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GOVERNANCE & AUDIT COMMITTEE AGENDA

Membership: Councillor Smith K (Chairman)

Councillors Davis, Lenaghan, Pike and Rees

Meeting: Governance & Audit Committee

Date: Wednesday 30 November 2016

Time: 5.00 pm

Venue: Hollybank Room, Public Service Plaza, Civic Centre Road,
Havant, Hants PO9 2AX

The business to be transacted is set out below:

Nick Leach
Monitoring Officer

22 November 2016

Contact Officer: Nicholas Rogers 023 9244 6233
Email: nicholas.rogers@havant.gov.uk

	Page
1 Apologies	
To receive apologies for absence.	
2 Minutes	1 - 4
To confirm the minutes of the Governance and Audit Committee held on 21 September 2016.	
3 Matters Arising	
To consider any matters arising from the minutes of the previous meeting.	
4 Declarations of Interest	

5	Chairman's Report	
6	Annual Audit Letter 2015/2016	5 - 32
7	Internal Audit Progress Report	33 - 44
	To note the Internal Audit Progress Report.	
8	Monitoring Officer's Update	

GENERAL INFORMATION

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BOROUGH COUNCIL

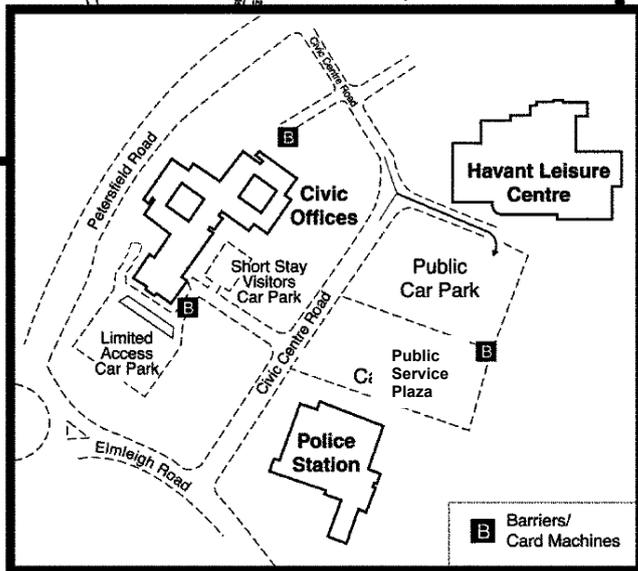
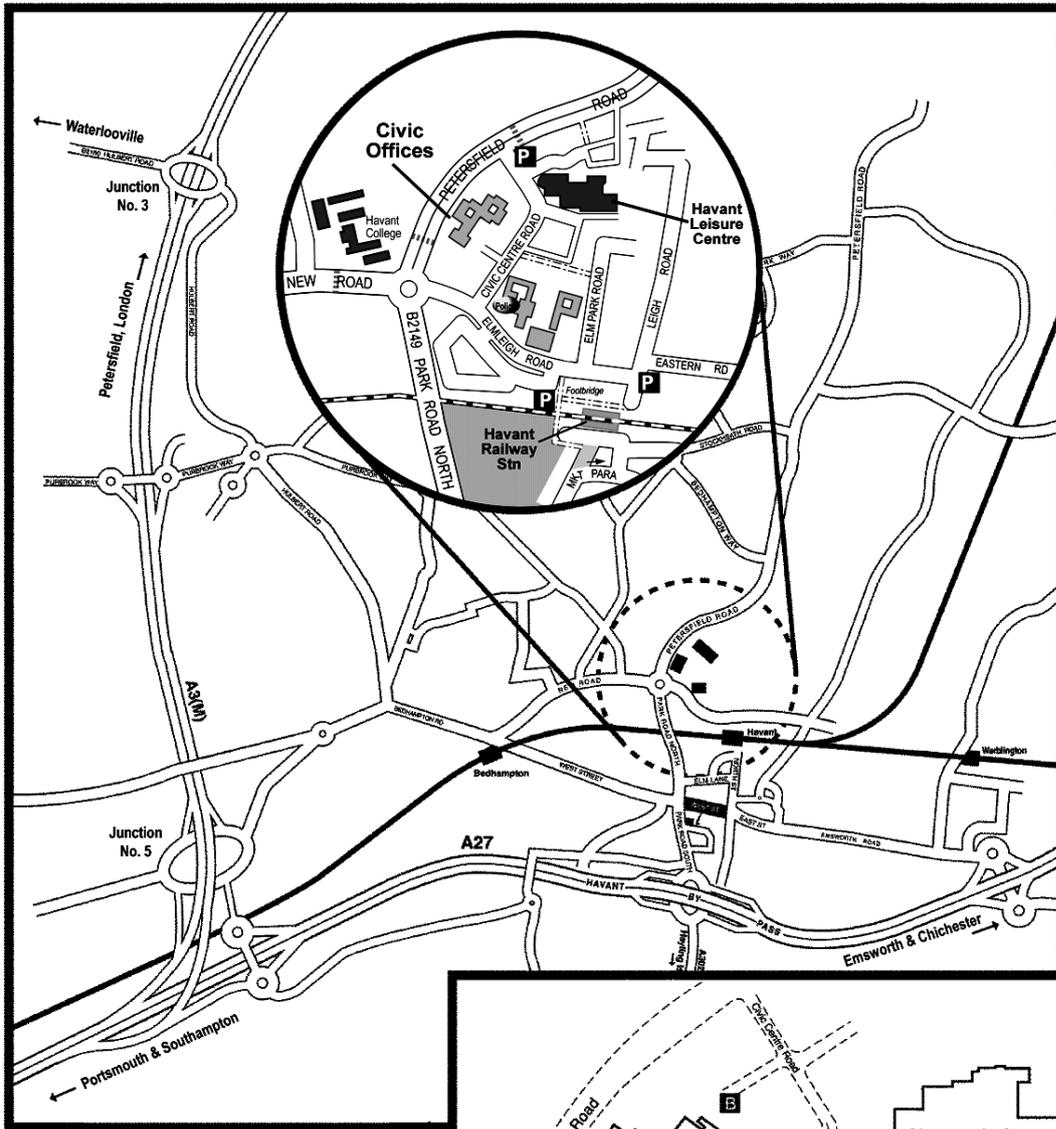
PROTOCOL AT MEETINGS – RULES OF DEBATE

