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6 August 2014

S U M M O N S

MEETING: Extraordinary Policy and Organisation Board
DATE: 14 August 2014
TIME: 6.00 pm
PLACE: Committee Room 1, Town Hall, Gosport
Democratic Services contact: Vicki Stone

LINDA EDWARDS
BOROUGH SOLICITOR

MEMBERS OF THE COMMITTEE

The Mayor (Councillor Gill) (ex officio)
Councillor Hook (Chairman)
Councillor Burgess (Vice-Chairman)

Councillor Chegwyn	Councillor Langdon
Councillor Mrs Hook	Councillor Philpott
Councillor Hicks	Councillor Mrs Wright
Councillor Jessop	Councillor Wright

FIRE PRECAUTIONS

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

In the event of the fire alarm sounding, please leave the room immediately. Proceed downstairs by way of the main stairs or as directed by GBC staff, follow any of the emergency exit signs. People with disability or mobility issues please identify yourself to GBC staff who will assist in your evacuation of the building.

IMPORTANT NOTICE:

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

If you require any of the services detailed above please ring the Direct Line for the Democratic Services Officer listed on the Summons (first page).

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

AGENDA

PART A ITEMS

RECOMMENDED
MINUTE FORMAT

1. APOLOGIES FOR NON-ATTENDANCE

2. DECLARATIONS OF INTEREST

All Members present are required to declare, at this point in the meeting or as soon as possible thereafter, any disclosable pecuniary interest in any item(s) being considered at this meeting.

3. DEPUTATIONS – STANDING ORDER 3.5

(NOTE: The Board is required to receive a deputation(s) on a matter which is before the meeting of the Board provided that notice of the intended deputation and its object shall have been received by the Borough Solicitor by 12 noon on Tuesday, 12 August 2014. The total time for deputations in favour and against a proposal shall not exceed 10 minutes).

4. PUBLIC QUESTIONS – STANDING ORDER 3.6

(NOTE: The Board is required to allow a total of 15 minutes for questions from members of the public on matters within the terms of reference of the Board provided that notice of such Question(s) shall have been submitted to the Borough Solicitor by 12 noon on Tuesday, 12 August 2014).

5. ERNST & YOUNG – AUDIT PLANNING MEMORANDUM AND PROGRESS REPORT

PART II

The audit planning memorandum sets out the work that we plan to complete to enable us to issue the audit opinion on your financial statements and the value for money conclusion for 2013/14. The audit opinion and value for money work will be completed in line with the requirements of the Audit Commission's Code of Audit Practice.

Contact:
Helen Thompson
Ernst & Young
0788 1518 961

The progress report confirms the progress made on the 2013/14 audit

6. ANY OTHER ITEMS

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

AGENDA ITEM NO. 05

Board/Committee:	Extraordinary Policy and Organisation Board
Date of Meeting:	14 August 2014
Title:	EY – Audit Planning Memorandum and Progress Report
Author:	Helen Thompson
Status:	For consideration

Purpose

The audit planning memorandum sets out the work that we plan to complete to enable us to issue the audit opinion on your financial statements and the value for money conclusion for 2013/14. The audit opinion and value for money work will be completed in line with the requirements of the Audit Commission's Code of Audit Practice.

The progress report confirms the progress made on the 2013/14 audit.

Recommendation

- Review the audit planning memorandum and note the audit opinion and value for money risks that we have identified, and our planned response to those risks.
- Note the Progress Report.

1 Background

- 1.1 The Audit Commission's Code of Audit Practice requires us to communicate details of the audit opinion and value for money conclusion risks that we have identified to those charged with governance. We have set out the risks that we have identified in our audit planning memorandum for 2013/14 together with details of our response to them.
- 1.2 The Progress Report provides the Board with details of the work completed in respect of the 2013/14 audit and the planned outputs for the year.

