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GOVERNANCE & AUDIT COMMITTEE AGENDA

Membership: Councillor Smith K (Chairman)

Councillors Mackey, Hart, Perry, Pierce Jones, Pike and Rees

Meeting: Governance & Audit Committee

Date: Wednesday 1 July 2015

Time: 5.00 pm

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

The business to be transacted is set out below:

Jo Barden-Hernandez
Service Manager – Legal & Democratic Services

23 June 2015

Contact Officer: *Tristan Fieldsend* 023 9244 6233
Email: tristan.fieldsend@havant.gov.uk

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GENERAL INFORMATION

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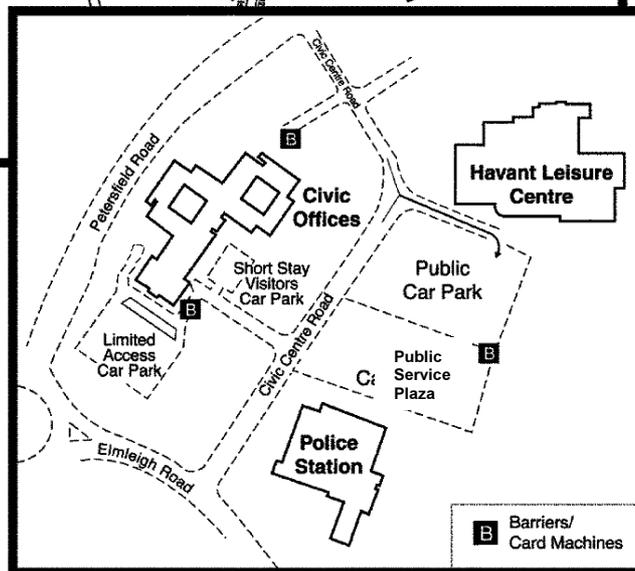
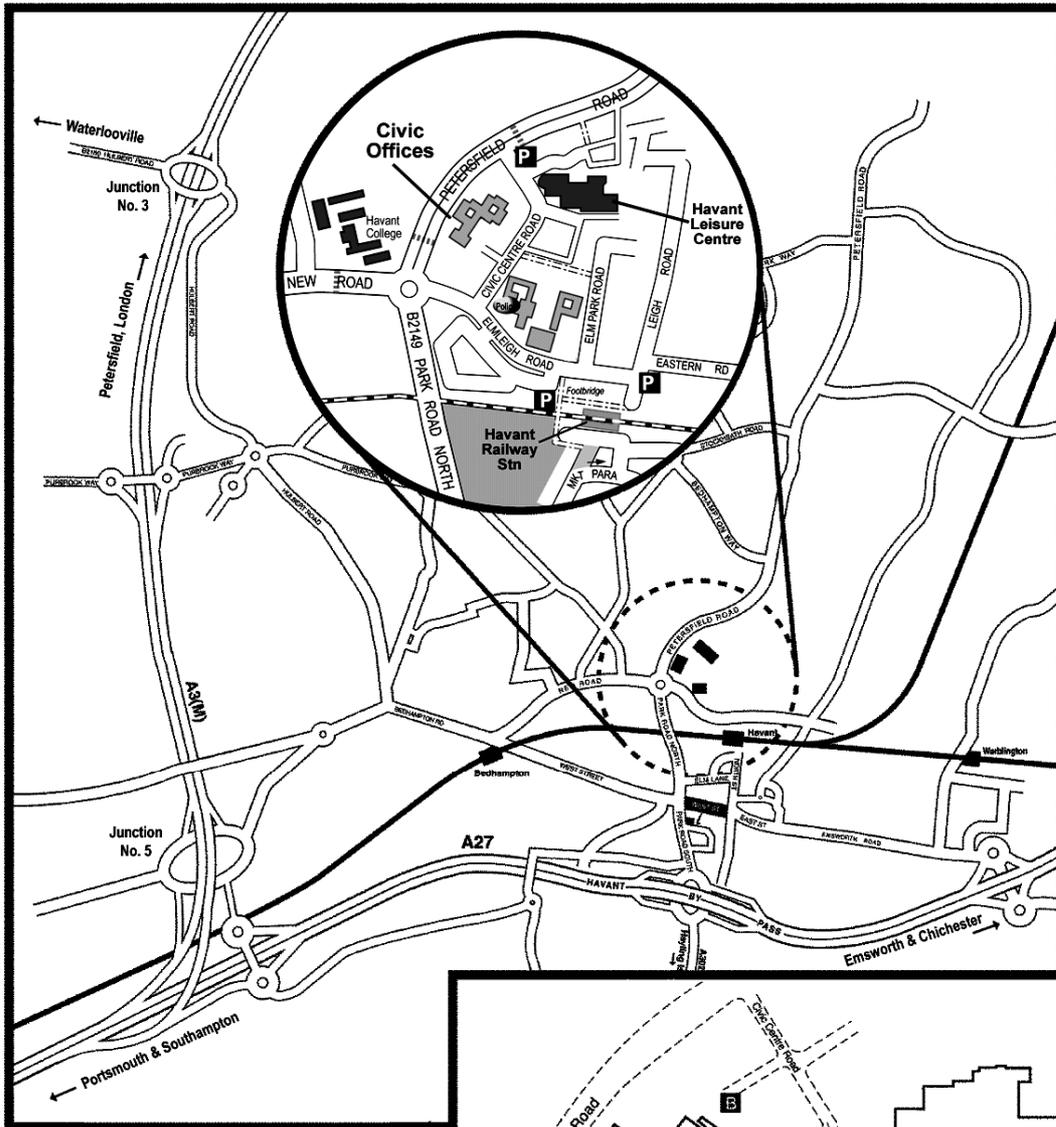
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Havant
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 Civic Offices, Havant, Hants, PO9 2AX
 Telephone (023) 9247 4174

HAVANT BOROUGH COUNCIL

At a meeting of the Governance & Audit Committee held on 3 March 2015

Present

Councillor Smith K (Chairman)

Councillors Mackey, Hart, Perry, Tarrant and Shimbart (Standing Deputy)

41 Apologies

Apologies for absence were received from Councillors Smallcorn and Wilson.

42 Minutes

RESOLVED that the minutes of the meeting of the Governance and Audit Committee held on 2 December 2014 be approved as a correct record.

43 Matters Arising

There were no matters arising from the minutes of the last meeting.

44 Declarations of Interest

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

45 Chairman's Report

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

46 External Audit Papers

The Committee considered four papers presented by Ernst and Young LLP. Helen Thompson and Ian Young of Ernst and Young LLP joined the meeting for the debate on this item and answered members' questions in connection with the report.

The Audit Progress Report informed the Committee that all work associated with the 2013/14 audit had now been completed and an outline of the timetable for the 2014/15 audit was provided.

The Certification of Claims and Returns Annual Report 2013/14 related to the audit of the Council's 2013/14 grant claims.

The Scale Fee Variation Letter informed the Committee of a change to the scale fee of the Council for 2014/15, and an agreed variation to the 2013/14 fee included in the Annual Audit Letter which had been presented to the Committee in September 2014.

The Local government Sector Briefing report summarised some of the current issues facing the Local Government sector. The section on the future of local government audit and the changes to the audit timetable were highlighted as being particularly relevant to the Committee.

RESOLVED that the reports be noted.

47 Internal Audit Progress Report 2014-15 (January 2015)

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 a summary of the status of 'live' reports.

The Committee was pleased to note that good progress had been made in achieving its performance targets and that no significant issues had been identified.

RESOLVED that the report be noted.

48 Internal Audit Plan 2015-16

Antony Harvey and Amanda Chalmers of the Southern Internal Audit Partnership presented the Committee with Havant Borough Council's Internal Audit Plan 2015/16. The Plan ensured the most appropriate use of internal audit resources in order to provide a clear statement of assurance on risk management, internal control and governance arrangements.

RESOLVED that the Internal Audit Plan 2015/16 be approved.

49 Internal Audit Charter

Antony Harvey and Amanda Chalmers of the Southern Internal Audit Partnership presented the Committee with the Internal Audit Charter for 2015/16. The Committee noted that the Charter defined the internal audit activity's purpose, authority and responsibility in line with the Public Sector Internal Auditing Standards.

RESOLVED that the Internal Audit Charter for 2015/16 be approved.

50 Codes and Protocols

Antony Harvey and Amanda Chalmers of the Southern Internal Audit Partnership provided the Committee with updated codes and protocols, in line with the Committee's terms of reference and compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) code of practice on managing the risk of fraud and corruption.

Governance & Audit Committee (3.3.15)

The Committee requested that a future Councillor training session on the new codes and protocols be held.

RECOMMENDED to Council that the following codes and protocols be adopted:

- Whistleblowing Policy;
- Anti Bribery Policy;
- Anti Fraud and Corruption Policy;
- Anti Fraud and Corruption Response Plan; and
- Anti Money Laundering Policy

51 Quarterly Update on Corporate Risks from the Executive Board

The Committee noted a report from the Executive Head for Governance and Logistics providing an update on the highest corporate risks reviewed by the Executive Board, alongside the Health Check, in February 2015.

The Committee expressed an interest in being provided with further details of the risks reviewed by the Executive Board. It was suggested that discussions take place on how to further develop communications with the Committee surrounding corporate risks.

RESOLVED that the most serious corporate risks reviewed by the Joint Executive Board on 10 February 2015 be noted.