Rules of Debate

- Councillors must always address each other as “Councillor ...” and must always address the meeting through the Chairman;
- A motion must relate to the business included on the agenda or accepted by the meeting as urgent business
- A motion must be proposed and seconded before it is debated until it is either accepted or rejected by a vote;
- An amendment can be proposed to the original motion and this must be seconded before it is debated;
- An amendment cannot be considered if it is inconsistent with an amendment previously adopted or repeats an amendment previously rejected;
- The mover of an original motion may, with the consent of the mover of an amendment, incorporate an amendment into the motion;
- Only one amendment may be moved at a time. No further amendments can be moved until the previous amendment has been dealt with;
- Each amendment must be voted on separately;
- If an amendment is carried, the amended motion becomes the substantive motion to which further amendments may be moved;
- If an amendment is lost, other amendments may be moved to the original motion.
- The mover may withdraw an amendment at any time
- After an amendment has been carried, the Chairman will read out the amended (substantive) motion, before accepting any further amendment, or if there are none, put it to the vote.

Voting

- Voting may be by a show of hands or by a ballot at the discretion of the Chairman;
- Councillors may not vote unless they are present for the full duration of the item;
- Where there is an equality of votes, the Chairman may exercise a second (casting) vote;
- Two Councillors may request, before a vote is taken, that the names of those voting be recorded in the minutes
- A recorded vote will always be taken in respect of approval of the Annual Budget
- Councillors may not vote unless they are in the meeting for the full debate on any particular item
- A Councillor may request that his/her vote be recorded in the minutes



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HAVANT BOROUGH COUNCIL

At a meeting of the Governance & Audit Committee held on 21 September 2016

Present

Councillor Smith K (Chairman)

Councillors Davis, Lenaghan and Mackey

54 Apologies

Apologies for absence were received from Councillor Pike and Rees.

55 Minutes

RESOLVED that the minutes of the meeting of the Governance and Audit Committee held on 29 June 2016 be approved as a correct record.

56 Matters Arising

The Committee were informed that the NORSE JVC would have its own audit processes as it is a separate legal entity to the Council. The Committee was also informed that the process of reporting corporate risks was under review and would be included in future meetings.

57 Declarations of Interest

There were no declarations of interest from any of the members present.

58 Chairman's Report

There were no matters that the Chairman wished to report to the Committee.

59 External Audit Results Report 2015/16

The Committee considered the Audit Results Report for the year ended 31 March 2016 presented by Ernst and Young LLP. Emma Bryant and Andrew Brittain of Ernst and Young LLP joined the meeting for the debate on this item and answered members' questions in connection with the report.

The Audit Results Report summarised the findings from the 2015/16 audit. The Committee were informed that two unadjusted audit differences had been identified relating to the cashflow statement and the collection fund, which management had chosen not to adjust. The Committee were also advised of the significant audit risks that had been identified and the assurances given for these risks.

Ernst and Young passed on their thanks to the Council's staff for their assistance during the course of their work.

RESOLVED that

- 1) the Audit Results Report for the year ended 31 March 2016 from external auditors be noted; and
- 2) the rationale for two unadjusted audit differences relating to the cashflow statement and the collection fund be endorsed.