2 Audit planning memorandum and progress report 2013/14

Context for the audit

- 2.1 The audit planning memorandum covers the work that we plan to perform in order to provide you with:
- our audit opinion on whether the financial statements of Gosport Borough Council give a true and fair view of the financial position as at 31 March 2014 and of the income and expenditure for the year then ended; and
 - a statutory conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.
- 2.2 We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on your Whole of Government Accounts return.
- 2.3 When planning the audit we take into account several key inputs:
- Strategic, operational and financial risks relevant to the financial statements.
 - Developments in financial reporting and auditing standards.
 - The quality of systems and processes.
 - Changes in the business and regulatory environment.
 - Management's views on all of the above.
- 2.4 By considering these inputs, our audit is focused on the areas that matter to the Council and our feedback is more likely to be relevant to you. Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.
- 2.5 The progress report summarises the progress made with the 2013/14 audit.

3 Risk Assessment

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

3.2 There are no risks associated with the Progress Report.

4 **Conclusion**

4.1 The audit planning memorandum for 2013/14 is attached for consideration by the Board as those charged with governance.

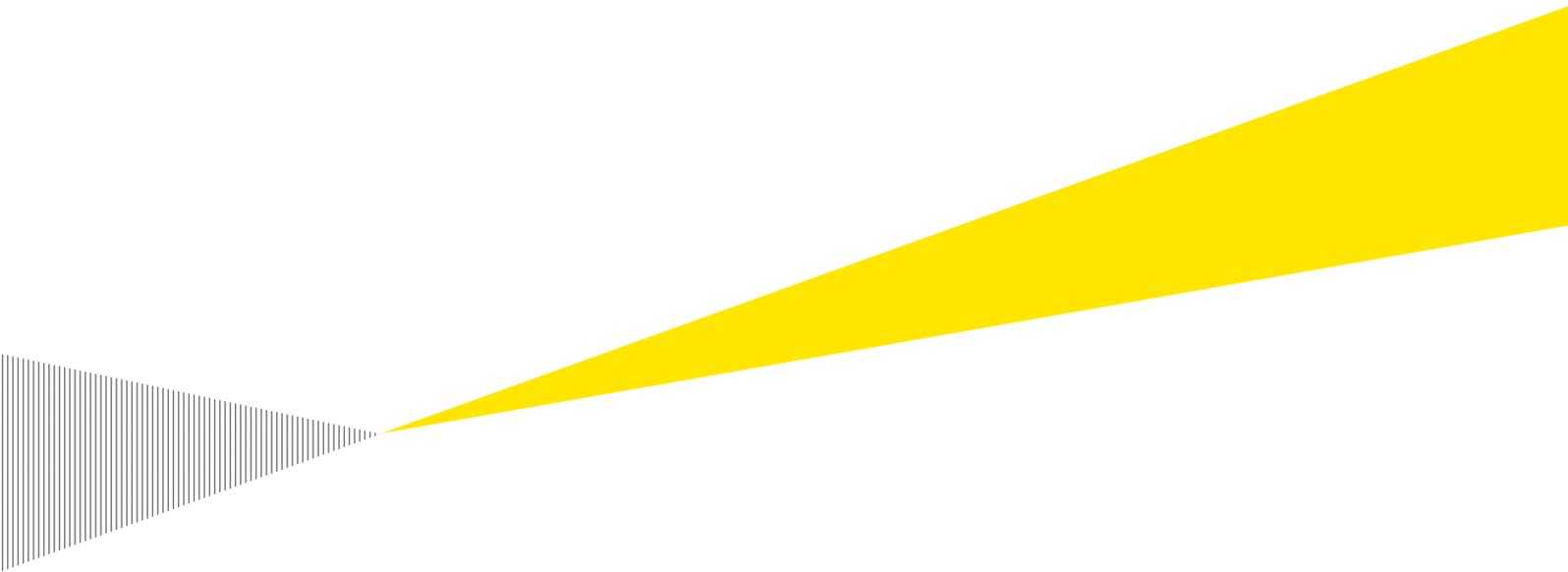
4.2 The Progress Report is provided for the Board's information.