52 Code of Conduct Complaints

The Committee received an update on code of conduct complaints. During the course of the discussions the Committee considered:

- That the Chairman be requested to write to the Leader of East Hampshire District Council expressing support for the need to strengthen the standards regime;
- A requirement for all Councillors to undertake a Disclosure Barring Service (DBS) check;
- The need to develop a social media code of conduct guide for Councillors;
- The possibility of Councillors lobbying local MPs to request Parliament to strengthen the standards regime; and
- What training was provided to staff who used social media for Council business.

RESOLVED that the report be noted.

The meeting commenced at 5.00 pm and concluded at 6.28 pm

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NON-EXEMPT

HAVANT BOROUGH COUNCIL

Governance and Audit Committee

1 July 2015

EXTERNAL AUDIT PAPERS - HAVANT BOROUGH COUNCIL
Accountant (Financial & Governance)

FOR INFORMATION

Portfolio: FINANCE

Key Decision: No

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 papers attached to this report to those charged with governance.

4.0 Reports

4.1 Audit Progress Report

The purpose of this report is to provide the Governance and Audit Committee with an overview of the stage we have reached in your 2014/15 audit.

4.2 Audit Plan 2014/15

The purpose of this report is to provide the Governance and Audit Committee with a basis to review our proposed audit approach and scope for the 2014/15 audit. The Audit Plan has been agreed with the Executive Head of Governance and Logistics.

4.3 Audit Fee Letter 2015/16

This letter confirms the audit work and associated fee that we propose for the 2015/16 financial year. The fee was set by the Audit

Commission and has been agreed with the Executive Head of Governance and Logistics.

4.4 LG Sector Briefing

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

We would like to highlight the section on accounting, auditing and governance as being of particular relevance to the Council.

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 Head of Governance & Logistics

6.1 Appendices:

1. Audit Progress Report
2. Audit Plan 2014/15
3. Audit Fee Letter 2015/16
4. LG Sector Briefing

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Havant Borough Council

Governance and Audit Committee Progress Report

July 2015



Governance and Audit Committee
Havant Borough Council
Public Service Plaza
Civic Centre Road
Havant
PO9 2AX

1 July 2015

Audit Progress Report

We are pleased to attach our Audit Progress Report.

It sets out the work we have completed since our last report to the Committee. Its purpose is to provide the Committee with an overview of the 2014/15 audit. This Progress Report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations.

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

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

Yours faithfully



Helen Thompson
Director
For and behalf of Ernst & Young LLP

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

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

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

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

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

Work completed 2014/15

Audit fee letter

We presented our audit fee letter for 2014/15 to the June 2014 Governance and Audit Committee.

Financial Statements audit

Where possible we seek to rely on the controls within the Council's financial systems.

To achieve this we identify the material income and expenditure systems; document and walk through these systems and controls to ensure we understand the systems that generate the material balances and disclosures in the Council's financial statements.

We work closely with internal audit and where possible have placed maximum reliance on their work

We have completed this stage of our audit and our findings are included within our audit plan, which is included as a separate item on today's agenda.

Post Statements audit

We have discussed with management the timing of our post statements audit and agreed a timetable for the receipt of the draft statements and working papers. Our audit will start on 6 July 2015 and we will report our work to the Governance and Audit Committee in September 2015.

Value for money assessment

We have completed our initial risk assessment for our value for money work against the Audit Commission's specified criteria and areas of focus. Our audit plan details the results of this work.

Grant claim certification

Our work on the certification of the housing benefit subsidy claim started on 22 June 2015. This is earlier than in previous years and will also be used to inform the opinion we give on the Council's financial statements.

Work completed 2015/16

Audit fee letter

Our audit fee letter for 2015/16 is on the agenda for today's Governance and Audit Committee.

Timetable 2014/15

We set out below a timetable showing the key stages of the audit, including the value for money work, and the deliverables we will provide to you through the 2014/15 Governance and Audit Committee cycle. We will provide formal reports to the Committee throughout our audit process as outlined below.

Audit phase	EY Timetable	Deliverable	Associated Governance & Audit Committee	Status
Notification of audit fee	Ongoing	Audit Fee Letter	June 2014	Completed - Reported to the June 2014 Committee
Risk assessment and setting scope of audit	Feb - April 2015	Audit Plan	June 2015	Completed - Reported to the July 2015 Committee
Testing of routine processes and controls and early substantive testing	Feb – April 2015	Audit Plan	June 2015	Completed - Reported to the July 2015 Committee
Year-end audit	June - August 2015	Audit results report to those charged with governance Audit report (including our opinion on the financial statements and a conclusion as to whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources) Whole of Government Accounts Submission to NAO based on their group audit instructions Audit Completion certificate	September 2015	-
Annual Reporting	October 2015	Annual Audit Letter	December 2015	-
Grant Claims	September – November 2015	Annual certification report	February 2016	-

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

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Havant Borough Council

Year ending 31 March 2015

Audit Plan

April 2015



Governance & Audit Committee
Havant Borough Council
Public Service Plaza
Civic Centre Road
Havant
PO9 2AX

22 April 2015

Dear Members

Audit Plan

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 & Audit Committee with a basis to review our proposed audit approach and scope for the 2014/15 audit in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, Standing Guidance, 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 plan with you on 1 July 2015 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Helen Thompson
For and behalf of Ernst & Young LLP
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This Annual 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

Context for the audit

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 2015 and of the income and expenditure for the year then ended; and
- ▶ a statutory conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

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

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

- ▶ strategic, operational and financial risks relevant to the financial statements;
- ▶ developments in financial reporting and auditing standards;
- ▶ the quality of systems and processes;
- ▶ changes in the business and regulatory environment; 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. Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

In parts three and four of this plan we provide more detail on the above areas and we outline our plans to address them. Our proposed audit process and strategy are summarised below and set out in more detail in section five.

We will provide an update to the Governance & Audit Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September 2015.

Our process and strategy

Financial statement audit

We consider materiality in terms of the possible impact of an error or omission on the financial statements and set an overall planning materiality level. We then set a tolerable error to reduce the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality to an appropriately low level. We also assess each disclosure and consider qualitative issues affecting materiality as well as quantitative issues.

We aim to rely on the Authority's internal controls in the key financial systems listed in section 5.2 of this report. We identify the controls we consider important and seek to place reliance on internal audit's testing of those controls. Where control failures are identified we consider the most appropriate steps to take. For all other areas of the financial statements we will undertake a fully substantive approach as we have determined audit assurance can be obtained more efficiently.

To the fullest extent permissible by auditing standards, we will seek to rely on the work of internal audit wherever possible. Internal Audit have provided us with their working papers on the key systems. Where possible we have re-performed a sample of their work to provide us with controls assurance over some key systems.

Arrangements for securing economy, efficiency and effectiveness

Our approach to the value for money (VFM) conclusion for Havant Borough Council for 2014/15 is based on criteria specified by the Audit Commission relating to whether there are proper arrangements in place within the Council for:

- ▶ securing financial resilience; and
- ▶ challenging how the Council secures economy, efficiency and effectiveness.

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

Further detail is included in section four of this Audit Plan.

2. The Local Audit and Accountability Act 2014

The Local Audit and Accountability Act 2014 (the 2014 Act) closes the Audit Commission and repeals the Audit Commission Act 1998.

The 2014 Act requires the Comptroller and Auditor General to prepare a Code of Audit Practice. This was laid before Parliament and approved before 1 April 2015.

Although this new Code will apply from 1 April 2015, transitional provisions within the 2014 Act provide for the Audit Commission's 2010 Code to continue to apply to audit work in respect of the 2014/15 financial year. This plan is therefore prepared on the basis of the continued application of the 2010 Code of Audit Practice throughout the 2014/15 audit.

3. Financial statement risks

We outline below our 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 risk (including fraud risks)	Our audit approach
Risk of management override	
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>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements ▶ reviewing accounting estimates for evidence of management bias, and ▶ evaluating the business rationale for significant unusual transactions

Other risks	Our audit approach
Localisation of Business Rates	
<p>There have been significant changes in the arrangements for business rates from April 2013. One of the main changes was that individual councils now need to provide for rating appeals.</p> <p>Whilst this is the second year of the Council accounting for business rates in this way there have been a number of changes to the Council's calculation in 2014/15.</p>	<ul style="list-style-type: none"> ▶ We will review the detailed accounting for business rates to ensure the Council's accounts are materially accurate and compliant with the CIPFA Code of Practice. ▶ We will review the Council's provision for business rate appeals to ensure it has been calculated on a reasonable basis in line with International Accounting Standard (IAS) 37. As part of this, we will ensure the provision is supported by appropriate evidence and that the level of estimation uncertainty is adequately disclosed in the accounts.

