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08 January 2014

S U M M O N S

MEETING: Standards and Governance Committee
DATE: 16 January 2014
TIME: 6.00 p.m.
PLACE: Committee Room 1, Town Hall, Gosport
Democratic Services contact: Sharon Dalrymple-Bray

LINDA EDWARDS
BOROUGH SOLICITOR

MEMBERS OF THE COMMITTEE

Councillor Scard (Chairman)
Councillor Burgess (Vice-Chairman)

Councillor Chegwyn
Councillor Dickson
Councillor Forder

Councillor Henshaw
Councillor Jacobs
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:

- i. Councillors are requested to note that, if any Councillor who is not a Member of the Board wishes to speak at the Board meeting, then the Borough Solicitor is required to receive not less than 24 hours prior notice in writing or electronically and such notice shall indicate the agenda item or items on which the member wishes to speak.
- ii. Please note that mobile phones should be switched off for the duration of the meeting.

AGENDA
PART A ITEMS

1. APOLOGIES FOR NON-ATTENDANCE

2. DECLARATIONS OF INTEREST

All Members present are reminded to declare, at this point in the meeting or as soon as possible thereafter, any disclosable 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 12 September 2013 (copy attached)

4. DEPUTATIONS – STANDING ORDER 3.5

(NOTE: The Committee is required to receive a deputation(s) on a matter which is before the meeting of the Committee provided that notice of the intended deputation and its object shall have been received by the Borough Solicitor by 12 noon on Tuesday, 14 January 2014. The total time for deputations in favour and against a proposal shall not exceed 10 minutes).

5. PUBLIC QUESTIONS – STANDING ORDER 3.6

(NOTE: The Committee is required to allow a total of 15 minutes for questions from Members of the public on matters within the terms of reference of the Committee provided that notice of such Question(s) shall have been submitted to the Borough Solicitor by 12 noon on Tuesday, 14 January 2014).

6. ANNUAL AUDIT LETTER 2012/13 AND PROGRESS REPORT FROM THE COUNCIL'S EXTERNAL AUDITORS (ERNST & YOUNG)

The Annual Audit Letter summarises the findings from the 2012/13 audit which is complete. It summarises the key messages that were reported in our Audit Results Report presented to the 12 September 2013 Standards and Governance meeting. Our Annual Audit Letter is an important report that has been prepared in line with the requirements of the Audit Commission's Code of Audit Practice.

The Progress Report confirms the completion of our work in relation to the 2012/13 audit and details the expected outputs from the 2013/14 audit.

7. ANY OTHER ITEMS

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

PART II

Contact Officer:
Mike Bowers
Ernst & Young
0788 1518 961

AGENDA ITEM NO 06

Board/Committee:	Standards and Governance Committee Meeting
Date of Meeting:	16 January 2014
Title:	EY – Annual Audit Letter 2012/13 and Progress Report
Author:	Helen Thompson
Status:	FOR RECOMMENDATION TO the Policy and Organisation Board

Purpose

The Annual Audit Letter summarises the findings from the 2012/13 audit which is complete. It summarises the key messages that were reported in our Audit Results Report presented to the 12 September 2013 Standards and Governance meeting. Our Annual Audit Letter is an important report that has been prepared in line with the requirements of the Audit Commission's Code of Audit Practice.

The Progress Report confirms the completion of our work in relation to the 2012/13 audit and details the expected outputs from the 2013/14 audit.

Recommendation

- Review and note the conclusions set out in the Annual Audit Letter before final approval by the Policy and Organisation Board.
- Note the Progress Report.

1 Background

- 1.1 The Audit Commission's Code of Audit Practice requires us to issue an Annual Audit Letter to those charged with governance on the work we have carried out to discharge our statutory audit responsibilities.
- 1.2 The Progress Report provides the Committee with details of the work completed in respect of the 2012/13 audit and the planned outputs from the 2013/14 audit.

2 Annual Audit Letter

2.1 Financial statements

We issued an unqualified audit opinion on 27 September 2013.

2.2 Value for money conclusion

We issued an unqualified value for money conclusion on 27 September 2013.

Report to Those Charged With Governance

2.3 We presented our Audit Results Report to the Standards and Governance Committee on 12 September 2013.

2.4 Whole of Government Accounts

We reported our findings on the Whole of Government Accounts return to the NAO on 27 September 2013. There were no issues to highlight to the NAO.

2.5 Annual Governance Statement

The Annual Governance Statement complied with guidance and was consistent with our understanding of the Council.

2.6 Use of audit powers

There were no matters that we needed to report in the public interest or take formal audit action on.

2.7 Audit certificate

On the 27 September 2013 we certified the closure of the 2012/13 audit.

3 Risk Assessment

3.1 The Annual Audit Letter forms part of the auditor's statutory role and 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 Annual Audit Letter is attached for consideration and approval. The Progress Report is provided for the Committee's information.