60 Statement of Accounts and Letter of Representation 2015/16

The Corporate Accountancy Team Leader presented the Committee with the Statement of Accounts 2015-2016 and the Letter of Representation.

The Statement of Accounts detailed the Council's financial position against budgets in 2015/2016, while also outlining arrangements for 2016/2017 onwards. The Letter of Representation set out the Council's response to the external auditors and explanation of uncorrected audit differences.

RESOLVED that;

- 1) The Committee agreed the Statement of Accounts for 2015/16, that the Chairman certified the approval by signing page 20 of the accounts and S151 Officer certified the approval of the Accounts by signing page 20 and page 27 of the Accounts; and
- 2) The Committee agreed the draft Letter of Representation, and the Chairman of the Committee and S151 Officer signed the letter.

61 Internal Audit Progress Report

The Committee considered the Internal Audit Progress Report presented by Antony Harvey and Amanda Chalmers of the Southern Internal Audit Partnership, who joined the meeting for the debate on this item and answered members' questions in connection with the report.

The Committee were informed the work of Internal Audit was on track and there were no significant issues to be highlighted at this stage.

RESOLVED that the Internal Audit Progress Report be noted.

62 Local Government Ombudsman (LGO) - Annual Review Letter 2016

The Committee considered the Local Government Ombudsman's Annual Review Letter 2016.

RESOLVED that the content of the report be noted.

63 Monitoring Officer's Update

The Monitoring Officer informed the Committee that the review of the Constitution was on-going to ensure it remained fit for purpose. The Committee were also informed that there were currently no outstanding Code of Conduct complaints.

The meeting commenced at 5.00 pm and concluded at 5.47 pm

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NON-EXEMPT

HAVANT BOROUGH COUNCIL

Governance And Audit Committee

30 November 2016

ANNUAL AUDIT LETTER 2015/16
Ernst & Young

FOR INFORMATION

Cabinet Lead: Cllr Mike Cheshire

Key Decision: No

1.0 Purpose of Report

1.1 To present the Annual Audit Letter for 2015/16.

2.0 Recommendation

2.1 That the Committee note the contents of the report

3.0 Summary

3.1 The purpose of this letter is to communicate to the Members of Havant Borough Council and external stakeholders, including members of the public, the key messages of the 2015/16 audit.

4.0 Reports

4.1 **The Annual Audit Letter is attached to this report.**

5.0 Implications

5.1 Resources: No direct implications

5.2 Legal: No direct implications

5.3 Strategy: No direct implications

5.4 Risks: No direct implications

5.5 Communications: No direct implications

5.6 For the Community: No direct implications

Agreed and signed off for publication by:

Head of Service:	13.11.16
Head of Finance:	13.11.16
Head of Legal:	09.11.16

Contact Officer:	Kevin Harlow
Job Title:	Central Finance Team Leader
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Havant Borough Council

Annual Audit Letter for the year ended 31 March 2016

October 2016

Ernst & Young LLP

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

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

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

This Annual Audit Letter 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.

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Havant Borough Council (the Council) following completion of our audit procedures for the year ended 31 March 2016.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's: ▶ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2016 and of its expenditure and income for the year then ended.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception: ▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 21 September 2016.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 22 September 2016.

In December 2016 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Andrew Brittain

Executive Director
For and on behalf of Ernst & Young LLP

Purpose



Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2015/16 Audit Results Report to the 21 September 2016 Governance and Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2015/16 audit work has been undertaken in accordance with the Audit Plan that we issued in March 2016 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2015/16 financial statements; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on you Whole of Government Accounts return. The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 22 September 2016.

Our detailed findings were reported to the 21 September 2016 Governance and Audit Committee.

The key issues identified as part of our audit were as follows:

Risk	Conclusion
<p>Management override of controls</p> <p>A risk present on all audits is that 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.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p>	<p>We:</p> <ul style="list-style-type: none"> · tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; · reviewed accounting estimates for evidence of management bias including the valuation of property, plant and equipment and investment property, bad debt provision and business rates appeals provision; · evaluated the business rationale for any significant unusual transactions; and · evaluated the appropriateness of accounting policies against Code guidance and for changes from the prior period. <p>We have not identified any material weaknesses in controls or evidence of material management override.</p> <p>We have not identified any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.</p>
<p>New Financial System</p> <p>The Council implemented a new financial system in October 2015.</p> <p>ISA (UK and Ireland) 315 requires us to obtain an</p>	<p>We:</p> <ul style="list-style-type: none"> · confirmed our understanding of the old system and formed an initial understanding of the new system in operation by undertaking additional walkthrough testing; · undertook detailed testing of the data migration process, specifically ensuring that

understanding of the relevant controls within each of the financial systems in operation in the current financial year.