Property, plant and equipment	
<p>To address the point raised in our 2013/14 audit results report, the Council is going through a process to ensure the fixed asset register clearly splits the value of assets between land and buildings.</p> <p>Additionally, in preparation for a system change in 2015/16, the Council has reviewed the asset register and identified</p> <ul style="list-style-type: none"> ▶ a number of assets owned by the Council that are currently not included on the asset register. The majority of these are likely to be under the 'de minimis' threshold, but need to be added to enable reconciliation between the asset register 	<ul style="list-style-type: none"> ▶ We will review the detailed accounting proposals in each of the areas identified to ensure the Council's accounts are materially accurate and comply with accounting standards and the CIPFA Code of Practice.

and the property system; and

- ▶ historic expenditure which has been capitalised to the asset register over a period of twenty years, and cannot be clearly linked to a Havant Borough Council owned asset.
-

We will also follow-up issues identified during our interim audit:

- ▶ Bank reconciliations: at the time of our audit, the quarter 2 bank reconciliation had not been fully completed. We will follow this up as part of our substantive procedures and test the year end bank reconciliation in detail.
- ▶ Aged debt analysis: due to a system change which took effect from 1st April 2014, all debt migrated from the old system is recorded as being raised on this date. Therefore when producing aged debt reports from the system the ageing of the debt is not accurate. The Council has a number of ad hoc reports that can be run to identify the true ageing of the debt. We will use these to review the adequacy of the bad debt provision included within the Council's financial statements
- ▶ Data analytics: as detailed within section 5.2 of this report we continue to use our computer based analytics tools to capture whole populations of financial data. In 2014/15 the Council made some significant changes to the chart of accounts in preparation for a system change in 2015/16. These mapping changes have caused a number of differences in the opening and closing balances which are still being worked through. The total of these differences net to zero and at this time we have no concerns over the integrity of the Council's general ledger.

Respective responsibilities in relation to fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has 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 fraud risks.

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

4. Economy, efficiency and effectiveness

Our approach to the value for money (VFM) conclusion for Havant Borough Council for 2014/15 is based on criteria specified by the Audit Commission relating to whether there are proper arrangements in place at the Council for securing:

- financial resilience, and
- economy, efficiency and effectiveness in the use of resources.

The Audit Commission VFM guidance for 2014/15 requires that auditors consider and assess the significant risks of giving a wrong conclusion and carry out as much work as is appropriate to enable them to give a safe conclusion on arrangements to secure VFM.

Our assessment of what is a significant risk is a matter of professional judgement, and is based on consideration of both quantitative and qualitative aspects of the subject matter in question.

We have identified one significant risk to the value for money conclusion.

Risk	Impacts arrangements for securing:	Our audit approach
Delivering efficiencies to secure financial resilience		
<p>Like other local government bodies the Council continues to face financial challenges over the medium term.</p> <p>A clear focus on addressing high cost areas is therefore essential to the economy, efficiency and effectiveness of services delivered and the overall financial resilience of the Council.</p>	<p>Economy, efficiency and effectiveness</p> <p>Financial resilience</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ reviewing the reasonableness and robustness of medium term financial planning assumptions set out in the refreshed medium term financial strategy and the progress made with the Service Futures Programme.

We will keep our risk assessment under review throughout our audit and communicate to the Governance & Audit Committee any revisions to the risk identified here and any additional local risk-based work we may need to undertake as a result.

5. Our audit process and strategy

5.1 Objective and scope of our audit

Under the Audit Commission's Code of Audit Practice ('the Code') 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 a two-part audit report covering both of these objectives.

i) Financial statement audit

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

We will also review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require.

ii) Arrangements for securing economy, efficiency and effectiveness

The Code sets out our responsibility to satisfy ourselves that the Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In arriving at our conclusion, we will rely as far as possible on the reported results of the work of other statutory inspectorates on corporate or service performance.

In examining the Council's corporate performance management and financial management arrangements, we consider the following criteria and areas of focus specified by the Audit Commission:

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

5.2 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;
- ▶ housing benefits and council tax reduction; and
- ▶ payroll

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

- ▶ accounts payable;
- ▶ business rates (including business rate appeals);
- ▶ council tax;
- ▶ property, plant and equipment;
- ▶ cash and bank;
- ▶ treasury management;
- ▶ pensions; and
- ▶ financial statements close process.

Analytics

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

- ▶ help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Governance & 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 reporting, where we raise issues that could have an impact on the year-end financial statements.

Use of experts

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

Mandatory procedures required by auditing standards

As well as the financial statement risks outlined in 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; and
- ▶ auditor independence.

Procedures required by the Code

- ▶ reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement
- ▶ reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO
- ▶ reviewing and examining, where appropriate, evidence relevant to the Council's corporate performance management and financial management arrangements, and its reporting on these arrangements.

5.3 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 £1,151,080 based on 2% of 2013/14 gross service expenditure.

We will communicate uncorrected audit misstatements greater than £57,554 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.

5.4 Fees

The Audit Commission has published a scale fee for all authorities. This is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice 2010. The indicative fee scale for the audit of Havant Borough Council in 2014/15 is £62,400.

5.5 Your audit team

The engagement team is led by Helen Thompson, who has significant experience of a wide range of local government and other public sector audits. Helen is supported by Ian Young who is responsible for the day-to-day direction of audit work and is the key point of contact for the Corporate Accountancy Team Leader.

5.6 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the VFM work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the Governance & Audit Committee's cycle in 2014/15. These dates are determined to ensure our alignment with the Audit Commission's rolling calendar of deadlines.

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

Audit phase	Timetable	Governance & Audit Committee timetable	Deliverables
High level planning	Ongoing	June 2014	Audit Fee letter Progress Reports
Risk assessment and setting of scopes	Feb 2015 – April 2015	June 2015	Audit Plan
Testing routine processes and controls and early substantive testing	Feb – April 2015	June 2015	Audit Plan
Year-end audit and audit completion	June – August 2015	September 2015	Report to those charged with governance via the Audit Results Report Audit report (including our opinion on the financial statements; [our opinion on the regularity of your expenditure and income]; and overall value for money conclusion). Audit completion certificate Reporting to the NAO on the Whole of Government Accounts return.
Conclusion of reporting	October 2015	November 2015	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.

6. Independence

6.1 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"> ▶ 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. ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review. ▶ The overall assessment of threats and safeguards. ▶ Information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed. ▶ Details of non-audit services provided and the fees charged in relation thereto. ▶ Written confirmation that we are independent. ▶ Details of any inconsistencies between APB Ethical Standards, the Audit Commission’s Standing Guidance and your policy for the supply of non-audit services by EY and any apparent breach of that policy. ▶ An opportunity to discuss auditor independence issues.

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.

6.2 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 the Audit Commission's Standing Guidance.

At the time of writing, we have no planned 2014/15 non-audit work.

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 Helen Thompson, and the audit engagement team have not been compromised.

6.3 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 27 June 2014 and can be found here:

<http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2014>

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2014/15	Out-turn 2013/14	Scale fee 2013/14	Explanation
	£	£	£	
Opinion Audit and VFM Conclusion	62,400	64,083	61,500	The 2013/14 outturn includes £1,683 relating to additional audit work required in year, and £900 for additional work on NNDR following removal of the NNDR grant claim from the programme of grant claim work under the Audit Commission regime. The latter is now treated as a permanent variation to the scale fee.
Total Audit Fee – Code work	62,400	64,083	61,500	
Certification of claims and returns	17,840	12,320	12,320	Our fee for the certification of grant claims is based on the indicative scale fee set by the Audit Commission.
Non-audit work:	0	0	N/a	

All fees exclude VAT.

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 5.2 above;
- ▶ we can rely on the work of internal audit as planned;
- ▶ the Audit Commission making no significant changes to the use of resources criteria on which our conclusion will be based;
- ▶ our accounts opinion and use of resources 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.

Appendix B UK required communications with those charged with governance

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

Required communication	Reference
<p>Planning and audit approach</p> <p>Communication of the planned scope and timing of the audit including any limitations.</p>	<ul style="list-style-type: none"> ▶ Audit Plan
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ significant difficulties, if any, encountered during the audit ▶ significant matters, if any, arising from the audit that were discussed with management ▶ written representations that we are seeking ▶ expected modifications to the audit report ▶ other matters if any, significant to the oversight of the financial reporting process 	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ uncorrected misstatements and their effect on our audit opinion ▶ the effect of uncorrected misstatements related to prior periods ▶ a request that any uncorrected misstatement be corrected ▶ in writing, corrected misstatements that are significant 	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Fraud</p> <ul style="list-style-type: none"> ▶ enquiries of the Governance & Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ a discussion of any other matters related to fraud 	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Related parties</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"> ▶ non-disclosure by management ▶ inappropriate authorisation and approval of transactions ▶ disagreement over disclosures ▶ non-compliance with laws and regulations ▶ difficulty in identifying the party that ultimately controls the entity 	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>External confirmations</p> <ul style="list-style-type: none"> ▶ management's refusal for us to request confirmations ▶ inability to obtain relevant and reliable audit evidence from other procedures 	<ul style="list-style-type: none"> ▶ Report to those charged with governance

Required communication	Reference
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ enquiry of the Governance & 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 Audit Committee may be aware of 	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement director's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ the principal threats ▶ safeguards adopted and their effectiveness ▶ an overall assessment of threats and safeguards ▶ information about the general policies and process within the firm to maintain objectivity and independence 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ whether the events or conditions constitute a material uncertainty ▶ whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ the adequacy of related disclosures in the financial statements 	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Significant deficiencies in internal controls identified during the audit</p>	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ breakdown of fee information at the agreement of the initial audit plan ▶ breakdown of fee information at the completion of the audit 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance ▶ Annual Audit Letter if considered necessary
<p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	<ul style="list-style-type: none"> ▶ Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary

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Sandy Hopkins
Chief Executive
Havant Borough Council
Public Service Plaza
Civic Centre Road
Havant
PO9 2AX

14 April 2015

Ref: HT/HBC/FeeLetter

Direct line: 023 8038 2099

Email: HThompson2@uk.ey.com

Dear Sandy

Annual Audit and Certification Fees 2015/16

We are writing to confirm the audit and certification work that we propose to undertake for the 2015/16 financial year at Havant Borough Council.