Financial Services comments:	N/A
Legal Services comments:	N/A
Crime and Disorder:	N/A
Equality and Diversity:	N/A
Service Improvement Plan implications:	N/A
Corporate Plan:	N/A
Risk Assessment:	N/A
Background papers:	The Audit Results Report – ISA260 (Ernst & Young)
Enclosures:	The Annual Audit Letter (Ernst & Young) and Progress Report
Report author/ Lead Officer:	Helen Thompson, Audit Director, Ernst & Young

Gosport Borough Council

Year ending 31 March 2013

Annual Audit Letter

October 2013



Building a better
working world

The Members
Gosport Borough Council
Town Hall
High Street
Gosport
Hampshire
PO12 1EB

17 October 2013

Dear Members,

Annual Audit Letter

The purpose of this Annual Audit Letter is to communicate to the Members of Gosport Borough Council and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to their attention.

We have already reported the detailed findings from our audit work to those charged with governance of Gosport Borough Council in the following reports:

Audit Results Report for the year ended 31 March 2013	Issued 4 September 2013 and presented to members of the Standards and Governance Committee on 12 September 2013
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The matters reported here are the most significant for the Authority.

I would like to take this opportunity to thank the officers of Gosport Borough Council for their assistance during the course of our work.

Yours faithfully



Helen Thompson
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 Audit Results 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.

1. Executive summary

Our 2012/13 audit work has been undertaken in accordance with the Audit Plan we issued on 7 June 2013 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Authority reports publicly on an annual basis on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period. The Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- ▶ forming an opinion on the financial statements;
- ▶ reviewing the Annual Governance Statement;
- ▶ forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- ▶ undertaking any other work specified by the Audit Commission.

Summarised below are the conclusions from all elements of our work:

Audit the financial statements of Gosport Borough Council for the financial year ended 31 March 2013 in accordance with International Standards on Auditing (UK & Ireland)	On 27 September 2013 we issued an unqualified audit opinion for the Authority.
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	On 27 September 2013 we issued an unqualified value for money conclusion.
Issue a report to those charged with governance of the Authority (the Standards and Governance Committee) communicating significant findings resulting from our audit.	On 4 September 2013 we issued our report for the Authority. We presented our report to the 12 September 2013 Committee meeting.
Report to the National Audit Office (NAO) on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.	We reported our findings to the NAO on 27 September 2013. There were no issues to highlight to the NAO.
Consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.	No issues to report.
Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	No issues to report.

Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.

No issues to report.

Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

On 27 September 2013 we issued our audit completion certificate.

2. Key findings

2.1 Financial statement audit

We audited the Authority's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. We issued an unqualified audit report on 27 September 2013.

Our main findings in relation to the one area of risk included in our Audit Plan are set out below.

Financial statement risks:

Risk of misstatement due to fraud and error

- ▶ 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.
 - ▶ We undertook procedures required by auditing standards, and had no issues to report.
-

We highlighted the improvement in the quality of the financial statements and working papers submitted for audit. There were very few amendments required to the draft financial statements. None affected the level of the Authority's reserves. The most significant of these related to the disclosure of cash within the balance sheet. This was shown as two separate elements: cash and cash equivalents of £4,660,000 and overdraft of -£1,005,000. The overdraft amount should be included within the main cash and cash equivalent balance as it relates to the same cash holding account. The cash balance was therefore amended to £3,655,000. There was no overall effect on net assets.

2.2 Value for money conclusion

We are required to carry out sufficient work to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In accordance with guidance issued by the Audit Commission, in 2012/13 our conclusion was based on two criteria:

- ▶ the organisation has proper arrangements in place for securing financial resilience; and
- ▶ the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 27 September 2013.

We did not identify any significant risks in relation to the value for money criteria and we set out our key findings in the table overleaf.

Area of focus:	Key findings:
Financial resilience	<ul style="list-style-type: none">▶ You have sound financial plans which properly reflect both your priorities and the significant financial challenges you face. In year you under spent against budget despite the increasing demand for Authority's services and strengthened your financial resilience by increasing your reserves in excess of the amounts planned at start of the year.
Economy, efficiency and effectiveness	<ul style="list-style-type: none">▶ Overall, you are a low spending Authority when compared to your statistical nearest neighbours. You reacted promptly to the Comprehensive Spending Review forecasts in 2010 and have implemented a comprehensive programme to reduce costs and maximise income. You have adopted prudent assumptions in your financial plans and are taking action to reduce your cost base further while looking for new ways of service provision by working in partnership with others.

2.3 Objections received

We did not receive any objections to the Authority's 2012/13 financial statements from members of the public.

2.4 Whole of government accounts

We reported to the National Audit Office (NAO) on 27 September 2013 the results of our work performed in relation the accuracy of the consolidation pack the Authority is required to prepare for the whole of government accounts.

The Authority's submission falls under the thresholds for a full consistency check, therefore we were only required to review the consistency of the submission to the audited financial statements for:

- ▶ property, plant and equipment; and
- ▶ pensions liabilities.