Additionally, data has been migrated from the old system and there is a risk that the data might not be complete. Our initial testing has highlighted:

- certain transaction dates migrated in English format from the old finance systems have defaulted to an American format in the new Civica system; and
- the Agresso finance system used prior to October 2015 does not meet current Public Services Network compliance criteria and will need to be decommissioned before our final audit commences. Officers are working on a legacy data solution and we will be working with them to ensure that all information we require is made available.

there are no date migration issues from the incorrect date format that the system has used as a default;

- ensured the completeness of individual account balances; and
- undertook substantive testing of balances on both old and new systems.

We completed the work as planned and did not identify any further issues with the data migrated to the new system. In addition, we have not experienced any issues in accessing the data to enable us to undertake substantive testing of both old and new systems.

Capacity of the Finance Team

The Council is embarking on a reorganisation of the senior management team and there are interim arrangements to cover the Section 151 Officer who left in March. There is a concern that this may increase the burden on operational finance staff which will impact upon the quality of financial information presented for audit.

Additionally, as the Council moves towards the implementation of the new corporate services contract there is risk that finance staff may leave the Council. This could result in the Council having insufficient resource to deliver the financial statements in line with the agreed audit timetable, and cause delays in responding to audit queries.

We:

- monitored the quality and accuracy of the financial statements and supporting working papers that were presented for audit;
- held regular discussions with key officers to ensure that any delays are communicated at an early stage
- identified opportunities to bring our work forward.

The quality and accuracy of the financial statements and the supporting working papers had not deteriorated despite the decreased capacity in the finance team. In fact we noted fewer casting and consistency issues in this year than in the previous year. Officers responded to our enquiries on a timely basis and we did not experience any significant delays with our requests.

Other Key Findings

Conclusion

Business rate appeals provision

We reviewed the business rate appeals provision to ensure that the basis for the provision was reasonable. We identified that the approach to providing for successful business rate appeals has not been amended or reviewed since the requirement was introduced three years ago. Additionally when assessing if the provision was under or over stated we ascertained that it is not possible to identify how accurate the prior year provision has been as the system does not produce a report of amounts refunded due to successful appeals.

The Council should review the methodology for the business rate appeals provision to ensure that it is suitable for purpose and provides an accurate basis for the provision.

Valuation of land and buildings

The Council currently revalues a proportion of land and buildings as at 31 March and ensures that all assets are revalued at least every five years as part of a rolling programme. We identified that assets revalued as at 31 March 2016 subsequently have a depreciation charge to reflect the use of the asset during the period alongside assets which have not been revalued.

The Council should review the timing of the annual valuation and depreciation charges are revisited to ensure that the carrying value and depreciation charges are appropriate.

A close-up, shallow depth-of-field photograph of a stack of coins. The coins are stacked vertically, with the edges of several coins visible. The lighting is warm, highlighting the metallic texture and the ridges on the edges. A bright yellow rectangular box is overlaid on the left side of the image, containing the text 'Value for Money'.