Our 2015/16 audit is the first that we will undertake following the closure of the Audit Commission on 31 March 2015. Our contract will now be overseen by Public Sector Audit Appointments Ltd (PSAA), an independent company set up by the Local Government Association, until it ends in 2017 (or 2020 if extended by the Department of Communities and Local Government).

The responsibility for publishing the statutory Code of Audit Practice, under which we will conduct our audit work, has transferred to the National Audit Office.

Indicative audit fee

The fee reflects the risk-based approach to audit planning set out in the National Audit Office's Code of Audit Practice for the audit of local public bodies, applying from 2015/16 audits.

The audit fee covers the:

- audit of the financial statements;
- value for money conclusion; and
- whole of government accounts.

For the 2015/16 financial year the Audit Commission set the scale fee for each audited body prior to its closure. The scale fee is based on the fee initially set in the Audit Commission's 2012 procurement exercise, reduced by 25% following the further tendering of contracts in March 2014. It is not liable to increase during the remainder of our contract without a change in the scope of our audit responsibilities.

The 2015/16 scale fee is based on certain assumptions, including:

- the overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year;

- we are able to place reliance on the work of internal audit to the maximum extent possible under auditing standards;
- the financial statements will be available to us in line with the agreed timetable;
- working papers and records provided to us in support of the financial statements are of a good quality and are provided in line with our agreed timetable; and
- prompt responses are provided to our draft reports.

Meeting these assumptions will help ensure the delivery of our audit at the indicative audit fee which is set out in the table below.

For Havant Borough Council this fee is set at the scale fee level as the overall level of audit risk is not identified as significantly different from that of the prior year at this present time.

As we have not yet completed our audit for 2014/15, our audit planning process for 2015/16 will continue as the year progresses. Fees will be reviewed and updated as necessary, within the parameters of our contract.

Certification fee

The Audit Commission set an indicative certification fee for housing benefit subsidy claim certification work for each audited benefits authority. The indicative fee is based on actual 2013/14 benefit certification fees and incorporating a 25 per cent reduction.

The indicative certification fee is based on the expectation that an audited body is able to provide the auditor with complete and materially accurate housing benefit subsidy claim with supporting working papers, within agreed timeframes.

The indicative certification fee for 2015/16 relates to work on the housing benefit subsidy claim for the year ended 31 March 2016. We have set the certification fee at the indicative fee level. We will update our risk assessment after we complete 2014/15 benefit certification work, and to reflect any further changes in the certification arrangements.

Summary of fees

	Indicative fee 2015/16 £	Planned fee 2014/15 £	Actual fee 2013/14 £
Total Code audit fee	46,800	62,400	64,083
Certification of housing benefit subsidy claim	9,240	17,840	12,320

Any additional work that we may agree to undertake (outside of the Code of Audit Practice) will be separately negotiated and agreed with you in advance.

Billing

The indicative audit fee will be billed in 4 quarterly instalments of £14,010, starting in July 2015.

Audit plan

Our plan is expected to be issued in June 2016. This will communicate any significant financial statement risks identified, planned audit procedures to respond to those risks and any changes in fee. It will also set out the significant risks identified in relation to the value for money conclusion. Should we need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with the Executive Head of Governance and Logistics and, if necessary, prepare a report outlining the reasons for the fee change for discussion with the Governance and Audit Committee.

Audit team

The key members of the audit team for the 2015/16 financial year are:

Helen Thompson

Director

HThompson2@uk.ey.com

Tel: 07974 007332

Ian Young

Manager

IYoung@uk.ey.com

Tel: 07867 152505

We are committed to providing you with a high quality service. 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, please contact me. 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.

Yours faithfully



Helen Thompson

Audit Director

For and on behalf of Ernst & Young LLP

cc. Jane Eaton, Executive Head of Governance and Logistics
Councillor Ken Smith, Chairman of the Governance and Audit Committee



Local government audit committee briefing

Contents at a glance

Government and economic news

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Find out more

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

It covers issues which may have an impact on your organisation, the Local government sector and the audits that we undertake. The public sector audit specialists who transferred from the Audit Commission form part of EY's national Government and Public Sector (GPS) team. Their extensive public sector knowledge is now supported by the rich resource of wider expertise across EY's UK and international business. This briefing reflects this, bringing 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, as well as some examples of areas where EY can provide support to Local Authority bodies. We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please do contact your local audit team.





Government and economic news

EY ITEM Club Winter Forecast 2014-15

The latest forecast by the EY Item Club for winter 2014-15 highlights the global oil price collapse, which is creating winners and losers worldwide – with the UK decisively a winner. It sees cheaper energy giving consumers a major shot in the arm and driving inflation as measured by the Consumer Prices Index (CPI) down to an average of zero this year. As a result EY Item Club has revised up its forecast for UK GDP growth in 2015 to 2.9% from 2.4% in October. With inflation averaging zero in 2015, this will effectively put any rise in base rates on hold until 2016. Together with stronger real income growth, a boost in housing activity is predicted.

Against this, the negatives are risks which could arise, as opposed to existing ones. A lack of demand in the global economy is a factor reflected in the oil price and worries over the Eurozone are intensifying. Additionally, the consumer-led growth in the UK economy will leave it even more unbalanced and dependent on domestic consumption.

2015-16 Local Government settlement

Following the provisional settlement published in December 2014, the government has published its final 2015-16 settlement in February. The overall reduction in spending power has been calculated as 1.7%, with a maximum reduction of 6.4%.

An additional £74mn has been allocated to upper tier authorities to reduce pressures in areas including local welfare and health and social care budgets.

The government also announced £37mn being provided to Authorities in 2014-15 for the provision of additional support packages to prevent hospital admissions where possible, and ensure that support is available to enable patients to leave hospital when they are ready.

The Local Government Association (LGA) has produced a briefing on the final settlement which includes the following messages:

- ▶ Councils will have to make savings of £2.5bn in their budgets in 2015-16. Sixty percent of respondents to an LGA survey in 2014 were considering stopping at least some key local services in 2015 due to lack of funding, which demonstrates the future pressure on front line services unless savings and alternative income streams are identified, and existing income streams maximised.
- ▶ Services including social care for children are seeing reductions for the first time
- ▶ Reductions of the same magnitude are forecast by the Office for Budget Responsibility and the Institute for Fiscal Studies until 2020
- ▶ The LGA welcomes the announcement of an additional £74mn, but calculates a reduction in welfare funding of £100mn



Accounting, auditing and governance

Annual reports and accounts – lessons from the private sector

In its September 2014 report *Out with the old, in with the new* EY made observations from its review of 2013 annual reports in the FTSE 350. The issues and challenges addressed resonate strongly in the public sector. In this article, we consider some of the key messages from that report and how local government bodies can benefit from embracing those messages.

Does size matter?

It is a difficult balancing act to decide the optimum level of information reported to stakeholders. EY's report found that the best Annual Reports and Accounts were not necessarily the longest or the most detailed. Stakeholders want the annual report to present concise and relevant information in a way that helps them understand how their money is being spent and how their services are being managed, along with a clear description of the risks and challenges that lie ahead.

Think FBU – 'fair, balanced and understandable'

The annual report is a chance for bodies to tell the story of the last 12 months, and FBU is a helpful guiding concept. The focus of the report should be on the narrative – why we exist, our strategic priorities, how we have progressed over the last 12 months. Some of the best examples of transparent reporting explained 'what didn't go to plan' in key areas of the narrative. Reporting weaknesses, difficulties and challenges as well as successes, makes for a 'fair' and 'balanced' report and, over time, will help build trust with stakeholders. The best annual reports will have clear signposting between each section and will cross refer between sections.

Bodies should do more to integrate financial and non-financial reporting, for example, by highlighting the key financial

and non-financial strategic objectives and how chosen key performance indicators are truly driving value and achievement against these objectives. There should be a clear explanation of how risks impact the organisation and could impede the achievement of strategic objectives.

Good reporting of governance

The annual governance statement is particularly susceptible to repetition of boiler plate disclosures. The most important, interesting and valuable governance information is what the body actually did from a governance standpoint during the year and what changed. Be clear in what the messages are that need to be conveyed, including:

- ▶ Compliance with the CIPFA/SOLACE principles of good governance
- ▶ Key risks and challenges identified at the start and during the year
- ▶ Clear explanation of how these challenges were addressed
- ▶ Clear explanation of failings in governance
- ▶ Changes to governance arrangements made as a result
- ▶ Reports from those charged with governance describing what the board and its committees did in the year and a flavour of outcomes from their review of effectiveness

Conclusion

Good annual reporting should not be seen as a checklist exercise in disclosures. Continued focus should be put on making annual reports more helpful and understandable for stakeholders.



Accounting, auditing and governance

Highly paid off-payroll appointments

What's the issue?

There have been some high profile cases where Government departments engaged individuals who had controlling roles in large public funded organisations but who were not directly employed by the organisation.

As a result of these cases the Treasury requires public sector bodies to report arrangements whereby individuals are paid through their own companies (and so are responsible for their own tax and NI arrangements).

What should your organisation have done about it?

