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## GOVERNANCE & AUDIT COMMITTEE AGENDA

**Membership:** Councillor Smith K (Chairman)

Councillors Davis, Lenaghan, Rees, Seal and Smith D

**Meeting:** Governance & Audit Committee

**Date:** Wednesday 21 June 2017

**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

13 June 2017

Contact Officer: Nicholas Rogers 023 9244 6233  
Email: [nicholas.rogers@havant.gov.uk](mailto:nicholas.rogers@havant.gov.uk)

	Page
<b>1 Apologies</b>	
To receive apologies for absence.	
<b>2 Minutes</b>	<b>1 - 6</b>
To confirm the minutes of the Governance and Audit Committee held on 8 March 2017 and the Extraordinary Governance and Audit Committee held on 24 April 2017.	
<b>3 Matters Arising</b>	
To consider any matters arising from the minutes of the previous meeting.	

<b>4</b>	<b>Declarations of Interest</b>	
<b>5</b>	<b>Chairman's Report</b>	
<b>6</b>	<b>Annual Internal Audit Report and Opinion</b>	<b>7 - 24</b>
<b>7</b>	<b>External Audit Papers</b>	<b>25 - 56</b>
<b>8</b>	<b>Annual Governance Statement 2016-17</b>	<b>To Follow</b>
<b>9</b>	<b>Monitoring Officer's Update</b>	

## **GENERAL INFORMATION**

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### PROTOCOL AT MEETINGS – RULES OF DEBATE

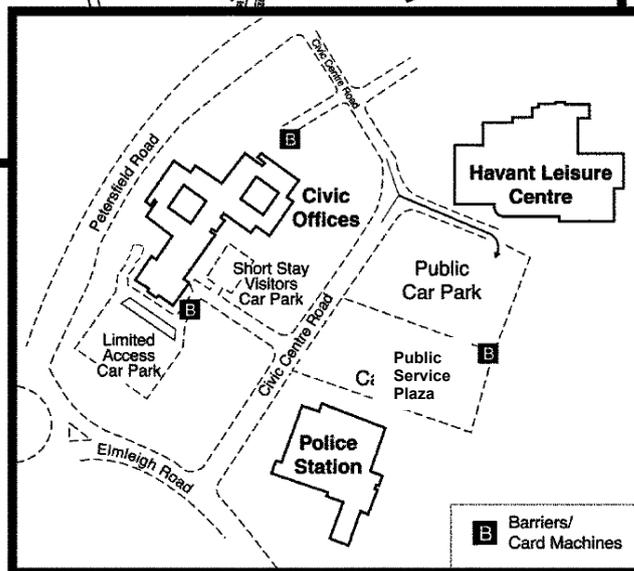
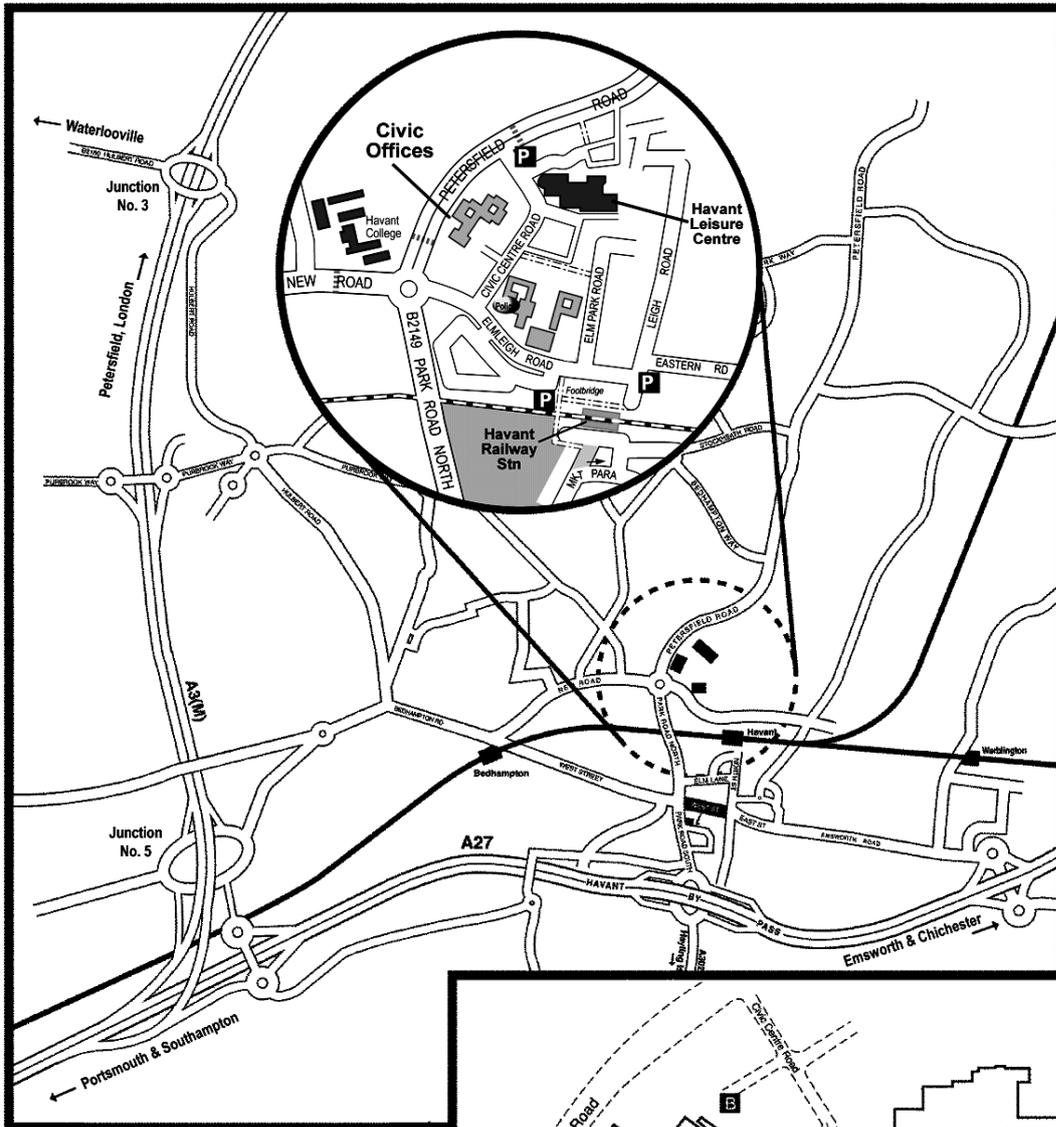
#### Rules of Debate

- Councillors must always address each other as “Councillor ...” and must always address the meeting through the Chairman
- Councillors may only take part in the debate if they are present at the meeting: video conferencing is not permissible
- A member of the Committee may not ask a standing deputy to take their place in the Committee for part of the meeting
- The report or matter submitted for discussion by the Committee may be debated prior to a motion being proposed and seconded. Recommendations included in a report **shall not** be regarded as a motion or amendment unless a motion or amendment to accept these recommendations has been moved and seconded by members of the Committee
- Motions and amendments must relate to items on the agenda or accepted by the meeting as urgent business
- Motions and amendments must be moved and seconded before they may be debated
- There may only be one motion on the table at any one time;
- There may only be one amendment on the table at any one time;
- Any amendment to the motion can be moved provided it is (in the opinion of the Chairman) relevant to the matter under discussion. The amendment can be a direct negative of the motion.
- The mover with the agreement of the seconder may withdraw or alter an amendment or motion at any time
- Once duly moved, an amendment shall be debated along with the original motion.
- If an amendment is carried, the motion as amended shall take the place of the original motion and shall become the substantive motion on which any further amendment may be moved.
- If an amendment is rejected different amendments may be proposed on the original motion or substantive motion.
- If an amendment is lost, other amendments may be moved to the original motion or substantive motion
- If an amendment is lost and there are no further amendments, a vote will be taken on the original motion or the substantive motion
- If no amendments are moved to the original motion or substantive motion, a vote will be taken on the motion or substantive motion
- If a motion or substantive motion is lost, other motions may be moved

#### 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;
- An amendment must be voted on before the motion
- 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 Councillor may request that his/her vote be recorded in the minutes



**Havant**  
**BOROUGH COUNCIL**  
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## HAVANT BOROUGH COUNCIL

At a meeting of the Governance & Audit Committee held on 8 March 2017

Present

Councillor Smith K (Chairman)

Councillors Davis, Lenaghan, Rees, Sceal and Wade

### **75 Apologies**

There were no apologies for absence.