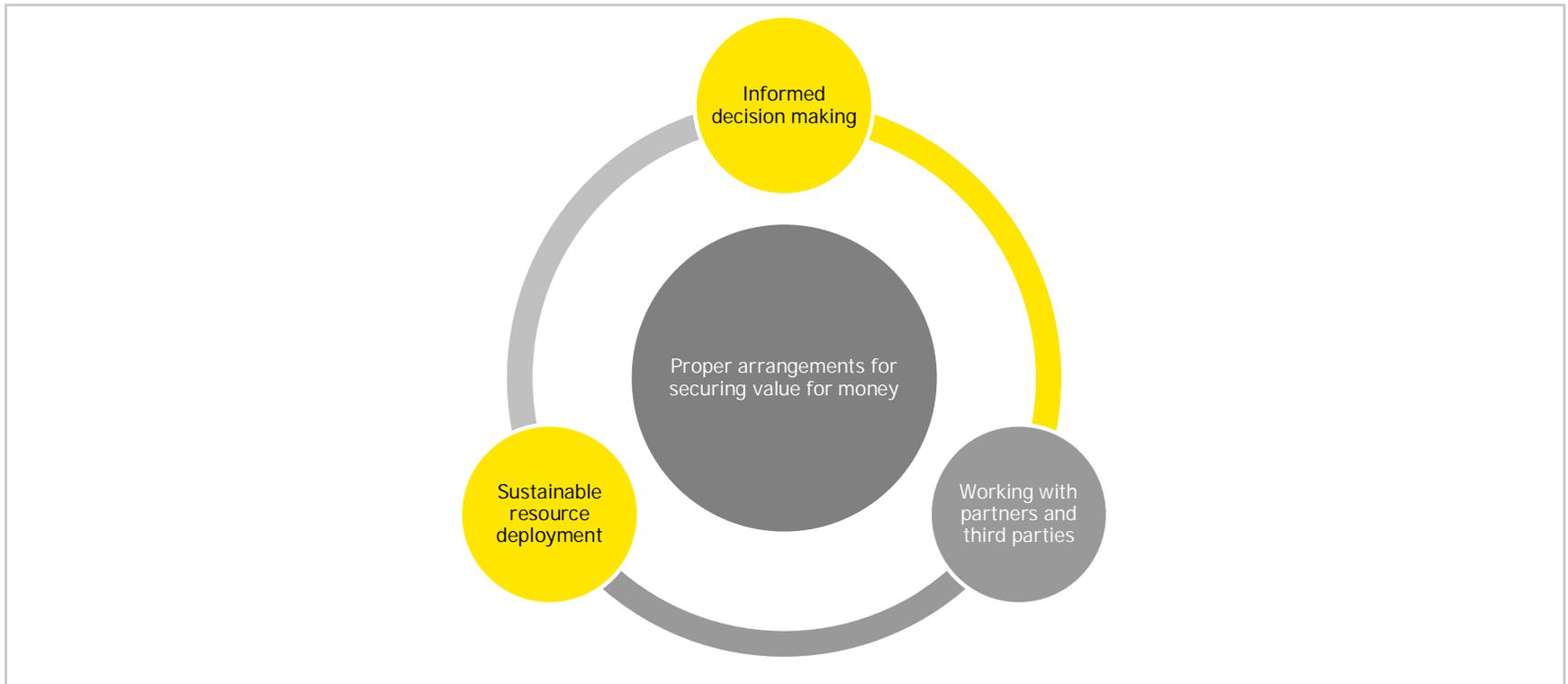
Value for Money

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. This is known as our value for money conclusion.

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.



We issued an unqualified value for money conclusion on 22 September 2016. We identified the following areas to bring to your attention:

Key Findings

We identified two significant risks for our VFM conclusion work at the planning stage of the audit.

Financial sustainability

Like other local government bodies the Council continues to face financial challenges over the medium term. The Council must save circa £4 million over the next four years. The Council continues to seek alternative solutions to ensure that local services can be maintained and supported in the future, in line with local need.

A clear focus on addressing high cost areas is therefore essential to the economy, efficiency and effectiveness of services delivered and the overall financial resilience of the Council.

We reviewed the PSAA's value for money profile tool and did not identify any areas of concern.

We reviewed the Council's medium term financial strategy (MTFS), 2016/17 budget, quarter 1 and month 4 out-turn. The Council achieved a £1.788 million surplus for 2015/16. We reviewed the Council's 2016/17 budget and MTFS and found that the assumptions used appear reasonable. From our review of the 2016/17 performance to date the Council is on track to achieve its 2016/17 budget.

Looking forward in the MTFS, there is some uncertainty in relation to the New Homes Bonus for 2019/20 and the Retained Business Rates income. We have reviewed the Council's reserves and are satisfied that the Council has sufficient reserves to meet any shortfall in the short to medium term. By entering into the partnership arrangements with Norse and the 5 councils contract, the Council has secured savings and will need to ensure that there are good contract management and governance arrangements in operation to ensure that these are achieved.

Partnership working

Corporate Services Contract

The Council tendered for a new corporate services contract with four other local authorities. The procurement was for two lots, one for data based services and one for property based services. The contracts are for a period of up to 9 years to 30 September 2025, with forecast savings of £50.65m across the five councils. These contracts are due to start in the 2016/17 financial year (2017/18 at Havant Borough Council); however the contracts were procured and entered into in 2015/16.

We considered there to be a significant risk to our value for money conclusion in relation to the procurement of the contracts and in establishing the governance arrangements between the Councils.

We reviewed the evaluation process for awarding the preferred supplier for both lots and found that:

- Each stage of the procurement process was focussed on retaining and improving customer service, whilst increasing value for money. The procurement strategy considered by the Project Board, established the key outcomes the councils wished to achieve for the new services and this was built into many areas of the invitation to tender including customer service, health and safety and quality assurance. Tenderers were required to submit service delivery plans which were compared to these outcomes.
- The evaluation was carried out on the basis of a joint contract for all five councils. The bids were reviewed by representatives of each of the

Councils, including legal and financial representatives. A moderation meeting was held for both lots to reach a coherent single result based on quantitative and qualitative factors.

We also reviewed the procurement process and confirmed that the approach to the evaluation of the bidders, for both lots, was appropriate and objective.

Our review of the revised Inter-Authority Agreement, and the adequacy of the proposed governance arrangements found that:

- A revised legally binding inter-authority agreement (the IAA) was agreed and signed by all 5 councils after the award of the Capita and Vinci contracts.

- The revised IAA clearly sets out the agreed arrangements for managing and monitoring the contracts.