To avoid sanction from HMRC and adverse publicity all public sector bodies are required to:

- ▶ Identify all contracts over £220 per day, which are expected to last for more than six months
- ▶ Ensure those arrangements contain clauses allowing your organisation to request assurance that the individual is paying the right amount of tax
- ▶ Undertake a risk assessment of all off-payroll engagements to determine whether assurance needs to be sought that the individual is paying the right amount of tax and where necessary that assurance has been sought
- ▶ Monitor whether assurance has been provided by each individual and maintain evidence
- ▶ If no assurance has been provided by the individual consider terminating the contract or putting the individual onto the organisation's payroll
- ▶ Comply with the detailed additional disclosures required in your Annual Reports

Local Government Association consultation – sector-led improvement

The Local Government Association (LGA) has issued a consultation on the future of sector-led improvement, with a closing date of 15 March 2015.

Following the abolition of the previous national performance framework, sector-led improvement was introduced, with the LGA taking the role of supporting the sector. It was based on the premise that Authorities are accountable and responsible for their own performance. This shifted the emphasis from national accountability to local accountability, however it also removed the obligation for Authorities to be involved which left external stakeholders unsure about the robustness of the approach.

The LGA are taking stock to identify whether or not the approach is suitable, and whether or not any changes to the approach are necessary. The consultation also gives the opportunity for comment on the inspection of children's services.

All Chief Executives and Leaders should have been sent a unique link to enable them to respond. Others wishing to respond can do so either by filling out the online form or by emailing the LGA.

What makes a successful project in government?

Major government projects often hit the headlines for cost and time over-runs and but there are many examples of projects which are being delivered successfully.

As Authorities are increasingly facing funding pressures and looking for innovative ways to manage their finances, we are sharing some themes from the 2014 Successful Projects in Government conference. The conference was designed by the UK's Major Projects Authority, in cooperation with EY, the Ministry of Defence and the Nuclear Decommissioning Authority to share details of projects that had been delivered successfully due to the



Accounting, auditing and governance

leadership talents and ingenuity of project teams in tackling the challenges that all major projects face.

It brought together senior colleagues from across UK government departments to illustrate that despite the negative picture often painted of project delivery in government, the reality is different.

According to Brian Gorman, UK GPS Advisory Leader, who led the initiative “There is no ‘one size fits all’ solution to project success. The skills and capabilities required for Infrastructure projects can be very different to the skills and capabilities required for service delivery projects. We need to recognise these differences more explicitly in how we conceive, design, plan and resource our projects if we are to deliver maximum value for our investment.”

The 40 case studies and outputs from the event have now been captured in a publication, designed to be a practical tool and network resource for those planning to undertake projects in the future, both in the UK and globally.

To explore these attributes in real situations, the projects showcased have been split into three central themes:

service delivery, transformation and infrastructure. Each project provided fresh insights and nuances into what it takes to be successful but five common themes emerged across them all:

- ▶ Strong leadership to inspire, challenge and champion
- ▶ Accountability through and across the project
- ▶ Clear line of sight to crisp policy intent
- ▶ Experienced team who know their business and the business
- ▶ Strong stakeholder management

Audit Commission report on data quality

The Audit Commission has produced a report on data quality, entitled *Data quality matters*, which reflects on the past work of the Audit Commission and its appointed auditors in relation to data quality.

The report emphasises the importance of data quality, and notes that it is an essential part of robust governance arrangements for securing value for money; since flawed data can result in ineffective decision making.

The key lessons that the report seeks to draw out are:

- ▶ Governance will be most effective when it involves two-way dialogue with the front line, to communicate the importance of data quality
- ▶ The value of data quality needs to be communicated throughout organisations
- ▶ The front line should be engaged in ensuring data quality
- ▶ Data quality should be assured as close as possible to the point of capture



Regulation news

Local Audit and Accountability Act 2014

The Local Audit and Accountability Act 2014 received Royal Assent on 30 January 2014. This officially makes it possible for the Audit Commission to effectively be wound down on 31 March 2015.

Several of the Audit Commission's key functions will continue after its closure. These are summarised below:

Management of Audit Contracts:

In order to continue with the management of audit contracts the Local Government Association has created an independent company to oversee the audit contracts. This independent organisation will be called Public Sector Audit Appointments Limited.

National Fraud Initiative:

The responsibility for managing, administering and reporting on the National Fraud Initiative (NFI) will pass to the Home Office with effect from 1 April 2015.

Code of Audit Practice:

Responsibility for producing and updating the Code of Audit Practice will pass to the National Audit Office with effect from 1 April 2015.

Section 32 of the Local Audit and Accountability Act 2014 gives the Secretary of State the power to make provision through regulations about the financial management, internal control, and annual accounts and audit procedures applying to relevant authorities. The Accounts and Audit Regulations 2015 were laid before Parliament on 17 February 2015 and reflect the requirements relating to annual published accounts and audit procedures applying to relevant authorities. The 2011 regulations will continue to apply for the completion of 2014/15 audits, with the 2015 regulations coming into effect for financial years beginning on or after 1 April 2015.

As noted in the January briefing, the Act introduces a compression of the audit timetable for Local Government accounts. This will require the publication of accounts, together with their audit opinion by the 31 July of the financial year immediately following the end of the financial year to which the statement relates. The explanatory memorandum accompanying the Act reiterates the Government's decision to defer this change until 2017/18 to allow a reasonable timescale for Local Government bodies and their auditors to adjust.



Regulation news

NAO – draft Code of Audit Practice

The Local Audit and Accountability Act 2014 provides the legislative basis for the new framework for the audit of local public bodies which was announced by the Government in August 2010.

Previously, the Audit Commission was responsible for the preparation and maintenance of a Code of Audit Practice, which sets out the respective responsibilities of audited bodies and auditors; and explains what local auditors should do to meet their statutory responsibilities for the audit of local public bodies. The Local Audit and Accountability Act makes the Comptroller and Auditor General responsible for the preparation and maintenance of the Code of Audit Practice following the closure of the Audit Commission.

The National Audit Office (NAO) sought the public's views on the draft of its first Code in a consultation that ended at the end of October 2014, and published a final draft code in January 2015.

A key difference as compared to the Audit Commission codes, is that the NAO have taken the decision (which was supported by the majority of responses to the consultation) to produce a single code for all bodies within the new arrangements for local public audit.

The NAO have also pointed out that the Code is principles-based, and will be supported by detailed guidance to auditors which they will seek to provide with the aim of facilitating consistency whilst recognising that the same approach will not always be the most appropriate for all audited bodies.

Subject to Parliament's approval, the Code will take effect from 1 April 2015 for audit work relating to the 2015-16 financial year onwards.



Key questions for the audit committee

What questions should the Audit Committee be asking itself?

- ▶ How have we satisfied ourselves that we are fully compliant with the HMRC requirements regarding our off-payroll staff members?
- ▶ Have our officers critically evaluated the closedown process to identify areas that could be streamlined or brought forward? Are we aware of the areas of the 2014-15 accounts that will contain a higher risk of error and therefore require closer scrutiny?
- ▶ What have our experiences of sector-led improvement been? Are we satisfied that our electorate are able to hold us accountable, and if not, what can we do to enhance local accountability?
- ▶ What can we learn from successfully implemented major projects and how can we apply them to our own initiatives to maximise our finances to ensure that they are effective?
- ▶ Have we monitored our data quality arrangements and adjusted them in the light of changing risks and priorities?
- ▶ Do our data quality arrangements remain robust and effective?



Find out more

EY Item Club

Read more from the ITEM club at: <http://www.ey.com/UK/en/Issues/Business-environment/Financial-markets-and-economy/ITEM---Forecast-headlines-and-projections>

2015-16 Local Government settlement

Read about the final finance settlement at: <https://www.gov.uk/government/speeches/final-local-government-finance-settlement-2015-to-2016>

The LGA briefing can be accessed at: <http://www.local.gov.uk/documents/10180/5533246/LGA+Briefing+-+Local+Government+Finance+Settlement+2015-16+-+House+of+Commons+-+10+02+15.pdf/bbd1db5b-4363-4582-937e-7b92dcf60e60>

Highly paid off-payroll appointments

For further information see the HMRC guidance at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220745/tax_pay_appointees_review_230512.pdf

LGA consultation on the future of sector-led improvement

See details of the consultation at the link below: <http://www.local.gov.uk/documents/10180/6869714/L14-551+Where+next+with+sector-led+improvement/99e45118-653f-4749-a9ae-01b83d796cf0>

What makes a successful project in government?

For further details of the case studies presented at the conference, ask a member of your EY engagement team for a copy of the full publication.

Audit Commission report on data quality

Find the report and supporting documents at: <http://www.audit-commission.gov.uk/2015/02/data-quality-matters/>

Local Audit and Accountability Act 2014

The allocation of responsibilities is available at: www.audit-commission.gov.uk/about-us/the-future-of-the-audit-commissions-functions/

The Accounts and Audit Regulations Act 2015 can be found at: <http://www.legislation.gov.uk/ukxi/2015/234/contents/made>

NAO – draft Code of Practice

Read the final draft code in full at: http://www.nao.org.uk/keep-in-touch/wp-content/uploads/sites/11/2014/09/Final_Draft_Code_of_Audit_Practice.pdf

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ED None

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NON EXEMPT

HAVANT BOROUGH COUNCIL

GOVERNANCE AND AUDIT COMMITTEE

1 July 2015

ANNUAL INTERNAL AUDIT REPORT AND OPINION 2014-15

Head of Southern Internal Audit Partnership

ITEM NO

FOR DECISION

Portfolio: Governance and Logistics – Cllr Michael Wilson

Key Decision: No

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 2015.