Financial Services comments:	N/A
Legal Services comments:	N/A
Crime and Disorder:	N/A
Equality and Diversity:	N/A
Service Improvement Plan implications:	N/A
Corporate Plan:	N/A
Risk Assessment:	N/A
Background papers:	N/A
Enclosures:	The audit planning memorandum 2013/14 report and progress report
Report author/ Lead Officer:	Helen Thompson, Audit Director, Ernst & Young

Gosport Borough Council

Progress Report to the Policy and Organisation Board

July 2014



Building a better
working world

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

06 August 2014

Audit Progress Report

We are pleased to attach our Audit Progress Report.

It sets out the work we have completed since our last report to the Standards and Governance Committee. Its purpose is to provide the Board with an overview of the work completed on our 2013/14 audit. This report is a key mechanism in ensuring that our audit is aligned with the Board's service expectations.

Our audit is undertaken in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Audit Commission Standing Guidance, auditing standards and other professional requirements.

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

Yours faithfully



Helen Thompson
Director
For and behalf of Ernst & Young LLP

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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

2013/14 audit

Fee letter

We issued our 2013/14 fee letter to the Council in April 2013.

Audit Planning Memorandum

Our detailed audit plan has been prepared and agreed with the Chief Executive, Borough Treasurer and Head of Accounts in June 2014. The Audit Planning Memorandum is on today's agenda.

Financial Statements

We adopt a risk based approach to the audit and, as part of our ongoing continuous planning. We have continued to hold discussions with key officers and other stakeholders to ensure the 2013/14 audit runs as smoothly as possible and identify any risks at the earliest opportunity.

Planning visit

Our work to identify the Council's material income and expenditure systems and to walk through these systems and controls has been completed. The detailed testing of the controls in the Housing Benefits and Local Council Tax support systems has been completed.

We have started our substantive testing of the remaining systems and plan to complete this work during the post statements visit.

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

Post statements visit

We commenced our post statements audit on 30 June 2014, having previously held early discussions with officers and shared our working paper requirements with them.

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in relation to the general ledger and journal entries. Our detailed work was planned to be completed by the 31 July 2014. Our report will be presented to the meetings of the Standards and Governance Committee and the Policy and Organisation Board in September 2014.

We will also review and report to the National Audit Office, to the extent and in the form required by them, on your whole of government accounts return.

Value for money

The Audit Commission has now issued its guidance on the 2013/14 value for money conclusion. The full guidance can be found at <http://www.audit-commission.gov.uk/technicaldirectory/vfm1314/>.

There are no planned changes to the approach in 2013/14. We have carried out our initial risk assessment for the value for money conclusion and have reported that we have not identified any significant risks in our Audit Planning Memorandum. Our conclusions will be presented to the September 2014 meetings of the Standards and Governance Committee and the Policy and Organisation Board.

Other issues of interest

In addition to our formal reporting and deliverables we provide practical business insights and updates on regulatory matters through our Sector Briefings. The most recent Briefing will be sent to members through the 'Members Information Bulletin'.

Timetable

We set out below a timetable showing the key stages of the audit, including the value for money work, and the deliverables we will provide to you through the 2013/14 Standards and Governance Committee/Policy and Organisation Board cycles. We will provide formal reports throughout our audit process as outlined below.

Audit phase	EY Timetable	Deliverable	Associated Standards and Governance Committee/Policy and Organisation Board	Status
High level planning	Ongoing	Audit Fee Letter	April 2013	Completed - Reported to the April 2013 Committee
Risk assessment and setting of scope of audit	Feb – March 2014	Audit Plan	July 2014	To be presented to the Committee in July 2014
Testing of routine processes and controls	March – April 2014	Audit Plan	July 2014	Documentation of systems and controls testing completed.
Year-end audit	June - September 2014	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 2014	Work is planned to be completed in July 2014

Audit phase	EY Timetable	Deliverable	Associated Standards and Governance Committee/Policy and Organisation Board	Status
Annual Reporting	October 2014	Annual Audit Letter	January 2015	-
Grant Claims	September – November 2014	Annual certification report	January or March 2015	

EY | Assurance | Tax | Transactions | Advisory

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Audit Plan

Year end 31 March 2014

Gosport Borough Council

June 2014

Ernst & Young LLP



EY

Building a better
working world

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

06 August 2014

Dear Members of the Policy and Organisation Board

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. The purpose of this report is to provide the Policy and Organisation Board with a basis to review our proposed audit approach and scope for the 2013/14 audit, in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Standing Guidance, auditing standards and other professional requirements. It also helps ensure that our audit is aligned with the Board's service expectations.