- The IAA clearly sets out the expectations and roles of the authorities in relation to the Corporate Services Contract. It establishes a number of key boards, to provide regular oversight and governance of the contract for all of the Authorities involved. These should ensure sufficient challenge and scrutiny of Suppliers, and enable the authorities to apply the appropriate sanctions in the contract for any poor performance.

As a result, we concluded that the proposed governance arrangements established in the corporate services contract and the Inter-Authority Agreement will provide sufficient oversight and effective governance of the contract.

As the contracts become effective in 2017 for Havant Borough Council, the arrangements are not yet operational. This is likely to be an area of focus for our work relating to the 2016/17 financial year.

Norse South East

The Council also entered into partnership with Norse Commercial Services and developed a Joint Venture Company called Norse South East. Norse South East are providing operational Services from April 2016 dealing with refuse and recycling collections, street cleaning, grounds maintenance and beach management.

We considered there to be a significant risk to our value for money conclusion in relation to the procurement of the contracts and in establishing the governance arrangements between the Council and the Joint Venture Company.

Our review found that an appropriate process has been followed by the Council including appropriate legal advice to support the approach adopted. In addition, the governance arrangements established in the contract are appropriate to ensure effective monitoring of performance of the Joint Venture Company. As the contract was signed on 1/4/16, part of the focus of our work next year will include how the governance arrangements are operating in practice.

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

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

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2015/16 financial statements from member of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Governance and Audit Committee on 13 September 2016. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

As part of our work, 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 control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

The matters reported are shown below and are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported.

Description	Conclusion
<p>Bank reconciliation From our work on cash and bank we identified that the Council has a small unreconciled difference. The Council have undertaken an exercise to ensure that there are no large unreconciled differences behind this and will keep this difference under review. The issue arose following the system migration and we note that there is currently no formal monthly reconciliation process in place.</p>	<p>The Council should implement a formal monthly bank reconciliation including preparer and reviewer sign offs.</p>
<p>Authorisation of journals We identified that there is currently no independent authorisation of manual journals within the finance department. Without an authorisation or review process there is a risk that journal mispostings may not be identified.</p>	<p>The Council should introduce an authorisation or review process for manual journals</p>

A close-up photograph of a person's face as they look through a pair of black binoculars. The person's eyes are visible through the eyepieces, and their hands are holding the binoculars. The background is a soft, out-of-focus white. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Focused on your future".

Focused on your
future

Focused on your future

Area	Issue	Impact
EU referendum	<p>Following the majority vote to end the UK's membership of the European Union (EU) in the EU Referendum held on 23 June 2016 there is a heightened level of volatility in the financial markets and increased macroeconomic uncertainty in the UK. For entities in the public sector, there is a possible impact on investment property valuations and the valuation of defined benefit pension obligations may also be affected. It is too early to estimate the quantum of any impact of these issues, but there is likely to be significant ongoing uncertainty for a number of months while the UK renegotiates its relationships with the EU and other nations.</p>	<p>Many of the issues and challenges that face the UK public sector will continue to exist, not least because continued pressure on public finances will need responding to. Additionally it may well be that the challenges are increased if the expected economic impacts of the referendum and loss of EU grants outweigh the benefits of not having to contribute to the EU and require even more innovative solutions.</p> <p>We are committed to supporting our clients through this period, and help identify the opportunities that will also arise. We will engage with you on the concerns and questions you may have, provide our insight at key points along the path, and provide any papers and analysis of the impact of the referendum on the Government and Public Sector market.</p>
Faster close	<p>From the 2017/18 financial year, the deadline for preparing the financial statements will move to 31 May from 30 June. In addition, the deadline for completing the statutory audit will move to 31 July from 30 September.</p>	<p>The faster closedown timetable requires the council to adjust its timetable for preparing the accounts, as well as the budget setting process and the timing of committee meetings.</p> <p>It requires upfront planning to identify areas of the accounts that can be prepared earlier, before the 31 March, and there will be a need to establish robust basis for estimations across a wider number of entries in the financial statements.</p> <p>For the 2016/17 audit, we are working with officers to bring our work forward to support the transition ahead of the new deadlines in 2017/18.</p>

Area	Issue	Impact
Appointment of auditors	<p>The current audit contracts expire on the completion of the 2017/18 audit. The expiry of contracts also marks the end of the current mandatory regime for auditor appointments.</p> <p>After this, the PCC and CC can exercise choice about whether they decide to opt in to the authorised national scheme, or whether to make other arrangements to appoint its own auditors.</p> <p>In July 2016, the Secretary of State for Communities and Local Government specified Public Sector Audit Appointments limited (PSAA) as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015.</p> <p>PSAA will be able to appoint an auditor to relevant authorities that choose to opt into its national collective scheme.</p>	<p>Appointment of auditors for the 2018/19 financial year is required by 31 December 2017.</p> <p>The council should consider whether they intend to opt into the appointed person scheme to appoint your auditors from 2018/19 or if the council should make their own arrangements following the legislative requirements.</p>

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Internal Audit Progress Report

November 2016

Havant Borough Council



**Southern Internal
Audit Partnership**

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1. Role of Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:

‘Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.’