2.0 Recommendation

2.1 That the Governance and Audit Committee approve the Chief Internal Auditor's annual report and opinion for 2014-15.

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 2014-15 (attached at Appendix 1) provides the Chief Internal Auditor's opinion on the system of internal control and summarises audit work from which that opinion is derived for the year ending 31 March 2015.

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 2014/15;
- The revised internal audit plan for 2014/15 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 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 and 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 approved by the Management Team who met at the Executive Board on 16 June 2015.

Appendices:

Appendix 1 – Annual Internal Audit Report and Opinion 2014/15

Agreed and signed off by:

Legal Services: Shirley Shaw 16 June 2015

Finance: Jane Eaton 16 June 2015

Executive Head of Governance & Logistics: Jane Eaton 16 June 2015

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

Annual Internal Audit Report & Opinion

2014 - 15

Havant Borough Council

Havant
BOROUGH COUNCIL

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**Southern Internal
Audit Partnership**

Assurance through excellence
and innovation

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1. Role of Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit 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’ in relation to internal audit are laid down in the Public Sector Internal Audit Standards 2013 [the Standards].

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

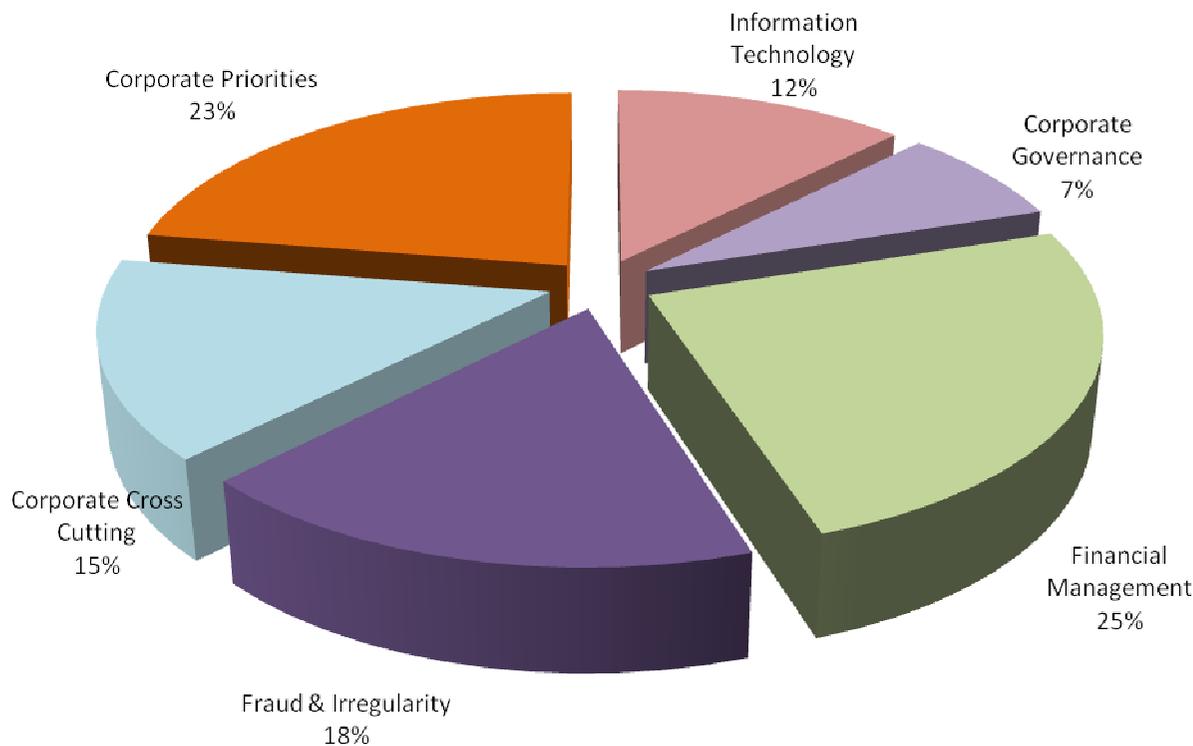
I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of Havant Borough Council's internal control environment.

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 so as 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.

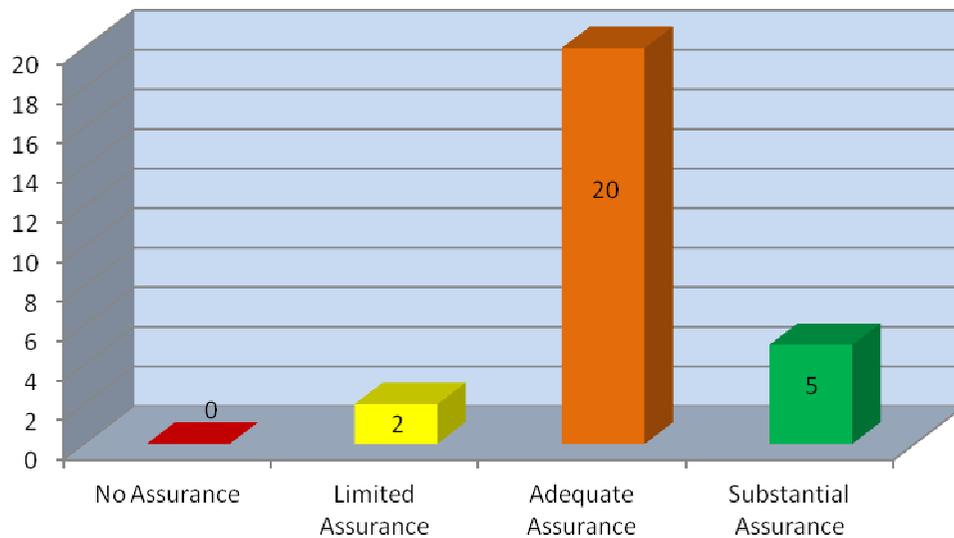
The 2014-15 Internal audit plan, approved by the Governance and Audit Committee, 05 March 2014, was informed by internal audits own assessment of risk and materiality in addition to consultation with management to ensure it aligned to key risks facing the organisation.

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

The Southern Internal Audit Partnership delivered 40 review areas over the course of the year ending 31 March 2015 including the completion of carry forward reviews.

The revised 2014-15 internal audit plan has been substantially delivered however fieldwork remains in progress in respect of three reviews (Depot Services – Stock Control, Human Resources and Code of Conduct).

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:



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.

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

5. Significant Issues Arising

Treasury Management

There is an effective approved Treasury Management Strategy in place with supporting policies and procedures and all day to day transactions were in line with the approved strategy and risk profile the council has adopted. Management monitoring and reporting of Treasury management activity is appropriate.

Concerns were identified over the segregation of duties relating to the transfer of funds via the 'bankline' system and system administrator / transfer approval roles which could allow for an operational member of staff to transfer significant funds to any bank account without anyone else's involvement and intervention. Lapses were also identified in the quarterly reconciliation process of investments outstanding to the general ledger to ensure correct accounting.

Management have confirmed that the actions agreed as part of this review have been implemented.

Accounts Receivable / Debt Management

The review found that invoices were being raised for the correct amounts and were valid. No debts had been escalated to Legal Services, there were no debt write offs to review and all refunds made were approved correctly.

In April 2014 a new temporary debtors system (CEDAR) was introduced as the previous debtors system (FIMS) was no longer being supported. The change to the new system however had a significant impact on the continuity and timeliness of key debt recovery processes, contributory factors being no recovery history captured with outstanding debts when FIMS data transferred; unfamiliarity with CEDAR debtors system; inability to record refunds; and inability to identify suspended accounts on the system leading to inefficient manual processes suspending and re-activating recovery action.

The control over credit notes required improvement and audit testing found none of those checked had evidence of approval, insufficient documentation retained to support the validity of the credit note, access to raise credit notes was not adequately restricted and there was no process in place to detect unauthorised credit notes or account adjustments.

The historical debts from FIMS had been ‘brought in’ and reconciled to CEDAR correctly. The quality checking of debtors balances is identified in the project plan for the data migration to Civica Financials.

The issues identified during the audit will be addressed upon implementation of the new financial system and will be followed up in future audit reviews.

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.

As part of the 2014/15 NFI exercise the Council submitted required data sets in October 2014 receiving feedback on potential matches in February / March 2015 (as detailed opposite). Work will be carried out during 2015-16 to review identified ‘recommended matches’ for fraudulent activity.

Dataset	Recommended Matches
Housing Benefit	233
Payroll	1
Housing Tenants	0
Right to Buy	0
Blue Badge	0
Concessionary Travel	0
Residential Parking	0
Insurance	0
Personal Budgets	0
Creditors	23
VAT	6
Total	263

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 2014 the details of internal audits involvement in counter fraud work is summarised below:

Local Government Transparency Code 2014 Part 2 Requirements - Fraud	01.04.14 – 31.03.15
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	3 fte*
Total amount of time spent by the authority on the investigation and prosecution of fraud	22 days*
Total number of fraud cases investigated	1**

*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.'

Fraud Grant Funding

The DCLG have made available £16m to assist Councils in developing innovative and holistic initiatives to tackle the fight against fraud.