### **76 Minutes**

RESOLVED that the minutes of the Governance and Audit Committee held on 30 November 2016 and the minutes of the Extraordinary Governance and Audit Committee held on 20 February 2017 be approved as a correct record.

### **77 Matters Arising**

There were no matters arising.

### **78 Declarations of Interest**

There were no declarations of interest.

### **79 Chairman's Report**

There were no matters that the Chairman wished to report.

### **80 External Audit Papers**

The Committee considered the Annual Certification Report 2015/16 as presented by Ernst and Young LLP. Andrew Brittain and Emma Bryant of Ernst and Young LLP joined the meeting for the debate on this item and answered members questions in connection with the report.

The report summarised the results of the external auditors' work on Havant Borough Council's 2015-16 claims. No errors had been highlighted in their sample testing.

RESOLVED that the Annual Certification Report 2015/16 from external auditors be noted.

**81 Internal Audit Progress Report 2016-17 (January 2017)**

The Committee considered a paper 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 paper provided an overview of internal audit activity against assurance work completed in accordance with the approved audit plan and an overview on the status of 'live' reports.

RESOLVED that the Internal Audit Progress Report 2016-17 (January 2017) be noted.

**82 Internal Audit Plan and Fraud & Corruption Risk Plan 2017/18**

The Committee considered the Internal Audit Plan and the Fraud and Corruption Risk Plan 2017-18, as presented by Antony Harvey and Amanda Chalmers of the Southern Internal Audit Partnership.

The Internal Audit Plan aimed to assure the Committee that the framework of internal control, risk management and governance is appropriate and operating effectively, with specific consideration of the 6 Councils Partnership and related risks.

The Fraud and Corruption Risk Plan highlighted the framework of reactive and proactive initiatives to detect fraud and provide assurance that fraud has not taken place.

During the course of the discussion, members requested further details on the number of frauds identified within key fraud risk areas relevant to the Council.

RESOLVED that the Internal Audit Plan 2017-18 and the Fraud and Corruption Risk Plan 2017-18 be approved.

**83 Internal Audit Charter 2017/18**

Antony Harvey and Amanda Chalmers of the Southern Internal Audit Partnership presented the Committee with the Internal Audit Charter 2017/18.

The Committee were advised that the Charter formally outlines the roles and responsibilities of internal audit.

RESOLVED that the Internal Audit Charter 2017/18 be approved.

#### **84 Changes to the Councillor Code of Conduct**

The Committee considered a report from the Monitoring Officer recommending changes to the Councillor's Code of Conduct.

The report highlighted the need for the Code of Conduct to be updated to include clearer guidance relating to bias and timescales for responses to residents. The updates also included points on the use of social media and email messaging.

During the debate, the Committee discussed adding a reference to the Council's Lone Working Policy to the Code of Conduct.

RECOMMENDED to Council that it adopts the changes to the Councillor Code of Conduct subject to an amendment to item 8 (ix) to read:

*"Behaving in accordance with all the Council's legal obligations, alongside any requirements contained in the Council's policies, protocols and procedures relating to conduct, including the Council's Lone Working Procedure."*

#### **85 Monitoring Officer's Update**

The Monitoring Officer informed the Committee that one Code of Conduct complaint had been received in 2017, and this had not been upheld.

The Committee was also informed that the Constitution was currently being reviewed and would be submitted to the meeting in due course. The Code of Conduct complaints procedure was also being updated.

**The meeting commenced at 5.00 pm and concluded at 5.48 pm**

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## **HAVANT BOROUGH COUNCIL**

At a meeting of the Governance & Audit Committee held on 24 April 2017

Present

Councillor Smith K (Chairman)

Councillors Davis, Lenaghan, Sceal and Wade

### **86 Apologies**

Apologies for absence were received from Councillor Rees.

### **87 Declarations of Interest**

There were no declarations of interest.

### **88 Review of the Constitution**

The Committee considered reports from the Budget Scrutiny and Policy Development Panel and the Monitoring Officer recommending changes to the Constitution. The Scrutiny Lead for the Budget Scrutiny and Policy Development Panel was invited to join the discussion for this item and answer member's questions in relation to the Panel's report.

The Committee were informed that the Constitution had been reviewed concurrently by the Budget Scrutiny and Policy Development Panel and an officer team. The Panel's review had considered the articles and standing orders and made amendments to ensure these remained clear, effective and fit for purpose. The officers review had amended the format of the Constitution and streamlined the document, putting all policies and procedures not required to be included in the Constitution into an online 'Policy Hub', for ease of reference.

During the course of the debate, the Monitoring Officer advised that the term 'significant' in the criteria for a key decision remain undefined. This would allow Cabinet to continue to make decisions within the budget and policy frameworks set by Full Council, while necessary safeguards such as Legal and Financial sign-off from key officers remained in place.

RECOMMENDED that Council;

- a) Agree to the changes to the Constitution as recommended by the Monitoring Officer together with the amendments proposed by the Budget Scrutiny and Policy Development Panel as set out in Appendix B of the report;

- b) Require all members to read Part 3 of the Constitution and sign a declaration to this effect each municipal year; and
- c) Require all members of a committee, board or sub committee to read the terms of reference of each committee, board or sub committee to which they are appointed and sign a declaration to that effect.

## **89 Changes to the Councillor Code of Conduct**

The Committee considered a report from the Monitoring Officer recommending changes to the Councillor's Code of Conduct.

The report detailed further recommended changes to the Code, which included the allowance for firmer sanctions on Councillors who fail to comply with the Code and clearer guidance on disclosable pecuniary interests.

RECOMMENDED to Council that it adopts the Councillor Code of Conduct as submitted.

**The meeting commenced at 5.00 pm and concluded at 5.40 pm**

NON EXEMPT

## HAVANT BOROUGH COUNCIL

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GOVERNANCE AND AUDIT COMMITTEE

21 June 2017

### ANNUAL INTERNAL AUDIT REPORT AND OPINION 2016-17

Head of Southern Internal Audit Partnership

ITEM NO. 6

FOR DECISION

Key Decision: No

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#### 1.0 Purpose of Report

1.1 The purpose of this paper is to provide the Governance and Audit Committee with the Chief Internal Auditor's opinion on the adequacy and effectiveness of the Council's framework of risk management, internal control and governance for the year ending 31 March 2017.

#### 2.0 Recommendation

2.1 That the Governance and Audit Committee approve the Chief Internal Auditor's annual report and opinion for 2016/17.

#### 3.0 Summary

3.1 In accordance with proper internal audit practices, the Chief Internal Auditor is required to provide a written report reviewing the effectiveness of the system of internal control to inform the production of the Annual Governance Statement.

3.2 The Annual Report for 2016/17 (attached at Appendix 1) provides the Chief Internal Auditor's opinion on the adequacy and effectiveness the Council's framework of risk management, control and governance processes and summarises audit work from which that opinion is derived for the year ending 31 March 2017.