This report summarises our assessment of the key risks which drive the development of an effective audit for Gosport Borough Council, and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this report with you on 14 August 2014 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully



Helen Thompson
Director
For and behalf of Ernst & Young LLP
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1. Overview

Context for the audit

This audit plan 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 2014 and of the income and expenditure for the year then ended; and
- ▶ a statutory conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

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

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

- ▶ Strategic, operational and financial risks relevant to the financial statements.
- ▶ Developments in financial reporting and auditing standards.
- ▶ The quality of systems and processes.
- ▶ Changes in the business and regulatory environment.
- ▶ Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter. And by focusing on the areas that matter, our feedback is more likely to be relevant to the Council.

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

In parts 2 and 3 of this report we provide more detail on the areas which we believe present significant risk to our audit, and outline our plans to address these risks.

Our process and strategy

Financial Statement Audit

- ▶ When considering the results of our audit work, we consider them in the context of their materiality to the statements as a whole.
- ▶ We have determined that we will take a wholly substantive approach for all areas of our audit, except for housing benefits and local council tax support where we will seek to rely on the controls in your systems.
- ▶ In completing this work we will to the fullest extent permissible by auditing standards, we will seek to place reliance on the work of internal audit.

Arrangements for securing economy, efficiency and effectiveness

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

2. Financial Statement Risks

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

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

Significant risks (including fraud risks)	Our audit approach
Risk of management override	
<p>We identify and respond to this fraud risk on every audit engagement.</p> <p>As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; ▶ reviewing accounting estimates for evidence of management bias; and ▶ evaluating the business rationale for significant unusual transactions.

Other risks	Our audit approach
National Non-Domestic Rates (NNDR) rateable value appeals provision	
<p>The Business Rates Retention Scheme came into force on 1 April 2013. Under the scheme a proportion of the business rates collected by councils will be retained locally and the balance paid over to central government.</p> <p>The level of NNDR paid on business property depends on its 'rateable value'. This is calculated by the Valuation Office Agency (VOA).</p> <p>Where local businesses believe the current value for business properties is wrong they can:</p> <ul style="list-style-type: none"> • appeal to the VOA and ask them to correct details • appeal the rates if the local business and the VOA can't agree. This appeal is heard by a valuation tribunal. <p>Where rating appeals are successful, monies to settle the appeals will come out of the Council's funds and will also impact on other local public bodies that precept on the Council. This includes not only claims from 1 April 2013 but also claims that relate to periods before the introduction of the business rates retention scheme. As appeals are to the Valuation Office, authorities may not be aware of the level of claims. Appeals can be speculative in nature and multiple appeals can be made against the same property and valuation on different grounds.</p>	<p>We will seek to understand and assess the reasonableness of the Council's methodology in estimating any planned provision in respect of rateable value appeals outstanding at the balance sheet date.</p> <p>This will involve consideration of both the completeness and accuracy of the data on the number of appeals outstanding and the basis for the assumptions made by the Council on the likelihood of success.</p> <p>We will assess your proposed treatment of the repayment of safety net entitlement to the Government.</p>

The potential cost of successful rateable value appeals could be significant to the Council. There is a high level of estimation uncertainty in determining an accurate provision for the cost in the financial statements.

In addition, the Council has generated a surplus of £126,000 on business rates. It will need to repay £376,000 to the Government in respect of safety net payments received in excess of safety net entitlement. This payment will be accrued in the General Fund.

Respective responsibilities in relation to fraud and error

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

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

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

- ▶ Identifying fraud risks during the planning stages.
- ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud.
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determining an appropriate strategy to address those identified risks of fraud.
- ▶ Performing mandatory procedures regardless of specifically identified fraud risks.