During 2014 local authorities were invited to submit proposals for funding that would result in real financial savings through effective counter fraud activities. A successful bid from the Southern Internal Audit Partnership resulted in funding of £72,000 being awarded to support initiatives in respect of fraud detection and prevention.

Funding acquired will contribute to the development of a generic fraud risk assessment framework to inform and educate of key fraud risks. This assessment will inform a programme of proactive fraud initiatives moving forward, targeting demonstrably high risk areas.

This will be supported by the use of data analytics to more strategically analyse higher risk areas in the identification and investigation of data giving rise to irregular activity or conflicts with other sources of information.

The legacy from funding will strengthen measures for both fraud detection and prevention through provision of a clear understanding and assessment of fraud threats and the establishment of data analytics as preventative measures to combat fraud through the real time sharing and matching of data and fraud intelligence.

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.

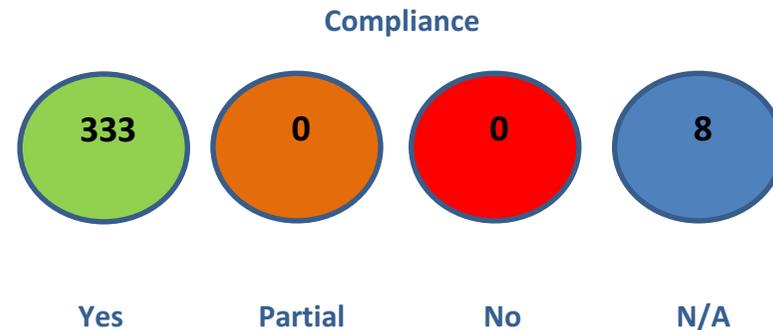
The QAIP must include both internal and external assessments: internal assessments are both on-going and periodical and external assessment must be undertaken at least once every five years.

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.

The Standards stipulate that ‘internal assessments’ should be undertaken as a self-assessment or by other persons within the organisation with sufficient knowledge of internal audit processes.

During 2014 – 15 The Head of the Southern Internal Audit Partnership undertook a self-assessment against the Standards and the LGAN.

An external assessment is to be undertaken by the Institute of Internal Auditors (IIA) in September 2015. In accordance with the Internal Audit Charter, outcomes of the external assessment will be reported to Governance and Audit Committee (December 2015).



8. Disclosure of Non-Conformance

‘It is my opinion that in all material respects the Southern Internal Audit Partnership conforms to the, Definition of Internal Auditing; the Code of Ethics; and the Standards’

Whilst the Standards only require non-conformance to be disclosed when it impacts the overall scope or operation of the internal audit activity, the additional requirements for the public sector state *‘that all instances of non-conformance and progress against improvement plans must be reported in the annual report’*. The QAIP Action Plan is provided at Appendix A.

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 2014-15 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 complimented 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	2013-14 Actual (%)	2014-15 Actual (%)
Revised plan delivered (including 2013/14 c/f)	97	93*
Positive customer responses to quality appraisal questionnaire	96	100**
Compliant with the Public Sector Internal Audit Standards	Yes	Yes

*attributable to three reviews where fieldwork remains in progress

** Customer satisfaction has been assessed through response to questionnaires issued to a wide range of stakeholders including the Governance and Audit Committee Chairman, the Executive Board and key contacts.

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
June 2015

Appendix A – Quality Assessment & Improvement Action Plan

Compliance against the Public Sector Internal Audit Standards / Local Government Application Note

Public Sector Internal Auditing Standards

Action Plan – Not Applicable

Standard	Compliant	Comment	Action	Responsible Officer	Implementation Date
3.2 - Independence and Objectivity					
Does the board: e) approve decisions relating to the appointment and removal of the CAE.	N/A	Such actions are not constitutionally permissible to be undertaken by the board (Local Authorities (Standing Orders) (England) Regulations 2001).	To continue to follow existing Council Standing Orders and procedures in the appointment and dismissal of the Chief Internal Auditor	-	-
Have any instances been discovered where an internal auditor has used information obtained during the course of duties for personal gain?	N/A	There have been no known instances where an internal auditor has used information for personal gain.	-	-	-
If there has been any real or apparent impairment of independence or objectivity, has this been disclosed to appropriate parties (depending on the nature of the impairment and the relationship between the CAE and senior management/the board as set out in the internal audit charter)?	N/A	There have been no known instances of real or apparent impairment of independence or objectivity.	-	-	-
If there have been any assurance engagements in areas over which the CAE also has operational responsibility, have these engagements been overseen by someone outside of the internal audit activity?	N/A	The Chief Internal Auditor has no operational responsibilities outside of the internal audit function.	-	-	-
4.1 - Managing the Internal Audit Activity					

Standard	Compliant	Comment	Action	Responsible Officer	Implementation Date
Where an external internal audit service provider acts as the internal audit activity, does that provider ensure that the organisation is aware that the responsibility for maintaining and effective internal audit activity remains with the organisation?	N/A	Internal audit is not provided by an external service provider.	-	-	-
4.5 - Communicating Results					
Where any non-conformance with the PSIAS has impacted on a specific engagement, do the communication of the results disclose the following:					
a) The principle or rule of conduct of the <i>Code of Ethics</i> or <i>Standard(s)</i> with which full conformance was not achieved?	N/A	Occasion has not arisen whereby non-conformance with PSIAS has impacted on an engagement.	-	-	-
b) The reason(s) for non-conformance?	N/A	Occasion has not arisen whereby non-conformance with PSIAS has impacted on an engagement.	-	-	-
c) The impact of non-conformance on the engagement and the engagement results?	N/A	Occasion has not arisen whereby non-conformance with PSIAS has impacted on an engagement.	-	-	-

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Opportunities for Improvement - Section briefing– 3 March 2014

Improvement opportunities:	Suggested actions:	Responsible Officer	Implementation
<p>Communication</p> <p>With additional organisations joining the Partnership, the transient nature of audit staff, flexible working options and the fluidity of planning to meet the needs of the client, it is considered that current channels of communication should be enhanced to compliment changing working practices.</p>	<p>Head of Southern Internal Audit Partnership to attend ASMT monthly to capture key messages from the team.</p> <p>A monthly email to be circulated to all staff with the key messages (corporate and local).</p> <p>To ensure all relevant staff are notified with any plan changes (ASMT to be copied in on email(s) due to potential impact on other workloads).</p>	<p>Head of Southern Internal Audit Partnership</p> <p>Head of Southern Internal Audit Partnership</p> <p>All of ASMT</p>	<p>Complete</p> <p>Complete</p> <p>Complete</p>
<p>Limitations within MKI prior to the recent upgrade have required a number of workarounds questioning the effectiveness and efficiency of the system. Additionally attaining relevant management information is a cumbersome and timely process.</p>	<p>MKI are currently developing a progress report that will replace the progress control sheet. This will make the monitoring of audits for all staff much easier.</p> <p>Looking to change the hosting of MKI back to the vendor rather than internal. This will resolve the live mobile issues.</p> <p>Once the progress report has been developed, we will ask MKI to develop automated audit reports/outlines and facility to track management actions.</p> <p>Staff to be reminded on the level of scanning</p>	<p>LE / MKI</p> <p>LE / MKI</p> <p>LE / MKI</p> <p>All staff</p>	<p>Complete</p> <p>Complete</p> <p>AO's now automated and MKI being utilised to track management action. Automated audit reports currently under review.</p>

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Improvement opportunities:	Suggested actions:	Responsible Officer	Implementation
	needed. We don't need every single document scanned. Should the scanner in room 241 be out of action, an alternative device is available in room 321.		Complete
Travel Clarity required with regard travel entitlements in light of the expansion of the Partnership.	To introduce a travel policy for the Partnership.	Head of Southern Internal Audit Partnership	Outstanding – to be actioned by December 2015
Manager review Quality standards require manager and senior manager sign off of all reports with Limited and No assurance reports prepared by the Head of Partnership. Does this remain practicable in light of the extension of the Partnership.	Quality standards will not be compromised. To review the current reporting protocol and timescales for practicalities.	Senior Management Team	Complete
Planning <ul style="list-style-type: none"> ○ Need more scope / background reasons for inclusion in the plan ○ Need more involvement of staff in the annual planning process. 	This has been rectified in the 2014/15 plans.	Audit Services Management Team / Senior Management Team	Complete
Allocation of audit Is the allocation of audit assignments effective. Are we maximising individuals knowledge and experience.	Matrix working is in place across the Partnership to ensure that we maintain flexibility to apportion relevant experience at all times. Not looking to develop “experts” with the notable exceptions of IT, Fraud and Procurement		

Improvement opportunities:	Suggested actions:	Responsible Officer	Implementation
	/ Contract Management. Any training needs to be raised with relevant managers	All staff	on-going
IT –connectivity at one satellite site remains restrictive.	Head of Southern Internal Audit Partnership to liaise with relevant S151 to effect a long term solution.	Head of Southern Internal Audit Partnership	Complete
Auditees There are increasing incidences where the duration of audit assignments are prolonged due to client availability both in terms of fieldwork and report clearance. Significant delays in issuing reports can impact on relevance and reflect poorly on the audit service.	Head of Southern Internal Audit Partnership to raise with CMT’s as a general discussion about the impact of delays etc. Formalise an escalation policy. Need to ensure any delays are escalated to the relevant Audit Manager / SMT member promptly. Report template to include timeline.	Head of Southern Internal Audit Partnership Senior Management Team All staff / ASMT To align with automated reports from MKI	Complete Complete Complete Complete
Information extraction The addition of new partners coupled with the matrix management approach introduces challenges in maintaining a working knowledge of all applications and systems across the Partnership.	Look at system training needs across the section and determine who needs what training. (in- house or provided elsewhere.) Identify staff with specific knowledge as contacts for key systems to provide internal training.	ASMT Head of Southern Internal Audit Partnership	Complete Outstanding - A knowledge database is being created detailing qualifications