3.3 The Governance and Audit Committee's attention is drawn to the following points:

- Internal audit was compliant with the Public Sector Internal Audit Standards during 2016/17;
- The revised internal audit plan for 2016/17 has been substantially delivered;
- The Council's framework of governance, risk management and management control is considered to be 'Adequate' and audit testing has demonstrated controls to be working in practice; and

- Where internal audit work identified areas where management controls could be improved or where systems and laid down procedures were not fully followed, appropriate corrective actions and a timescale for improvement were agreed with the responsible managers.

#### **4.0 Implications**

##### **4.1 Resources:**

Internal Audit is provided through the Southern Internal Audit Partnership. The audit plan consisted of 380 audit days and remained fluid throughout the year to meet the changing needs of the Council.

##### **4.2 Legal:**

Compliance with the Accounts and Audit (England) Regulations 2015.

##### **4.3 Strategy:**

Internal audit plays a vital role in helping the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

##### **4.4 Risks:**

The audit needs assessment follows a risk based audit approach taking cognisance of the Council's risk register.

##### **4.5 Communications:**

None directly from this report.

##### **4.6 Customers & Community:**

None directly from this report although improvements to controls and governance arrangements will ensure more efficient and effective service delivery.

##### **4.7 Integrated Impact Assessment (IIA):**

n/a

#### **5.0 Consultation**

- 5.1** The report has been discussed and noted by the Management Team who met at the Executive Board on 30 May 2017.

Appendices:

#### **Appendix 1 – Annual Internal Audit Report and Opinion 2016/17**

Agreed and signed off by:

Legal Services: Abe Ezekiel – 2 June 2017

Finance: Craig Smith – 7 June 2017

**Contact Officer:** Neil Pitman  
**Job Title:** Head of Southern Internal Audit Partnership  
**Telephone:** 01962 845139  
**E-Mail:** [neil.pitman@hants.gov.uk](mailto:neil.pitman@hants.gov.uk)

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# Annual Internal Audit Report & Opinion

2016 - 17

Havant Borough Council



**Southern Internal  
Audit Partnership**

Page 11

## Contents

### Section

1. Role of Internal Audit
2. Internal Audit Approach
3. Internal Audit Opinion

### Page

3  
4  
5

4.	Internal Audit Coverage and Output	6-7
5.	Significant Issues Arising	8
6.	Anti Fraud and Corruption	9-10
7.	Quality Assurance and Improvement	11
8.	Disclosure of Non-Conformance	12
9.	Quality Control	12
10.	Internal Audit Performance	13
11.	Acknowledgement	13

## 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. Internal Audit Approach

To enable effective outcomes, internal audit provide a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

A full range of internal audit services is provided in forming the annual opinion.

The approach to each review is determined by the Head of the Southern Internal Audit Partnership and will depend on the:

- level of assurance required;
- significance of the objectives under review to the organisations success;
- risks inherent in the achievement of objectives; and
- level of confidence required that controls are well designed and operating as intended.

All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to the Council on the framework of internal control, risk management and governance in operation and to stimulate improvement.



### 3. Internal Audit Opinion

The Head of the Southern Internal Audit Partnership is responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform its governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

In giving this opinion, assurance can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes reviewed. In assessing the level of assurance to be given, I have based my opinion on:

- written reports on all internal audit work completed during the course of the year (assurance & consultancy);
- results of any follow up exercises undertaken in respect of previous years' internal audit work;
- the results of work of other review bodies where appropriate;
- the extent of resources available to deliver the internal audit work;
- the quality and performance of the internal audit service and the extent of compliance with the Standards; and
- the proportion of Havant Borough Council's audit need that has been covered within the period.

#### Audit Opinion

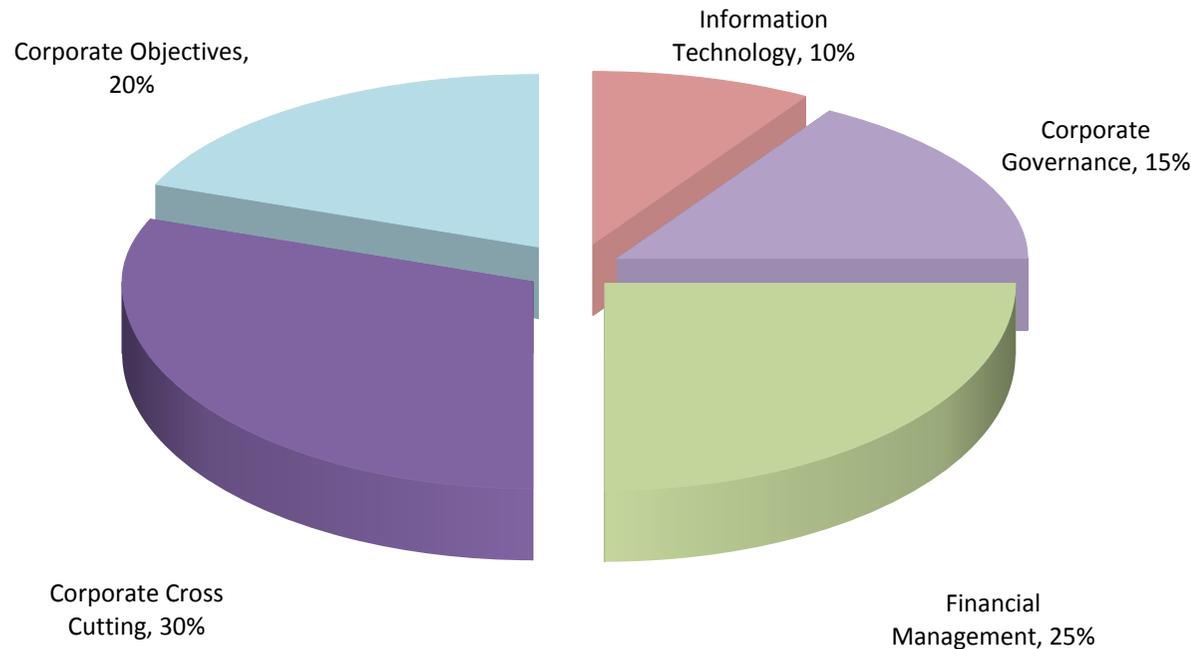
I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of Havant Borough Council's internal control environment.

In my opinion, Havant Borough Council's framework of governance, risk management and management control is 'Adequate' and audit testing has demonstrated controls to be working in practice.

Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.

#### 4. Internal Audit Coverage and Output

The annual internal audit plan was prepared to take account of the characteristics and relative risks of the Council’s activities and to support the preparation of the Annual Governance Statement.



Work has been planned and performed to obtain sufficient information and explanation considered necessary, in order to provide evidence to give reasonable assurance that the internal control system is operating effectively.

The 2016-17 Internal audit plan, approved by the Governance and Audit Committee 02 March 2016, was informed by internal audits own assessment of risk and materiality in addition to consultation with management to ensure it aligned to key risks facing the organisation.

The plan has remained fluid throughout the year to maintain an effective focus.

