i.e. Voter ID pilot) the team has responded to higher demand and its planned work.

- 2.1.2 The team, at full capacity, has delivered quality assignments in the 3rd and final quarters of 2017/18. One trainee has recently achieved his initial professional qualification. He is now a Certified Internal Audit (CIA). This is a great achievement in less than three years in post.
- 2.1.3 All final quarter audit assignments have been completed for Test Valley Borough Council by the Internal Audit staff working in partnership in this period resulting in additional income to the Authority (again excellent feedback from the clients at Test Valley). Support from Portsmouth City Council internal audit resource (two assignments) ensures the Council's audit plan remains deliverable.

3.0 Internal Audit Plan Status - 2017/18

Percentage of the approved plan completed

- 3.1 84% of the annual plan has been completed as at 28th February 2018. Appendix A shows the completed audits for 2017/18. A full follow up of all actions was completed earlier in the year and the summary of results is shown on all essential and important recommendations are shown in Appendix B. A further complete follow up of all recommendations is planned in the final quarter of this financial year.

The overall percentage figure is made up as follows:

- 30 (79%) audit reviews have been finalised, 2 (5%) where the report is in draft and 6 (16%) audits currently in progress.

Reactive Work

- 3.2 Reactive work undertaken by Internal Audit in since November 2017 includes
- 16 investigations
 - 3 items of advice, (where the advice exceeds an hours work)

Recommendations

- 3.3 Of the 2017/18 audits either completed or at the draft stage since last reporting to Committee the number of recommendations within each category have been:
- 0 critical recommendations
 - 1 essential recommendations
 - 9 important recommendations
 - 17 advisory recommendations

Ongoing Areas

- 3.4 The following ten areas are on-going areas of work carried out by Internal Audit
- Investigations (including fraud awareness training)

- Anti-money laundering monitoring and reporting
- Regulation of Investigatory Powers Act (RIPA) – policy updates
- National Fraud Initiative (NFI) to facilitate national data matching carried out by the Cabinet Office
- National Anti-Fraud Network (NAFN) bulletins and intelligence follow ups
- Standards and Governance Committee reporting and attendance
- Audit planning and consultation
- Development of the Council's corporate governance framework
- Financial and Contract Procedure Rules waivers
- Risk management

4 Risk Assessment

- 4.1 The work performed by Internal Audit assists in reducing the overall risk exposure in the Council's operations and provides a high degree of assurance to management in placing reliance on the adequacy of internal controls within their Services. The current position places the section in a very good position to complete the agreed audit plan with only minor slippage (work in progress) by the end of March 2018.

5 Conclusion

- 5.1 That the Committee note the update on the planned and unplanned internal audit coverage for 2017/18 as at 28 February 2018, the continued professional development of the trainees and the continued excellent service provided to Test Valley Borough Council in the established shared arrangement. .

Financial Services comments:	None
Legal Services comments:	None
Crime and Disorder:	Nil
Equality and Diversity:	Nil
Service Improvement Plan implications:	The delivery of the annual audit plan is a key function of the service.
Corporate Plan:	It supports the Council in pursuit of excellence through delivering an effective and high quality joint internal audit service.
Risk Assessment:	Section 4
Background papers:	None
Appendices/Enclosures:	Appendix A - Audits completed from 1 st Nov 2017 – 28 th Feb 2018
Report author/ Lead Officer:	Chris Davis 02392 545306

Appendix A - Audits Completed since the last meeting (20th Dec 2017) [from November 2017 – 28th February 2018]

Audit Title	Critical Rec.	Essential Rec.	Important Rec.	Advisory Rec.	Total Recs.	Audit Assurance	Summary
IT Security	0	1	3	0	4	Poor	IT controls were found to be appropriate and operating effectively. Overall system security relies on users and a good security culture and there is more we can do to educate users and create a 'human firewall'
Housing Maintenance Contract (Kier)	0	0	0	1	1	Good	Overall the Audit concluded that the internal control system is working effectively and efficiently.
Environmental Services (Refuse & Street Cleansing) - Urbaser	0	0	1	1	2	Good	It was concluded that the internal control system is good with only minor matters in respect of staffing and a financial record.
Debtors	0	0	1	2	3	Strong	Overall the Audit concluded that the internal control system is working effectively and efficiently.
Business Rates (NNDR)	0	0	1	5	6	Good	It was concluded that the internal control system is good with only minor matters in respect of record keeping, in house training and frequency of void inspections.
Car Parking	0	0	2	7	9	Good	It was concluded that the function is operating effectively with some improvements necessary around the Appeal procedure and permit reconciliation.
Treasury Management	0	0	0	0	0	Strong	All controls were working effectively and efficiently. A strong control environment is in operation.