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

3. Economy, Efficiency & Effectiveness

Our work will focus on:

1. whether there are proper arrangements in place for securing financial resilience at the Council; and
2. whether there are proper arrangements in place at the Council to secure economy, efficiency and effectiveness in the use of resources.

We have not identified any significant risks to the value for money (VFM) conclusion. However, we have identified the following key areas that we will consider to support our VFM conclusion.

Other risks		Our audit approach
The financial outlook		
<p>Alongside ongoing financial pressures set out in the public sector spending review, funding is increasingly likely to involve:</p> <ul style="list-style-type: none"> ▶ targeted funding aimed at specific outcomes; and ▶ greater reliance on local resources, particularly those from business rates. <p>This increases the potential for volatility in Council finances and the importance of robust medium term financial planning.</p>	Financial resilience	We will consider your approach to preparing your medium term financial plans, and how you ensure that they appropriately account for known future changes.
We will update our understanding of your arrangements to secure economy, efficiency and effectiveness, through the Audit Commission's profile	Economy, efficiency and effectiveness	Our approach will be to focus on obtaining the reasons behind service cost and performance variations highlighted by the Audit Commission's profile

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Audit Commission's Code of Audit Practice (the Code), dated March 2010, our principal objectives are to review and report on, to the extent required by the relevant legislation and the requirements of the Code, the Council's:

- i) financial statements; and
- ii) arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

i) Financial Statement Audit

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

We will also review and report to the NAO, to the extent and in the form required by them, on your Whole of Government Accounts return.

ii) Arrangements for securing economy, efficiency and effectiveness

The Code sets out our responsibility to satisfy ourselves that the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In arriving at our conclusion, to the fullest extent possible, we will place reliance on the reported results of the work of other statutory inspectorates in relation to corporate or service performance. In examining the Council's corporate performance management and financial management arrangements we have regard to the following criteria and areas of focus specified by the Audit Commission:

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

4.2 Audit process overview

Processes

We have identified the material income and expenditure systems that generate the material balances and disclosures in the Council's financial statements, and we have documented our walk through of these systems and controls to ensure our understanding of them is up to date.

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

- ▶ housing benefits and local council tax support. We are working closely with Internal Audit and are seeking to place maximum reliance on their work where possible.

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

- ▶ accounts receivable
- ▶ accounts payable
- ▶ business rates
- ▶ council tax
- ▶ cash and bank (cash receipting)
- ▶ housing rents
- ▶ payroll
- ▶ pensions
- ▶ property, plant and equipment
- ▶ financial statement close process.

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

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular for 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 Standards and Governance Committee.

Internal audit

As in prior years, we will review internal audit plans and the results of work undertaken. We will reflect the findings from these reports, together with reports from other work completed in the year, in our detailed audit plan, where issues are raised that could impact the year-end financial statements.

Use of experts

We will utilise specialist EY resource, as necessary, to help us to form a view on judgments made in the financial statements. Our plan currently includes the involvement of specialists in pensions and property, plant and equipment valuations.

Mandatory procedures required by auditing standards

In addition to the financial statement risks outlined in section 2, we have to 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.

- ▶ Addressing the risk of fraud and error.

- ▶ Reviewing significant disclosures included in the financial statements.
- ▶ Assessing the effectiveness of entity-wide controls.
- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements.
- ▶ Maintaining 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.
- ▶ Reviewing and reporting on the Whole of Government accounts return, in line with the instructions issued by the NAO.
- ▶ Reviewing, and where appropriate, examining evidence that is relevant to the Council's corporate performance management and financial management arrangements and reporting on these arrangements.

4.3 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 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 have not yet finalised our overall materiality for the Council's financial statements, but this will be set in the range of between £0.7 million and £1.3 million based on 1% - 2% of gross operating expenditure. We will communicate our final materiality levels to members at a future Committee meeting.

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.

4.4 Fees

The Audit Commission has published a scale fee for all authorities. The scale fee is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act 1998 in accordance with the Code of Audit Practice 2010. The indicative fee scale for the audit of the Council is £69,825.