The standards for ‘proper practices’ are laid down in the Public Sector Internal Audit Standards [the Standards - updated 2016].

The role of internal audit is best summarised through its definition within the Standards, as an:

‘Independent, objective assurance and consulting activity designed to add value and improve an organisations operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes’.

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations objectives.

2. Purpose of report

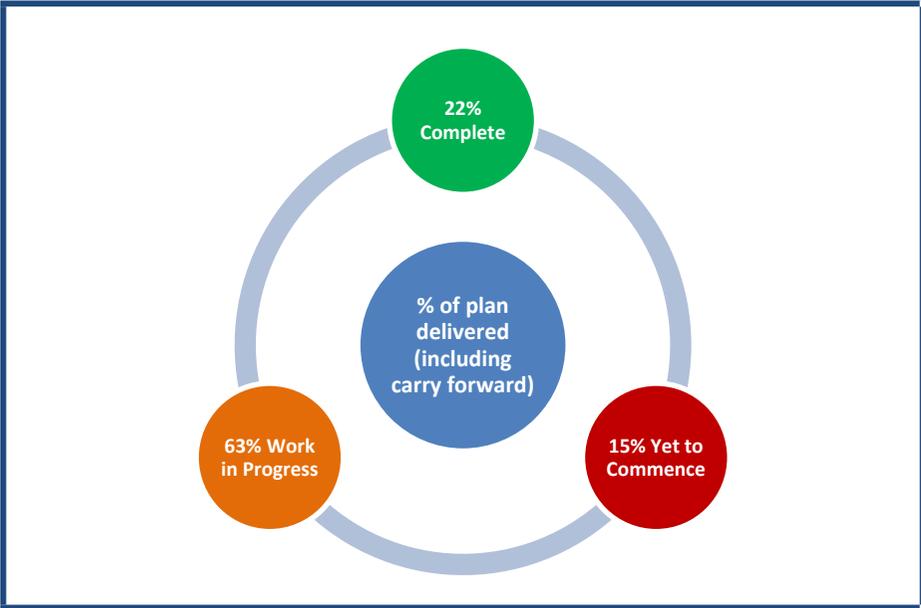
In accordance with proper internal audit practices (Public Sector Internal Audit Standards), and the Internal Audit Charter the Chief Internal Auditor is required to provide a written status report to ‘Senior Management’ and ‘the Board’, summarising:

- The status of ‘live’ internal audit reports;
- an update on progress against the annual audit plan;
- a summary of internal audit performance, planning and resourcing issues; and
- a summary of significant issues that impact on the Chief Internal Auditor’s annual opinion.

Internal audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives of the service area under review. Assurance opinions are categorised as follows:

Substantial	A sound framework of internal control is in place and operating effectively. No risks to the achievement of system objectives have been identified
Adequate	Basically a sound framework of internal control with opportunities to improve controls and / or compliance with the control framework. No significant risks to the achievement of system objectives have been identified
Limited	Significant weakness identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk
No	Fundamental weaknesses identified in the framework of internal control or the framework is ineffective or absent with significant risk to the achievement of system objectives

3. Performance dashboard



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Compliance with Public Sector Internal Audit Standards / Local Government Application Note



An 'External Quality Assessment' of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2015. The report concluded:

*'It is our view that the Southern Internal Audit Partnership 'generally conforms' (top grading) to **all** of the principles contained within the International Professional Practice Framework (IPPF); Public Sector Internal Audit Standards (PSIAS); and the Local Government Application Note (LAGN).*