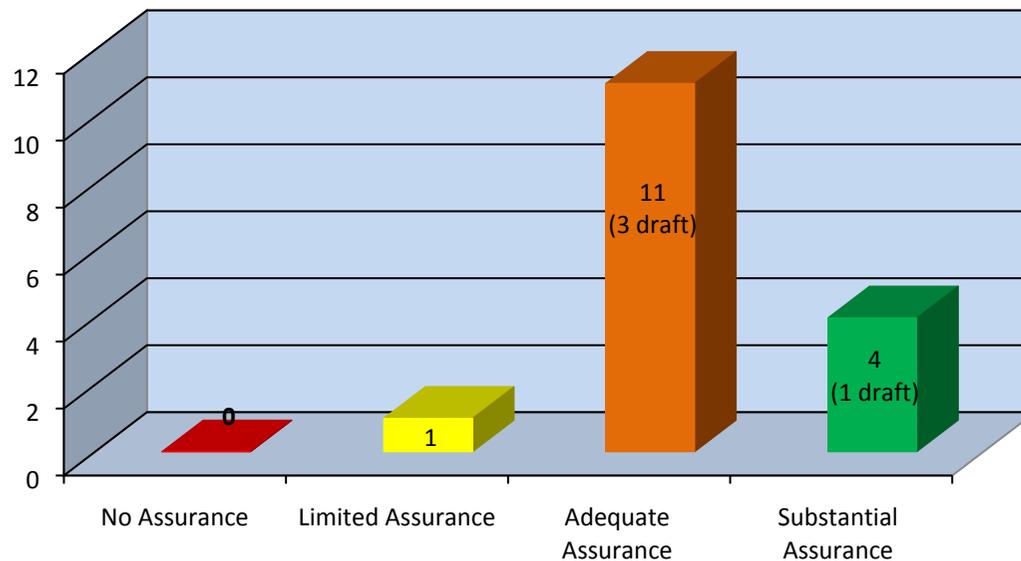
The Southern Internal Audit Partnership delivered 20 review areas over the course of the year ending 31 March 2017 including the completion of carry forward reviews.

The 2016-17 internal audit plan has been delivered with the following exceptions:

- Work is complete and an opinion has been formed for four reviews included in the chart below, however, final reports have not yet been agreed with management (Risk Management, Norse South East – Governance Arrangements, Norse South East – Facilities Costing and Developers Obligations and Contributions / Community Infrastructure Levy (CIL)).

I do not consider these exceptions to have an adverse impact on the delivery of my overall opinion for the period. The opinion assigned to each internal audit review on issue (including draft reports) is defined as follows:

Page 17



**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 (es) identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk; or

**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.

\*4 reviews did not culminate in an audit opinion as they relate to work conducted in respect of assurance mapping or fraud & irregularity investigations/pro-active fraud work.

## 5. Significant Issues Arising

There were no 'No Assurance' opinions issued during the year.

In general internal audit work found there to be sound control frameworks in place across a majority of review areas, underpinned by relevant policies and procedures. One 'Limited' assurance opinion report was issued during the year:

### *Information Governance*

Whilst policies and procedures were found to be in place, not all were up to date, available to all officers or comprehensive in their coverage of relevant areas of information governance. In particular, there was no Information Governance Strategy outlining the organisation's aims, key information risk areas and proposed framework for managing information governance. Additionally there was no specific information governance based induction or refresher training provided to HBC employees or Members.

A Joint Information Governance Board meet regularly to review information governance risks and issues although the Board's Terms of Reference did not cover all items recommended by the Information Commissioner. Actions identified and their progress is reviewed by the Board but are not always cleared on a timely basis. An Information Asset Register was in place but it was not comprehensive and did not name all assets and owners.

Information Access Requests were recorded and responded to promptly and in accordance with procedure. Performance against legislative timescales was monitored through the corporate Quarterly Health Check.

An Information Security Incident Management Procedure outlined the key elements for handling information incidents and a Data Protection Breach Log contained all reported breaches and the actions taken. There were no reported breaches for HBC during 2016.

A clear action plan has been developed to address the issues identified by the end of 2017, ahead of the pending legislation (General Data Protection Regulation (GDPR)) which comes into force in May 2018. This includes the development of an Information Governance Strategy, supported by revised policies & procedures and officer & Member training. A follow up review is planned for 17/18.

## 6. Anti Fraud and Corruption

The Council is committed to the highest possible standards of openness, probity and accountability and recognises that the electorate need to have confidence in those that are responsible for the delivery of services. A fraudulent or corrupt act can impact on public confidence in the Council and damage both its reputation and image. Policies and strategies are in place setting out the Council's approach and commitment to the prevention and detection of fraud or corruption.

The Council continues to conform to the requirements of the National Fraud Initiative (NFI). The NFI matches data from 1,300 public sector and 77 private sector organisations, including audit bodies in Scotland, Wales and Northern Ireland, government departments and other agencies. It flags up inconsistencies in the information analysed that indicate a fraud, an error or an overpayment may have taken place, signalling the need for review and potential investigation. The Cabinet Office assumed responsibility for the National Fraud Initiative following the demise of the Audit Commission in March 2015.

Dataset	Recommended matches	Matches investigated	Investigations in progress	Frauds / errors identified	Fraud / error value £
Benefits	32	229	20	0	£0.00
Payroll	1	26	0	0	£0.00
Housing	0	0	0	0	£0.00
Concessionary passes	0	0	0	0	£0.00
Creditors	8	6	0	0	£0.00
Single person discount	6040	437	68	14	£2,988
Rising 18s	232	269	15	74	£8,542
Council Tax Reduction Scheme	35	96	13	0	£0.00
Housing Waiting List	232	0	0	0	£0.00

As part of the 2016/17 NFI exercise the Council submitted required data sets in October 2016 receiving feedback on potential matches from January 2017. The data sets from Council Tax and the Electoral Register were submitted in February 2017 and the resulting matches (Single person discount and Rising 18s) were available in March 2017. Work continues to review identified 'recommended matches'. The outcomes, do date, from the ongoing review of the NFI matches is detailed in the table above.

In addition, we have assessed and where appropriate, advised, investigated or supported the investigation of any allegations of fraud, corruption or improper practice. In accordance with the Local Government Transparency Code 2015 the details of internal audits involvement in counter fraud work is summarised below:

Local Government Transparency Code 2015	01.04.16 – 31.03.17
<b>Part 2 Requirements - Fraud</b>	
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	11 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, housing benefits 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. Quality Assurance and Improvement

The Quality Assurance and Improvement Programme (QAIP) is a requirement within ‘the Standards’.

The Standards require the Head of the Southern Internal Audit Partnership to develop and maintain a QAIP to enable the internal audit service to be assessed against the Standards and the Local Government Application Note (LGAN) for conformance.

The QAIP must include both internal and external assessments: internal assessments are both on-going and periodical and a external assessment must be undertaken at least once every five years.

In addition to evaluating compliance with the Standards, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, identifying areas for improvement.

An ‘External Quality Assessment’ of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2015.

In considering all sources of evidence the external assessment team concluded:

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

There are **no instances** across these standards where we determined a standard below “generally conforms”, and 4 instances where the standard is assessed as “not applicable” due to the nature of SIAP’s remit.

In accordance with PSIAS, a further self assessment was completed in April 2017 concluding that the Southern Internal Audit Partnership continues to comply with all aspects of the IPPF, PSIAS and LGAN.

## 8. Disclosure of Non-Conformance

In accordance with Public Sector Internal Audit Standard 1312 [External Assessments] which requires ‘an external quality assessment to be conducted at least once every five years by a qualified, independent assessor or assessment team from outside of the organisation’ I can confirm endorsement from the Institute of Internal Auditors, further substantiated through the self assessment in April 2017 that:

**‘the Southern Internal Audit Partnership conforms to: the Definition of Internal Auditing; the Code of Ethics; and the Standards’**

There are no disclosures of Non-Conformance to report.

## 9. Quality control

Our aim is to provide a service that remains responsive to the needs of the Council and maintains consistently high standards. In complementing the QAIP this was achieved in 2016-17 through the following internal processes:

- On-going liaison with management to ascertain the risk management, control and governance arrangements, key to corporate success;
- On-going development of a constructive working relationship with the External Auditors to maintain a cooperative assurance approach;
- A tailored audit approach using a defined methodology and assignment control documentation;
- Registration under British Standard BS EN ISO 9001:2008, the international quality management standard complemented by a comprehensive set of audit and management procedures; and
- Review and quality control of all internal audit work by professional qualified senior staff members.