We did not identify any areas of concern to report to the NAO.

2.5 Annual governance statement

We are required to consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with CIPFA / SOLACE guidance.

We completed this work and did not identify any areas of concern.

2.6 Use of other powers

We identified no issues during our audit that would necessitate using powers under the Audit Commission Act 1998, including reporting in the public interest.

3. Control themes and observations

3.1 Internal controls

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal of internal control we communicate to those charged with governance at the Authority, as required, significant deficiencies in internal control.

There were no matters that we identified during the 2012/13 audit that we concluded are of sufficient importance to merit being reported.

3.2 IT general controls

We reviewed the manage change and logical access controls in the Oracle E- Financials (General Ledger, Accounts Payable and Accounts Receivable) and Resource Link (Payroll) systems. Management have agreed to implement our audit recommendations to formalise these processes to provide an audit trail. There were no significant issues that we need to report to you.

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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

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Gosport Borough Council

Standards and Governance Committee Progress Report

January 2014



Building a better
working world

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

6 January 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 Committee. Its purpose is to provide the Committee with an overview of the 2012/13 audit, and an outline of our plans for the 2013/14 audit. This Progress Report is a key mechanism in ensuring that our audit is aligned with the Committee'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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Work completed: 2012/13

Financial Statements

On 27 September 2013 we issued an unqualified audit opinion on the Council's financial statements.

Value for money assessment

On 27 September 2013 we issued an unqualified value for money conclusion.

Whole of government accounts

On 27 September 2013 we reported to the National Audit Office the results of our work performed in relation the accuracy of the Council's consolidation schedules. We did not identify any areas of concern.

Annual Audit Letter

We are presenting our Annual Audit Letter to today's Committee meeting.

Grant claim certification

We certified your pooling of housing capital receipts return and national non-domestic rates return by the required deadlines. The housing benefit subsidy claim was submitted on time but was subject to a qualification letter. The qualification related to more minor issues that are required to be reported to the Department of Work & Pensions under the Audit Commission's methodology and we will provide full details in our annual report on the certification on claims and returns to the next Standards and Governance Committee.

The indicative scale fee for 2012/13 grants (£20,650) was set by the Audit Commission based on the work performed in 2010/11. The Audit Commission's approach to claim certification requires us to fully test grant claims every three years (i.e. not roll forward assurance). The pooling of housing capital receipts return and the national non-domestic rates return were both subject to full testing this year and therefore there is an extra fee of £3,690. The level of testing and reporting required for the housing benefit claim has resulted in an additional fee of £1,899. These fees have been agreed as appropriate with officers and are now being agreed with the Audit Commission

Audit certificate

We issued the audit certificate on 27 September 2013. This concludes our audit responsibilities for 2012/13.

Audit Progress for 2012/13

Progress against key deliverables			
Key deliverable	Timetable in plan	Status	Comments
Fee Letter	December 2012	Completed	Presented to Standards and Governance Committee January 2013
Audit Plan	April 2013	Completed	Presented to Standards and Governance Committee June 2013
Report to Those Charged with Governance	September 2013	Completed	Reported to Standards and Governance Committee September 2013
Audit Report (including opinion, vfm conclusion)	September 2013	Completed	Reported to Standards and Governance Committee September 2013
Audit Certificate	September 2013	Completed	Reported to Standards and Governance Committee September 2013
WGA submission to NAO	September 2013	Completed	Reported to Standards and Governance Committee September 2013
Annual Audit Letter	October 2013	Completed	Reporting at January 2014 Standards and Governance Committee
Report on the audit of Grant Claims	December 2013	To be issued January 2014	To be reported to April 2014 Standards and Governance Committee.

2013/14 audit

Fee letter

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

Financial Statements

We adopt a risk based approach to the audit and as part of our ongoing continuous planning we have held, and will be holding, a number of meetings with key officers and other stakeholders to ensure that the 2013/14 audit runs as smoothly as possible and identify any risks at the earliest opportunity.

Our work to identify the Council's material income and expenditure systems and to walk through these systems and controls is planned for February/March 2014. The detailed testing of the controls and critical path of each material system is planned for March/April 2014.

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

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, and we will carry out our initial risk assessment in January/February 2014 and report the risks we have identified, and associated work we will carry out, to either the April or July 2014 Standards and Governance Committee.

Timetable: 2013/14

Audit Committee Timeline

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 Audit Committee cycle.

We will provide formal reports to the Audit Committee throughout our audit process as outlined below.

Audit phase	Timetable	Deliverables
High level planning:	January - February	Audit Fee Letter
Risk assessment and setting of scope of audit	January - March	Audit Plan
Testing of routine processes and controls	March – April	Audit Plan
Year-end audit	July - 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	December/ January	Annual certification report

In addition to the above formal reporting and deliverables we provided practical business insights and updates on regulatory matters through our Sector Briefings, which we will continue to provide as they become available.

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