4.5 Your audit team

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

4.6 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money work and the Whole of Government accounts; and the deliverables we have agreed to provide to you through the Standards and Governance Committee and Policy and Organisation Board cycles in 2014. These dates are determined to ensure our alignment with the Audit Commission's rolling calendar of deadlines.

We will provide progress reports to each meeting of the Standards and Governance Committee and will provide a formal report detailing the results of our 2013/14 audit to the September meetings of the Standards and Governance Committee and the Policy and Organisation Board. From time to time matters may arise that require immediate communication with the Committee and we will discuss them with the Committee Chairman as appropriate.

Following the conclusion of our audit we will prepare an annual audit letter in order to communicate to the Council and external stakeholders, including members of the public, the key issues arising from our work.

Audit phase	Timetable	Deliverables
High level planning:	January - March	Audit Fee Letter
Risk assessment and setting of scope of audit	February – March	Audit Plan
Testing of routine processes and controls	March – April	Audit Plan
Year-end audit	June - September	<ul style="list-style-type: none"> ▶ Report to those charged with governance ▶ Audit report on the financial statements and value for money conclusion ▶ Audit Completion certificate ▶ Whole of government accounts
Reporting	October	Annual Audit Letter
Grant Claims	September – November	Annual certification report

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

5. Independence

5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our independence and objectivity. The Ethical Standards, as revised in December 2010, require 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 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. 	<ul style="list-style-type: none"> ▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that we are independent; ▶ Details of any inconsistencies between APB Ethical Standards, the Audit Commission’s Standing Guidance and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ▶ An opportunity to discuss auditor independence issues.

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.

5.2 Relationships, services and related threats and safeguards

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

Self- interest threats

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

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 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 your entity. 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.

Other threats

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

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

Overall Assessment

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

5.3 Other required communications

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

Details of the key policies and processes 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 28 June 2013 and can be found here:

<http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2013>

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2013/14 £'000	Actual Fee 2012/13 £'000	Explanation of variance
Total Audit Fee – Code work	69,825	69,825	
Certification of claims and returns*	19,934	25,804	For 2013/14, the Audit Commission has calculated indicative certification fees based on the latest available information on actual certification fees for 2011/12. The fee set is lower than 2012/13 to reflect the changes in the grants regimes. In addition the 2012/13 fee includes a scale fee variation of £5,154 approved by the Audit Commission for additional work on the housing benefit and council tax benefit claim, national non-domestic rates and pooling of housing capital receipts return.

**Our fee for the certification of grant claims is based on the indicative scale fee set by the Audit Commission.*

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

- ▶ the level of risk in relation to the audit of the financial statements is consistent with that in the prior year;
- ▶ we are able to place reliance as planned on the work of internal audit;
- ▶ the financial statements will be available to us in line with the agreed timetable;
- ▶ working papers and records supporting the financial statements are provided in line with our agreed timetable, are of a good quality, consistent with the accounts provided for audit, and are reviewed by an appropriate officer;
- ▶ prompt responses are provided to our draft reports;
- ▶ an effective control environment operates for the whole of the financial year;
- ▶ no significant changes are made by the Audit Commission to the use of resources criteria on which our conclusion will be based; and
- ▶ our accounts opinion and use of resources conclusion are unqualified.

Fees

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

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

Appendix B UK required communications with those charged with governance.

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

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

Required communication	Reference
<ul style="list-style-type: none"> ▶ Enquiry of the Standards and Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of 	
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's 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 	<p>Audit Plan</p> <p>Report to those charged with governance</p>
<p>Going concern</p> <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 	<p>Report to those charged with governance</p>
<p>Significant deficiencies in internal controls identified during the audit</p>	<p>Report to those charged with governance</p>
<p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	<p>Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary</p>
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<p>Audit Plan</p> <p>Report to those charged with governance and Annual Audit Letter if considered necessary</p>

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AGENDA ITEM NO.

Board/Committee:	POLICY AND ORGANISATION BOARD
Date of Meeting:	14 th AUGUST 2014
Title:	CHIEF EXECUTIVE REVIEW
Author:	LEADER OF THE COUNCIL
Status:	FOR DECISION

Purpose

To recommend a change to the incremental points in the grade of Chief Executive, to reduce the size of the gap between the grade applied to this post in Gosport and that which applies elsewhere in the County and in other equivalent councils.