4. Status of 'Live' Reports

Audit Review	Report Date	Audit Sponsor	Assurance Opinion	Management Actions ('High Priority')				
				Reported	Not Accepted	Pending	Cleared	Overdue
IT Partnership Agreement	27/05/15	HoPRQ	Adequate	5 (0)	0 (0)	0 (0)	5 (0)	0 (0)
Human Resources	07/10/15	HoOD	Limited	15 (8)	0 (0)	0 (0)	15 (8)	0 (0)
Insurance	01/04/16	HoF	Adequate	2 (0)	0 (0)	1 (0)	1 (0)	0 (0)
New IT applications/Finance System Access Controls	03/05/16	HoPRQ	Adequate	2 (0)	0 (0)	0 (0)	1 (0)	1 (0)
Local Government Transparency Code 2015	06/05/16	HoF	Adequate	7 (3)	0 (0)	0 (0)	0 (0)	7 (3)
Main Accounting	06/05/16	HoF	Adequate	5 (1)	0 (0)	0 (0)	3 (1)	2 (0)
Performance Management	26/05/16	HoPRQ	Substantial	3 (0)	0 (0)	2 (0)	1 (0)	0 (0)
Accounts Receivable / Debtors Management	15/08/16	HoF	Adequate	3 (0)	0 (0)	2 (0)	1 (0)	0 (0)
Contract Management	16/08/16	HoPRQ	Adequate	3 (2)	0 (0)	1 (0)	2 (2)	0 (0)
Asset Management	07/09/16	HoES	Adequate	11 (0)	0 (0)	0 (0)	11 (0)	0 (0)
Lease Income	10/10/16	HoF	Adequate	1 (0)	0 (0)	1 (0)	0 (0)	0 (0)
Procurement	13/10/16	HoPRQ	Adequate	5 (3)	0 (0)	3 (1)	2 (2)	0 (0)

Audit Sponsor	
Head of Organisational Development	HoOD
Head of Customer Services	HoCS
Head of Finance	HoF
Head of Programmes, Redesign and Quality	HoPRQ
Head of Research and Marketing	HoRM
Head of Environmental Services	HoES
Head of Planning	HoP
Head of Neighbourhood Support	HoNS
Head of Coastal Partnership	HoCP
Steering Group	SG

5. Executive Summaries of new reports published concluding a ‘Limited’ or ‘No’ assurance opinion

There are no new reports published concluding a ‘Limited’ or ‘No’ assurance opinion.

6. Fraud and Irregularities

In accordance with the Local Government Transparency Code 2015 there is a requirement on local authorities to publish the following information with regard counter fraud work:

Local Government Transparency Code 2015	01.04.16 – 31.07.16
Part 2 Requirements - Fraud	
Number of occasions powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers have been used	Nil
Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud	2 fte*
Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists	4 fte*
Total amount of time spent by the authority on the investigation and prosecution of fraud	3 days
Total number of fraud cases investigated	0**

*relates to internal audit staff across the wider SIAP only (does not include other areas of the Council that may affect reported figures i.e. legal, HR, Trading Standards, departmental investigating officers etc.)

**the definition of fraud is as set out by the Audit Commission in *Protecting the Public Purse* - 'the intentional false representation, including failure to declare information or abuse of position that is carried out to make gain, cause loss or expose another to the risk of loss.'

7. Planning & Resourcing

The internal audit plan for 2016-17 was discussed by the Executive Board on 09 February 2016 and approved by the Governance and Audit Committee on 02 March 2016.

The audit plan remains fluid to provide a responsive service that reacts to the changing needs of the Council. Progress against the plan is detailed within section 8.

8. Rolling Work Programme

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
Carry Forward Reviews									
Asset Management	HoF	✓	✓	✓	✓	✓	Adequate	✓	
Contract Management	HoPRQ	✓	✓	✓	✓	✓	Adequate	✓	
Accounts Receivable / Debt management	HoF	✓	✓	✓	✓	✓	Adequate	✓	
2016-17 Reviews									
Corporate cross cutting									
Business Continuity Planning / Disaster Recovery	HoOD	✓	✓	✓	✓			✓	
Strategic Planning	HoOD								

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
Human Resources	HoOD	✓	✓	✓				✓	
Partnerships	SG								
Procurement	HoPRQ	✓	✓	✓	✓	✓	Adequate	✓	
Risk Management	HoCS	✓	✓	✓				✓	
Health and Safety	HoOD	✓	✓	✓				✓	
Information Governance	HoCS	✓	✓					✓	
Corporate governance									
CIPFA/Tecaff Fraud Survey	HoF	✓	n/a	✓	n/a	✓	n/a	✓	
Proactive Fraud Initiatives	HoF	N/A	N/A	✓				✓	
National Fraud Initiative (NFI)	HoF	N/A	N/A	✓				✓	
Financial management									
Lease Income	HoF	✓	✓	✓	✓	✓	Adequate	✓	
Benefits	HoCS	✓	✓	✓				✓	
Accounts Payable	HoF	✓	✓	✓				✓	
Main Accounting	HoF	✓	✓						

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
Accounts Receivable / Debt Management	HoF	✓	✓	✓				✓	
Information technology									
ICT Contract	SG	✓						✓	
ICT Hosted Services	HoPRQ	✓	✓	✓				✓	
Personalisation Programme	HoRM	✓						✓	
Corporate objectives									
Norse South East – Transition/Mobilisation	HoES	✓	✓	✓	✓			✓	
Norse South East – Governance Arrangements	HoES	✓						✓	
Norse South East – Facilities Costing	HoES	✓						✓	
Thematic Review	HoF								
Developers Obligations and Contributions / Community Infrastructure Levy (CIL)	HoP								

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