## 10. Internal Audit Performance

The following performance indicators are maintained to monitor effective service delivery:

Annual performance indicators			
Aspect of service	2015-16 Actual (%)		2016-17 Actual (%)
Revised plan delivered (including carry forward)	97		100
Positive responses to customer survey *	97		96
Compliant with the Public Sector Internal Audit Standards	Yes		Yes

\* Customer satisfaction has been assessed through response to questionnaires issued to a wide range of stakeholders including Members, senior officers, key contacts and Southern Internal Audit Partnership staff.

## 11. Acknowledgement

I would like to take this opportunity to thank all those staff throughout Havant Borough Council with whom we have made contact in the year. Our relationship has been positive and management were responsive to the comments we made both informally and through our formal reporting.

Neil Pitman  
 Head of Southern Internal Audit Partnership  
 May 2017

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**NON-EXEMPT**

## **HAVANT BOROUGH COUNCIL**

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**Governance and Audit Committee**

**21 June 2017**

**EXTERNAL AUDIT UPDATE**

**FOR INFORMATION**

**Portfolio: FINANCE**

**Key Decision: No**

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### **1.0 Purpose of Report**

1.1 To outline the papers to be presented by Ernst & Young LLP.

### **2.0 Recommendation**

2.1 We ask the Committee to note the content of the reports attached to this paper.

### **3.0 Summary**

3.1 To fulfil our responsibilities as your external auditor we are required to present formally the paper attached to report to those charged with governance.

### **4.0 Reports**

#### **4.1 Audit Plan**

The purpose of this report is to provide the Governance and Audit Committee with our proposed audit approach and scope for the 2016/17 audit. This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks. It is also to ensure that our audit is aligned with the Committee's service expectations.

#### **4.2 LG Audit Committee Briefing**

The purpose of this report is to summarise some of the current issues facing the Local Government sector and is for information only.

### **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
  
- 6.0 Consultation:** Executive Director (Strategy & Governance)
  
- 6.1 Appendices:
  - 1. Audit Plan
  - 2. Local Government Audit Committee Briefing

# Havant Borough Council

Year ending 31 March 2017

Audit Plan

March 2017

Ernst & Young LLP





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March 2017

Dear Committee Members

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Governance and Audit Committee with a basis to review our proposed audit approach and scope for the 2016/17 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this Audit Plan with you on the 21<sup>st</sup> June 2017 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Andrew Brittain  
For and behalf of Ernst & Young LLP  
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## Contents

<b>1. Overview .....</b>	<b>1</b>
<b>2. Financial statement risks .....</b>	<b>2</b>
<b>3. Value for money risks .....</b>	<b>4</b>
<b>4. Our audit process and strategy.....</b>	<b>6</b>
<b>5. Independence.....</b>	<b>10</b>
<b>Appendix A Fees.....</b>	<b>12</b>
<b>Appendix B UK required communications with those charged with governance ....</b>	<b>13</b>

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies ". It is available from the Chief Executive of each audited body and via the PSAA website ([www.psa.co.uk](http://www.psa.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 Audit Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Audit Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

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

# 1. Overview

This Audit Plan covers the work that we plan to perform to provide you with:

- ▶ Our audit opinion on whether the financial statements of Havant Borough Council give a true and fair view of the financial position as at 31 March 2017 and of the income and expenditure for the year then ended;
- ▶ Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness;

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

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

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

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

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

## **Other key messages**

In sections two and three of this plan we provide more detail on the identified risks and we outline our plans to address them. Our proposed audit process is set out in more detail in section four. We will provide an update to the Governance and Audit Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September 2017.

## 2. Financial statement risks

We outline below our current assessment of the financial statement risks facing the Council, identified through our knowledge of the Council's operations and discussion with those charged with governance and officers.

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

Significant risks (including fraud risks)	Our audit approach
<b>Risk of management override</b>	
<p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements</li> <li>▶ Reviewing accounting estimates for evidence of management bias, and</li> <li>▶ Evaluating the business rationale for significant unusual transactions.</li> </ul>
<b>Joint venture with Norse SE</b>	
<p>In April 2016 the Council entered into partnership with Norse Commercial Services and developed a Joint Venture Company called Norse South East. Norse South East have been providing operational Services since April 2016 dealing with refuse and recycling collections, street cleaning, grounds maintenance and beach management. The Council are currently considering how to account for the Joint Venture Company within the 2016/17 financial statements. The Council have yet to receive information requested from Norse SE and there is a risk that if timely information is not available from the Joint Venture then the consolidation may be inaccurate or incomplete.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ Reviewing the Council's proposed accounting treatment for the joint venture company and ensuring that it complies with accounting standards and the Code</li> <li>▶ Review the Council's arrangements for checking accuracy and completeness of Norse SE's financial statements</li> <li>▶ Obtaining the consolidation entries from the Council and re-performing the consolidation process to check accuracy. In addition, we will assess the reasonableness of the consolidation entries in line with group accounting guidance per the Code.</li> <li>▶ Review the group accounts and the disclosures made against CIPFA requirements to identify any matters of non-compliance.</li> </ul>
<b>Other financial statement risks</b>	
<b>Financial statements presentation – Expenditure and funding analysis and Comprehensive income and expenditure statement</b>	
<p>Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the code) this year changing the way the financial statements are presented.</p> <p>The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.</p> <p>The Code no longer requires statements or notes to be prepared in accordance with SeRCOP. Instead the Code requires that the service analysis is based on the organisational structure under which the authority operates. We expect this to show the Council's segmental analysis.</p> <p>This change in the code will require a new structure for the primary statements, new notes and a full</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ Review of the expenditure and funding analysis, CIES and new notes to ensure disclosures are in line with the code</li> <li>▶ Review of the analysis of how these figures are derived, how the ledger system has been re-mapped to reflect the Council's organisational structure and how overheads are apportioned across the service areas reported.</li> <li>▶ Agreement of restated comparative figures back to the Council's segmental analysis and supporting working papers.</li> </ul>

retrospective restatement of impacted primary statements. The restatement of the 2015/16 comparatives will require audit review, which could potentially incur additional costs, depending on the complexity and manner in which the changes are made.

**Capacity of the Finance Team**

As the Council continues the implementation of the new corporate services contract there remains an increased 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, cause delays in responding to audit queries and could impact upon the quality of financial information presented for audit. Additionally, as the Council is working towards a faster close process in anticipation of next year's requirement for the financial statements to be audited by the end of July 2018, this increases the pressure on the finance team and could give rise to the same risks.

Our approach will focus on :

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

## 2.1 Responsibilities in respect of 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 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;
- ▶ Enquiry of management about risks of fraud and the controls 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 any identified risks of fraud, and,
- ▶ Performing mandatory procedures regardless of specifically identified risks.

### 3. Value for money risks

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.

For 2016-17 this is based on the overall evaluation criterion:

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

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

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

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

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

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

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

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the following significant VFM risks which we view as relevant to our value for money conclusion.

#### Significant value for money risks

#### Our audit approach

##### Financial Resilience

Like other local government bodies the Council continues to face financial challenges over the medium term, however the 2017/18 budget and medium term financial strategy show that the Council plans to move to a surplus position in 2019/20 with a view to building up reserves. 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. For example, through the 6 Districts Partnership and the Joint Venture with Norse SE.

As part of the approach to increase their financial resilience, the Council is considering embarking on a programme of borrowing to invest, following a model adopted by another local authority, to build up an investment property portfolio. Previously the Council's property investments have been financed from cash reserves and there is a risk that undertaking a programme of borrowing may expose the Council to increased financial risks if the assumptions and

Our approach will focus on:

- ▶ Use of the PSAA's value for money tool to assess the Council's spending against other similar authorities
- ▶ Review and assess the Council's updated assumptions in the 17/18 budget and Medium Term Financial Strategy
- ▶ Review the Council's out-turn for 16/17 to assess the reasonableness of the assumptions; and
- ▶ Review the Council's approach to building a property portfolio using the 'borrow to invest' approach to ensure that the assumptions are reasonable and appropriate and that the Council has sufficient expertise to undertake this level of investment.