Recommendation

The Board approve a change to the points within the grade of the post of Chief Executive with effect from 1st April 2014 by shortening the length of the grade, removing the lower points and adding additional points to the top, with the Chief Executive being placed on the top point of the new grade (£91,071-£98,971) from that date to recognise his level of knowledge, experience and commitment.

1.0 Introduction

- 1.1 The Chief Executive's performance is appraised on an annual basis by a panel of senior Members, as is required by his conditions of service.
- 1.2 The panel has for the last few years considered that there should be some means of recognising his high level of performance and commitment, and the exceptionally long hours worked on a regular basis (average over the last 7 years of 50+ per week compared with the contractual 37). They have also been concerned at the low salary level for this post in comparison with equivalent posts elsewhere, recognising the need to balance the Council's circumstances with the vital need to retain and recruit the highest calibre officers.
- 1.3 The last complete review of salaries at Chief Executive/Chief Officer level was undertaken in 2003. With the significant changes which have taken place since then, it is considered timely that the grades of these posts be reviewed, taking account of comparative salaries elsewhere, and the level of duties and responsibilities applying to the posts.

2.0 Report

- 2.1 A review has been undertaken in respect of the posts of Chief Executive and Directors/Chief Officers covering district councils in the Hampshire and Isle of Wight area. Given the notable difference identified in consequence at Chief Executive level between Gosport and others, information was also collected on salary levels in similar size authorities across the country for comparison purposes.
- 2.2 Attached as Appendix A is a summary of the comparative data. It is clear that the salary offered at Chief Executive level in Gosport is the lowest. Within Hampshire, it can be seen that there is only one Council with a salary for this post at top of grade below £100,000, the salary in that case still being over £4,000 in excess of that offered in Gosport.
- 2.3 Salaries at Director/Chief Officer level are not so far behind, although the comparison is more difficult because job titles do vary at this level. Appendix A includes comparative data for these posts, from which it can be seen that there is a range of grades/salaries some of which are higher and some of which are broadly comparable.
- 2.4 It is recognised that resources are such that Gosport cannot aim to be amongst the highest paying authorities, but it is important that the appropriate level of pay is applied for the Council's most senior officers. The level of remuneration for the Chief Executive's post which carries the highest level of responsibility and covers a significant range of functions, not least because of the small size of the Council's Management Team, is of concern.
- 2.5 There are now only 4 members of Council Management Team, which means that the spread of responsibility is much greater than it used to be, and the Chief Executive in Gosport directly manages a range of functions in addition to his overall duties and responsibilities as Head of the Paid Service.
- 2.6 For comparison purposes, in 2003 when the last full review was undertaken, Council Management Team consisted of 9 officers: Chief Executive, Borough Treasurer and Deputy Chief Executive, Director of Development and Environment, Borough Solicitor, Corporate Services Manager, Financial Services Manager, Housing Services Manager, Leisure and Amenities Services Manager and Regulatory Services Manager.
- 2.7 The Chief Executive's grade currently ranges from £80,265 to £91,071, and there are seven points within the grade.
- 2.8 It is recommended that the grade consist of five points, since it would not be expected for a post at this level that the development curve would be more than around 3 years, and the purpose of a range of

incremental points is to recognise the need for development and increasing expertise.

- 2.9 It is recommended that the grade consist of 5 points as follows: £91,071, £93,046, £95,021, £96,996, £98,971, and that Mr. Ian Lycett, who has been in the post for 9 years (since 2005) and had significant experience as a Chief Officer for the Borough before that, be placed on the top of that grade with effect from 1st April 2014 to recognise his level of knowledge and experience in the post, and the significant commitment he demonstrates.
- 2.10 Since the comparative data for Chief Officers, unlike that relating to the Chief Executive, does not indicate that the grade/salary at that level is significantly below average across the board in comparison with others, it is not suggested that any action be taken at this time in respect of those posts. Additional responsibilities for those posts are recognised by an appropriate supplement, but the situation should be kept under review.