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investment decisions are not appropriate.

### Partnership working

#### Corporate Services Contracts

In 2016 the Council entered into agreements for Corporate Services Contracts with Capita and Vinci respectively, as part of the Six Council Partnership arrangements. These contracts are due to start in 2017/18 at Havant Borough Council.

These contracts were designed to generate savings of over £50m across their lifetime of nine years. The Council will need to ensure that there are good contract management and governance arrangements in operation to ensure that these are achieved. There is a risk that if these savings are not achieved then the financial resilience of the Council will be impacted.

Our approach will focus on:

- ▶ a review of the governance arrangements in place by the Council to monitor and enforce the performance of the corporate service contracts and how these are operating in practice

#### Norse South East

The Council has also entered into partnership with Norse Commercial Services and developed a Joint Venture Company called Norse South East. Norse South East will be providing operational Services from April 2016 dealing with refuse and recycling collections, street cleaning, grounds maintenance and beach management. By entering into the partnership arrangement with Norse the Council has secured planned savings and will need to ensure that there are good contract management and governance arrangements in operation to ensure that these are achieved. There is a risk that if these savings are not achieved then the financial resilience of the Council will be impacted.

Our approach will focus on:

- ▶ a review of the governance arrangements in place by the Council to monitor and enforce the performance of the Norse SE contract and how this are operating in practice
- ▶ reviewing the performance of the contract against KPI's to identify whether expected savings are being realised as well as good operational performance being maintained or improved.

## 4. Our audit process and strategy

### 4.1 Objective and scope of our audit

Under the Code of Audit Practice our principal objectives are to review and report on the Council's:

- ▶ Financial statements
- ▶ Arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

#### 1. Financial statement audit

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

We report to you by exception in respect of your governance statement and other accompanying material as required, in accordance with relevant guidance prepared by the NAO on behalf of the Comptroller and Auditor General.

Alongside our audit report, we also review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require.

We will plan our audit procedures to identify misstatements that could be material to the statutory financial statements of the individual entity.

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

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

### 4.2 Audit process overview

#### Processes

Our initial assessment of the key processes across the Council has identified the following key processes where we will seek to test key controls, both manual and IT:

- ▶ Accounts Receivable
- ▶ Accounts Payable.

#### Analytics

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

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests
- ▶ 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 Governance and Audit Committee.

## Internal audit

As in prior years, we will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where we raise issues that could have an impact on the year-end financial statements. We seek to rely on the work of internal audit for the systems outlined above in addition to performing our own separate control procedures.

## Use of specialists

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

Area	Specialists
Property, Plant and Equipment	The Councils' external valuer (Bidwells)
Pensions	Pension scheme actuary (AON Hewitt) , PwC and EY pensions team

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

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

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

## 4.3 Mandatory audit procedures required by auditing standards and the Code

As well as the financial statement risks (section two) and value for money risks (section three), we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

### Procedures required by standards

- ▶ Addressing the risk of fraud and error;
- ▶ Significant disclosures included in the financial statements;
- ▶ Entity-wide controls;
- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements;
- ▶ 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. Finally, we are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

## **4.4 Materiality**

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition.

We have determined that overall materiality for the financial statements of the Council is £1,334,660 based on 2% of gross revenue expenditure. We will communicate uncorrected audit misstatements greater than £66,000 to you.

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 the circumstances that might ultimately influence our judgement. 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 financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

## **4.5 Fees**

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The indicative fee scale for the audit of Havant Borough Council is £46,800.

## **4.6 Your audit team**

The engagement team is led by Andrew Brittain, who has significant experience on Local Government auditing. Andrew Brittain is supported by Emma Bryant who is responsible for the day-to-day direction of audit work and is the key point of contact for the Central Finance Team Leader.

## **4.7 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. The timetable includes the deliverables we have agreed to provide to the Council through the Governance and Audit Committee's cycle in 2016/17.

From time to time matters may arise that require immediate communication with the Governance and Audit Committee and we will discuss them with the Chair as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Council and external stakeholders, including members of the public.

<b>Audit phase</b>	<b>Timetable</b>	<b>Audit Committee timetable</b>	<b>Deliverables</b>
High level planning	<b>April 2016</b>	<b>June 2016</b>	Audit Fee Letter
Risk assessment and setting of scopes	<b>January 2017</b>	<b>June 2017</b>	Audit Plan
Testing routine processes and controls	<b>February 2017</b>	<b>June 2017</b>	Progress Report
Early substantive testing in agreed areas	<b>February 2017</b>	<b>June 2017</b>	Progress report
Year-end audit	<b>June – August 2017</b>	<b>September 2017</b>	Audit Results Report
Completion of audit	<b>September 2017</b>	<b>September 2017</b>	Report to those charged with governance via the Audit Results Report Audit report (including our opinion on the financial statements; and, [by exception] overall value for money conclusion). Audit completion certificate Reporting to the NAO on the Whole of Government Accounts return.
Conclusion of reporting	<b>October 2017</b>	<b>December 2017</b>	Annual Audit Letter

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 on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during 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"> <li>▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us;</li> <li>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review;</li> <li>▶ The overall assessment of threats and safeguards;</li> <li>▶ Information about the general policies and process within EY to maintain objectivity and independence.</li> </ul>	<ul style="list-style-type: none"> <li>▶ 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;</li> <li>▶ Details of non-audit services provided and the fees charged in relation thereto;</li> <li>▶ Written confirmation that we are independent;</li> <li>▶ Details of any inconsistencies between APB Ethical Standards, the PSAA Terms of Appointment and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and</li> <li>▶ An opportunity to discuss auditor independence issues.</li> </ul>

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, 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 contracted services, and details of any written proposal to provide non-audit services;

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 are disclosed, analysed in appropriate categories.

### 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 any principal threats. However we have adopted the safeguards 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 the Council.

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 the Council has approved and that are in compliance with PSAA Terms of Appointment.

At the time of writing we have not undertaken any non-audit services.

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 the Council. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, 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 other 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 where management is required to make judgements or decisions 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 adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Andrew Brittain, the 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 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 June 2016 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2016>

## Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2016/17 £	Scale fee 2016/17 £	Outturn fee 2015/16 £	Explanation
Opinion Audit and VFM Conclusion	46,800	46,800	52,271	The final fee for 15/16 included an additional fee of £5,471 in respect of additional work required to gain assurance over the Council's new financial system and the partnership working VFM significant risk.
<b>Total Audit Fee – Code work</b>	<b>46,800</b>	<b>46,800</b>	<b>52,271</b>	
Certification of claims and returns <sup>1</sup>	13,380	13,380	9,240	

*All fees exclude VAT.*

At the time of writing we have not undertaken or have planned any non-audit services.

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

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ The operating effectiveness of the internal controls for the key processes outlined in section 4.2 above;
- ▶ We can rely on the work of internal audit as planned;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.

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

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

<sup>1</sup> Our fee for the certification of grant claims is based on the indicative scale fee set by the PSAA.

## Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the Governance and Audit Committee. These are detailed here:

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

Required communication	Reference
<p><b>Independence</b></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 director's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	<ul style="list-style-type: none"> <li>▶ Audit Plan</li> <li>▶ Audit Results Report</li> </ul>
<p><b>Going concern</b></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"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	<ul style="list-style-type: none"> <li>▶ Audit Results Report</li> </ul>
<p><b>Significant deficiencies in internal controls identified during the audit</b></p>	<ul style="list-style-type: none"> <li>▶ Audit Results Report</li> </ul>
<p><b>Fee Information</b></p> <ul style="list-style-type: none"> <li>▶ Breakdown of fee information at the agreement of the initial audit plan</li> <li>▶ Breakdown of fee information at the completion of the audit</li> </ul>	<ul style="list-style-type: none"> <li>▶ Audit Plan</li> <li>▶ Audit Results Report</li> </ul>
<p><b>Certification work</b></p> <ul style="list-style-type: none"> <li>▶ Summary of certification work undertaken</li> </ul>	<ul style="list-style-type: none"> <li>▶ Certification Report</li> </ul>

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**Local  
government  
audit committee  
briefing**

Page



**EY**

Building a better  
working world

## Contents at a glance



Government and  
economic news **3**

---

Accounting,  
auditing and  
governance **5**

---

Regulation  
news **7**

---

Other **8**

---

Key questions  
for the Audit  
Committee **9**

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Find out  
more **9**



This sector briefing is one of the ways that we support you and your organisation in an environment that is constantly changing and evolving.

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It covers issues which may have an impact on your organisation, the Local Government sector, and the audits that we undertake.

The briefings are produced by our public sector audit specialists within EY's national Government and Public Sector (GPS) team, using our public sector knowledge, and EY's wider expertise across UK and international business.

The briefings bring together not only technical issues relevant to the Local Government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing.

We hope that you find the briefing informative and should this raise any issues that you would like to discuss further, please contact your local audit team.



# Government and economic news

## **Brexit Update**

On Wednesday 29 March 2017 Theresa May triggered article 50, the part of European Union law that sets out the process by which member states may withdraw from the union. European governments and the EU as an institution are at the vanguard of the Brexit process. The challenge of unravelling the UK from the EU is a significant one. Negotiations will be complex as there seems little likelihood now that one of the existing models for non-EU European countries' relationships with the EU can simply be extended to the UK.

As advisers to the sector, we have a critical role in working with our clients through this period of uncertainty. The negotiations will touch on multiple policy areas – such as trade, immigration and border control, tax and customs, transport and infrastructure, higher education, state aid, energy and the environment – and will

require significant change in the Government and Public Sector. Whilst UK government departments consider potential scenarios for different outcomes of the negotiations, EU negotiators will in turn have the task of balancing the diverse interests and priorities of the other 27 Member States.

The UK's exit seems like a long way off, but it is essential for us to keep abreast of political, regulatory and economic developments as negotiations progress. We will monitor the situation on an ongoing basis and provide connectivity, timely information, communication and tailored content to our Government and Public Sector clients.

For further information and our most recent views of the impact of Brexit on the economy please see the EY Item Club article within the EY website, full link is below in the 'Find Out More' section.

## Final Local Government Finance Settlement

The Local Government finance settlement has been finalised after formal representations were received from a number of organisations and individuals.

This includes the four year funding allocations so councils can publish efficiency plans for the future. £200bn was allocated for the settlement.

This Local Government Finance Bill will devolve 100% of business rates. As a result of this the revenue support grant will be abolished. This is a move to make councils financially self-sufficient. It also means that there will no longer be an annual finance settlement each year. The scheme is being piloted in Greater Manchester, Liverpool City Region, the West Midlands, Cornwall, the West of England and Greater London Authority. In 2018-19 further pilots will take place and councils can apply to be a part of this. The scheme will be rolled out nationally in 2019-2020.

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## New Valuations of Business Rates

The Government implemented a £6.7bn relief package which came into effect from April 2017 due to the new valuation listings. This will mean around three quarters of businesses will see a reduction or a freeze in the business rates they pay. The revaluation will not affect the overall income received by the Treasury as it is fiscally neutral. However, it could affect the level of income received by a council based on the mix of businesses in a constituency. Each local authority must develop schemes for how the business rate relief is allocated which will require member approval.

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## Spring Budget 2017 – Adult Social Care funding

It was announced in the Spring Budget that £2bn worth of additional funding will be provided to councils in England for use on adult social care over the next three years. £1bn of this will be available in 2017-18 meaning more care packages can be funded immediately. Funding will be supplemented with targeted measures. This is to ensure areas with the greatest challenges make improvements.

## NAO report: Health and social care integration

In this report the National Audit Office (NAO) states that integration of health and social care has been less successful and progressed slower than envisaged, and has not delivered all of the expected benefits for all parties (patients, the NHS or local authorities). It says that the Government's plans for integrated health and social care services across England by 2020 are at significant risk.

One of the key areas of focus in the report is the Better Care Fund (which in its first year involved the pooling of in excess of £5bn of funds). Whilst the NAO saw that its introduction has improved joint working, its potential has not been achieved. Its principal financial and service targets over 2015-16 were not met. Compared with 2014-15 emergency admissions increased by 87,000 against a planned reduction of 106,000 costing £311mn more than planned. In the same period, days lost to delayed transfers of care increased by 185,000 against a planned reduction of 293,000 costing £146mn more than planned. The report acknowledges that the Fund has been successful in encouraging local areas to work together, with more than 90% of local areas agreed or strongly agreed that delivery of their plan had improved joint working. Improvements were seen in reductions in permanent admissions of age 65 and over to nursing and residential care homes, and in increasing the proportion of older people still at home 91 days after discharge from hospital into rehabilitation or re-ablement services.

In respect of central government, the NAO states that whilst the Department of Health and the Department for Communities and Local Government have identified barriers to integration, (e.g., misaligned financial incentives, workforce challenges and reluctance over information sharing), but are not addressing them in a systematic way. Government commissioned research in 2016 assessed that local areas are not on track to achieve the target of integrated health and social care by 2020.

NHS England's ambition to save £900mn through introducing seven new care models was seen to potentially be optimistic. The models' impact is still being assessed and they are not yet proven. According to the NAO, there is poor governance and oversight of the initiatives examining different ways to transform care and create a financially sustainable care system (e.g., The Integration Partnership Board only receives updates on progress of the Better Care Fund with no reporting from other integration programmes).

Finally, there was no compelling evidence found to demonstrate that sustainable financial savings or reduced acute hospital activity results from integration. Whilst it recognises that there are some good examples of integration at a local level, assessment of these has been hindered by issues with comparable cost data across different care settings, and difficulty tracking patients.



# Accounting, auditing and governance

## Current Accounting Issues

As Local Authority finance teams across the country begin to close down the 2016/17 financial year and prepare the financial statements, it is timely to highlight the two main changes to financial reporting requirements impacting in 2016/17 and subsequent years.

### 'Telling the Story'

Local Authority financial statements will look different in 2016/17 when compared to previous years. These changes arise from the

changing requirements of the Local Authority Accounting Code of Audit Practice issued each year by CIPFA. The 2016/17 Code now includes the accounting requirements of CIPFA's '*How to tell the story*' publication.

CIPFA has been working on a project for the last few years to both streamline Local Authority financial statements and improve their accessibility to the user. One way in which user accessibility has been strengthened is to try and make year-end external reporting through the financial statements look more like in year internal management reporting. As a result, the main changes to

the 2016/17 financial statements will be to the Comprehensive Income and Expenditure Statement (CIES) and associated disclosure notes. The key changes to look out for are:

- ▶ How income and expenditure are analysed on the face of the CIES. In previous years Local Authorities had to analyse their service income and expenditure using the service expenditure analysis prescribed by CIPFA in the Service Reporting Code of Practice (SeRCOP). Local Authorities must now provide this analysis in the same format and reporting segments that they use for internal management reporting throughout the year.
- ▶ The introduction of a new note supporting the CIES, the Expenditure & Funding Analysis (EFA). The objective of this new note is to provide a direct reconciliation between the way local authorities are funded, how they budget and the CIES in a way that improves accessibility to the user of the financial statements. The analysis of expenditure and funding within the EFA must follow the same segmental analysis used in the CIES and internal reporting.

This subject was covered in detail at the recent EY CIPFA Accounts Closedown Workshops that were run as part of the EY and CIPFA strategic alliance. The 32 workshops were attended by over 800 Local Authority finance staff across the UK.

### **Highways Network Asset**

Previous Audit Committee Briefings have included information regarding the Highways Network Asset (HNA) Code which was published in 2016. The key aim of the Code was to improve the asset management of the HNA at Highway Authorities. The Code also sought to provide the basis for improved financial information by setting out a move to valuing such assets on a Depreciated Replacement Cost (DRC) basis, which in simple terms is the difference between the current costs of replacing an asset less an allowance (depreciation) for the age of that asset.

The implementation of the HNA Code has encountered a number of issues, and its original implementation date of 2016/17 was deferred. At its meeting on March 8 2017, the CIPFA/LASAAC Code Board decided not to proceed with the introduction of the Highways Network Asset Code into the financial reporting requirements for local authorities. The Board decided that, currently and in particular in the absence of central support for key elements of the valuation, the benefits are outweighed by the costs of implementation for local authorities. The Board determined that it will give further consideration to this issue only if provided with clear evidence that benefits outweigh costs for local authorities.



# Regulation news

## Gender Pay Gap Reporting Regulations

The Gender Pay Gap Reporting regulations come into effect in April 2017 and they will impact on every organisation that has 250 or more employees.

Under these regulations organisations will be required to publish:

1. The gender pay gap for the pay period to 5 April each year. Numbers need to be submitted to a Government portal (still in development) and be placed in a searchable position on the organisations own website where they need to remain for at least three years. There are six calculations:
  - ▶ Mean gender pay gap in hourly pay
  - ▶ Median gender pay gap in hourly pay
  - ▶ Mean bonus gender pay gap
  - ▶ Median bonus gender pay gap
  - ▶ Proportion of males and females receiving a bonus payment
  - ▶ Proportion of males and females in each pay quartile
2. A written statement, authorised by an appropriate senior person (e.g., a director), which confirms the accuracy of the calculations.

3. Optional contextual narrative alongside the numbers on the website – e.g., to explain the reasons for the results and give details about actions that are being taken to reduce or eliminate the gender pay gap.

Whilst organisations have until next April to publish these disclosures:

- ▶ A data snap shot on 5 April 2017 is required to ensure prior year comparisons are possible.
- ▶ It is expected that there may be significant stakeholder and media pressure to publish sooner than the deadline. Some organisations have recently included a requirement in tender processes for potential suppliers to disclose their gender pay gap. Some organisations have already published their disclosures ahead of the deadline.

The impact of the regulations goes well beyond compliance, and some organisations are concerned about the implications of having to publish a significant gap, as this could have an impact on employee engagement and motivation, the ability to attract new talent and the overall reputation of the organisation.

EY have been working with a number of clients to assist them to ensure compliance with this new regulation, speak to your audit team for further information.

# Other

## Placing gender on the public sector agenda

In a time of significant change for governments and public sector organisations, the ability to draw on a diverse pool of talent – including a mix of genders, ethnicities, ages and backgrounds – is a critical factor in helping governments adapt to the changes disrupting the sector. There is strong evidence that diverse and inclusive leadership sparks better debate, stimulates innovation, and enhances problem-solving and decision-making. In short, it leads to improved performance and better outcomes.

In mid-2016, EY surveyed 80 government and public sector leaders from a range of countries. We wanted to understand their views on gender parity at the leadership level. The survey built on an earlier study involving interviews with 350 business leaders from seven sectors: automotive, banking and capital markets, consumer products, insurance, life sciences, oil and gas, and power and utilities.

Our research reveals overwhelming agreement that gender diversity is crucial to combating the challenges faced by the public sector. Despite valuing diversity, many public sector organisations are not addressing the gender gap in a way that will deliver the needed change. Sixty percent of respondents believe they do not have sufficient diversity of thought and experience within their leadership team.

Through our research, we identified five disconnects that are holding back government and public sector organisations from achieving gender diversity on their senior leadership team.

1. **The reality disconnect:** Public sector leaders assume the issue is nearly solved despite little progress within their own organisations.
2. **The data disconnect:** Organisations don't effectively measure how well women are progressing through the workforce and into senior leadership.
3. **The pipeline disconnect:** Organisations aren't creating pipelines for future female leaders.
4. **The perception and perspective disconnect:** Men and women don't see the issue of gender parity the same way.
5. **The progress disconnect:** Different sectors agree on the value of diversity but are making uneven progress towards gender parity.

In this report, we explore each of these disconnects to better understand the key barriers that women face in moving ahead in their organisations. We also share our insights on what government and public sector organisations can do to accelerate the journey to gender parity.

## EY Resources and Information

EY offers a number of resources to our clients, 'Citizen Today' is produced by EY's Global Government and Public Sector team. Here you can read features and interviews covering the big issues facing governments around the world as they seek to provide better services for citizens. This is the Government and Public Sector element of the EY Client Portal, by signing up to this it could help you stay in touch with relevant news.

The EY Client Portal provides a single, continuous connection to EY. This tool can provide you with continuous access to EY worldwide, some of the key benefits are listed below:

- ▶ **Collaborative services** – Providing better management, team synergies, communication, and continuous global access to status and current documents via a variety of protected online work environments and electronic tools.
- ▶ **Individually tailored content, tools, and resources** – Customised so you see only the content, tools, and resources you want and need.
- ▶ **Improved efficiencies** – Helping you work more productively with relevant knowledge, insights, and business tools accessible in one location.
- ▶ **Enhanced service delivery** – Giving you access to EY's global breadth and depth of services and capabilities (self-service to full-service), helping you execute your business decisions.
- ▶ **Global knowledge and expertise** – Valuable and timely insights on evolving business issues, helping you make informed decisions faster.

# Key questions for the Audit Committee

Has the Authority considered the potential impact of the business rates relief on the Authority's finances?

Has the Authority considered how effective the integration of health and social care has been in its local area? Are arrangements with local health partners working effectively and has the Authority considered ways in which they could be improved?

Has the authority put in place processes to meet the new accounting requirement for the analysis of income and expenditure in the CIES, and the new note on the Expenditure and Funding Analysis?

How well prepared is the authority for the new requirement to collect and publish gender pay gap data?

## Find out more

### **Brexit EY Item Club**

<http://www.ey.com/uk/en/newsroom/news-releases/17-04-10-stronger-global-economy-paves-the-way-to-brexit-says-ey-item-club>

### **Final Local Government Finance Settlement**

<https://www.gov.uk/government/speeches/statement-in-debate-on-the-local-government-finance-settlement>

### **NAO Report – Health and social care integration**

<https://www.nao.org.uk/report/health-and-social-care-integration/>

### **Gender Pay Gap Reporting Regulations**

The regulations – Statutory Instrument 2017/172:  
[http://www.legislation.gov.uk/uksi/2017/172/pdfs/uksi\\_20170172\\_en.pdf](http://www.legislation.gov.uk/uksi/2017/172/pdfs/uksi_20170172_en.pdf)

Overview of the rules from gov.uk

<https://www.gov.uk/guidance/gender-pay-gap-reporting-overview>

Guidance – Advisory, Conciliation and Arbitration Service (ACAS) and the Government Equalities Office have published guidance for employers <http://www.acas.org.uk/index.aspx?articleid=5768>

### **Placing gender on the public sector agenda**

[http://www.ey.com/Publication/vwLUAssets/EY-placing-gender-on-the-public-sector-agenda/\\$FILE/ey-placing-gender-on-the-public-sector-agenda.pdf](http://www.ey.com/Publication/vwLUAssets/EY-placing-gender-on-the-public-sector-agenda/$FILE/ey-placing-gender-on-the-public-sector-agenda.pdf)

### **EY Client Resources and Information**

<http://www.ey.com/gl/en/industries/government--public-sector/ey-citizen-today#recent-content>



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