3.0 Financial Implications

- 3.1 The additional cost of £7,900 p.a. plus on-costs can be met within existing budgets.

4.0 Conclusion

- 4.1 This Council, whilst continually keeping its expenditure under review in order to meet continuing financial pressures, does need to ensure that salary levels are appropriate to recognise the duties and responsibilities expected of staff, so that it can recruit and retain the best possible staff.
- 4.2 The proposed salary grade remains the second lowest in the Hampshire area for the post of Chief Executive, but it is considered to be appropriate in all the circumstances.
- 4.3 Since the comparative data for Chief Officers does not reveal the same gap in grade/salary, no action is considered necessary at this time for those particular posts.

Financial Services comments:	Contained in the report
Legal Services comments:	Contained in the report
Service Imp Plan implications:	
Corporate Plan:	
Risk Assessment:	
Background papers:	
Appendices/Enclosures:	Appendix A – Comparative Data
Report author/ Lead Officer:	Cllr. Mark Hook, Leader of the Council

APPENDIX A

CHIEF EXECUTIVE AND CHIEF OFFICER SALARIES – COMPARATIVE INFORMATION**1. HAMPSHIRE DISTRICTS**

Population	Number of Chief Officers and Staff	Chief Executive salary	Chief Officer salary
170,000	CE + 2 Directors + 8 Service Heads + 13 Chief Officers (24) 600 staff	£123,075	Directors £85,772 Heads of Service £65,041-£70,819
110,000 and 120,700	CE + 2 Executive Directors + 5 Executive Service Heads (8) 294 FTE and 360 FTE respectively	£125,000	Executive Directors £91,000 Executive Heads of Service £75,000
127,000	CE + 2 Directors + 13 Service Heads (16) 500 staff	£105,000 to £109,000	Corporate Director £70,000-£74,000 £75,000-£79,999 Heads of Service £55,000-£59,999, £60,000-£64,999
112,000	CE + 5 Directors (6) 505 staff	£110,000 to £115,000	£80,000-£85,000 £75,000-£80,000 £70,000-£75,000
Gosport 82,622	CE + 3 Chief Officers (4) 274 staff	£80,265 to £91,071	£67,368-£78,057 £61,754-£71,554 £56,140-£65,051
91,000	CE + 2 Directors + 5 Chief Officers (8) 402 staff	£90,000 to £100,000	Director £70,000-£80,000, £80,000-£90,000 Chief Officer £60,000-£70,000, £50,000-£60,000
172,000	CE + 2 Directors + 9 Chief Officers (12) 1,500 staff	£110,000 to £115,000	Director £85,000-£90,000 Head of Service £60,000-£65,000
95,000	CE + 2 Directors + 9 Service Heads (12) 300 staff	£106,539	Director £71,991-£73,539 Head of Service £55,554-£59,109
116,000	CE + 2 Directors + 11 Heads of Service (13) 520 staff	£89,290 to £109,091	Director £74,500-£91,010 Head of Service £50,559-£61,772
114,000	CE + 2 Directors + 6 Chief Officers (9) 510 staff	£95,412	Director - £80,000 Head of Finance - £63,000 Head of Housing - £61,000

2. DISTRICTS OUTSIDE HAMPSHIRE (of similar population size)

Population	CE Salary	CO Salary
93,700	£115,363	Director £75,402/£83,238
114,000	£114,620	Director £90,000
99,300	£100,000 to £104,999	Director £70,000-£74,999, £85,000-£89,999, Chief Officer £65,000-£69,999
131,500	£111,021	Director £86,500-£89,700 Chief Officer £65,500-£68,000
80,500	£100,000 to £110,000	Asst CE £70,000-£86,000, Chief Officer £61,200-£70,000
83,200	£105,029-£118,613	Chief Officer £56,127-£63,190 £64,820-£72,971/£86,011
82,300	£107,500	Bor Sol £75,000 Director £57,806/£64,246
75,600	£108,084	Heads £51,901-£55,265
53,700	£115,000	Heads £62,452/£63,367 £61,487/£62,000