Improvement opportunities:	Suggested actions:	Responsible Officer	Implementation
	<p>For sites with restricted access to systems consider including a more specific list of required reports etc. in the AO.</p>	<p>AMs</p>	<p>and experience to better effect assignment of audits</p> <p>Outstanding – require a greater emphasis on requesting desired information / reports as part of the AO</p>
<p>Working in silos</p> <p>Look for opportunities for team building – socials, group work etc.</p>	<p>To ensure section briefings include more opportunities for group work.</p> <p>To arrange regular social events outside of work.</p>	<p>Deputy Head of Southern Internal Audit Partnership</p> <p>NJ</p>	<p>Complete</p> <p>on-going</p>

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Opportunities for Improvement – Staff Away Day (Celebrating Success) - Branding – September 2014

Improvement opportunities:	Suggested actions:	Responsible Officer	Implementation
To acquire a SIAP email addresses to replace the existing hants.gov.uk and prevent confusion / ambiguity with partners and sold service clients regarding who we are.	To seek advice from IT to determine if a SIAP email address is a possibility and if so the costs, impacts etc. of pursuing such an option.	Head of Southern Internal Audit Partnership	Outstanding to be actioned by December 2015
To explore the potential of branded stationery / lanyards to present a sense of professionalism and identity when out on site.	Seek the cost of branded stationery and lanyards. Considered more appropriate and cost effective to acquire folders rather than branded working papers / pens etc.	Head of Southern Internal Audit Partnership	Complete
To provide a consistency in answering the telephone so partners and sold service clients are clear who they are speaking to and to reinforce the Partnership brand.	All to answer to phone... <i>'good morning southern internal audit Partnership x speaking'</i>	Head of Southern Internal Audit Partnership	Complete
Staff to receive regular updates highlighting Partnership issues.	To retain quarterly staff briefings supplemented by the Head of Southern Internal Audit Partnership issuing newsletters in between briefings should significant issues arise.	Head of Southern Internal Audit Partnership	Complete
For staff to hold and issue as necessary business cards to prospective clients or for a point of contact for existing partners / clients.	The cost of producing business cards for all members of the team was considered disproportionate to the potential benefits to be gained. We will however, look to consider producing an in-house template for local printing and issue should the need arise.	Head of Southern Internal Audit Partnership	Outstanding to be actioned by September 2015

Opportunities for Improvement – Internal Audit Surveys – March 2015

Improvement opportunities:	Suggested actions:	Responsible Officer	Implementation
To acquire and enhance to use of CAATs across the Partnership.	Whilst Excel spread sheets are used extensively across the Partnership for the purposes of review, analysis, sampling, filtering, producing formula for test checking etc. there are no other specific CAAT's used. The successful bid for Central Government grant funding has enabled us to explore CAATs further and we will be procuring a data analytical software package to support the delivery of outcomes of that initiative and also to benefit the wider Partnership through mainstream audit use. It is intended that we will acquire the 'Idea' software.	Head of Southern Internal Audit Partnership	Outstanding to be actioned by September 2015
To enhance our cultural awareness of two of our existing key stakeholder partners.	For the Strategic Lead for the key stakeholder partners to attend future cultural development workshops.	Group Audit Manager	Complete
To better disseminate examples of good practice when undertaking audit assignments from experiences witnessed across the wider Partnership.	To incorporate an 'added value' section to the standard report template to prompt managers for the relevant portfolios to think of like services provided across the wider Partnership cohort and highlight any examples of exemplar practice that may benefit the audit client.	Head of Southern Internal Audit Partnership	Outstanding to be actioned by December 2015

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HAVANT BOROUGH COUNCIL

GOVERNANCE & AUDIT COMMITTEE

DATE 1 July 2015

REPORT TITLE – Review of the Council’s Statement of Arrangements for Managing Risks and Quarterly Update on Corporate Risks from the Executive Board

Report by Jane Eaton, Executive Head: Governance and Logistics

FOR NOTING

Cabinet Lead for Governance & Logistics

Key Decision: No

1.0 Purpose of Report

- 1.0 Risk is a part of life and of business. If the Council avoided risk it would not be able to deliver its services or achieve its ambitions outlined in the Corporate Strategy. Risk management is a way of understanding, evaluating and mitigating risks to ensure we can achieve the Council’s objectives. Efficient organisations have clear frameworks and processes led from Board level. The Council’s Constitution names the Governance & Audit Committee as the Councillor board responsible for managing risk.
- 1.1 The details of how the Council manages risk are outlined in the statement of arrangements for managing risk. The Governance & Audit Committee reviews this statement every year in June. In their role as the Councillor body overseeing the way Council officers manage risk the Governance & Audit Committee reviews the highest risks remaining in the Council after each management meeting.
- 1.2 This report gives the Committee the updated annual statement to review and gives an update on the highest corporate risks reviewed by the Executive Board in, alongside the Health Check, in May. The report also updates the Committee on progress made against their request for more detail on the Council’s risk registers made at their last meeting.

2.0 Recommendation

- 2.1 The Committee notes Council’s arrangements for the management of risk for the year 2015/16.
- 2.2 The Committee notes the most serious corporate risks reviewed by the Joint Executive Board on 26 May.

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3.0 Summary

3.1 This report gives the Committee the annual risk statement to review and tells the Committee about the risks the Executive Board felt remained high after mitigation at their last review meeting.

4.0 Subject of Report

4.1 To ensure everyone who works for the Council understands the importance of risk identification and management we have a statement of arrangements for managing risk. We review this statement every year. The 2015/16 statement of arrangements is an appendix to this report (see appendix A). In their role as the Councillor body overseeing the way Council officers manage risk the Governance & Audit Committee receives this document annually.

4.2 To oversee the effectiveness of risk management the Governance & Audit Committee note the most important risks facing the Council at the last quarterly review of the risk registers by the Executive Board. The last quarterly review was on 26 May 2015.

4.3 The only risk showing red on our risk matrix (see appendix A, paragraph A6) after mitigation was a "Poor understanding or poor approach to competitive landscape for services leading to missed opportunities leading to too expensive or old fashioned services." The Joint Executive Board felt this remained a high risk in the competitive dialogue phase of the 5 districts' contract and in the consultation phase into the future of waste collection, landscape and open spaces, crematoria, public convenience and street cleaning. The Board has mitigated the risks around these services by appointing specialists in these services to the roles of Executive Head: Environmental Services and a Strategic Procurement Manager. The 5 Councils' tendering exercise also has specialist legal, commercial and project management consultants supporting the project. Havant shares the cost of these officers with the other 4 councils involved. However, despite their confidence on the ability of these officers and consultants. The Executive Board felt the dependency of the Council's financial sustainability on correct procurement of these services meant although the likelihood of a loss of this type is lower than before mitigation the risk remains at level B2, and is likely to remain so for at least another year until these contracts are satisfactorily let.

4.4 At the last meeting of the Governance & Audit Committee the Committee asked for further details of the risk registers. The Executive Team have responded to this request by including some extra resource for this work in the revised job description of the Information and Governance Manager. Recruitment to this post is underway. Reviewing the way the Council present its risk registers to the Committee will form one of the initial tasks for the new post-holder and should appear at the Committee's next meeting.

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5.0 Implications

5.1 Resources: (*finance, staffing, property etc*)

There are no resource implications of this report because risk management is one of the regular funded functions of the management of the Council.

5.2 Legal:

There are no legal implications arising from this report.

5.3 Strategy:

Sound risk management supports the Council's objective of financial sustainability by ensuring financial risks are controlled and customer service excellence by ensuring the continuity of our services.

5.4 Risks: (Environmental, Health & Safety and Customer Access Impact Assessment)

This report forms part of the Council's risk management arrangements.

5.5 Communications:

There is no need for communications following this report.

5.6 For the Community:

There is no community impact from this report but it will assist in ensuring the community continue to receive vital council services.

5.7 The Integrated Impact Assessment (IIA) is not needed for this report because it does not contain a decision.

6.0 Consultation

Executive Board and the Risk Management Group.

Background Papers:

None

Agreed and signed off by:

Legal Services: 17/6/15

Executive Head of Governance & Logistics: 9/6/15

Cabinet Lead: 18/6/15

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HAVANT BOROUGH COUNCIL'S STATEMENT OF ARRANGEMENTS FOR MANAGING RISK 2015/16

A1. Purpose of this document

A1.1. This document explains how we identify, control and record risks at Havant Borough Council.

A2. Types of risk

A2.1. Risks at the Council are managed at 3 levels: corporate risks, service risks and project risks.

A2.2. Corporate Risks are those potentially affecting the overall objectives and delivery Council business.

A2.3. Service risks are those potentially affecting the delivery of individual services provided by the Council.

A2.4. Project risks are those potentially affecting the delivery of high profile projects.

A3. Risk responsibilities

A3.1. It is the responsibility of every officer in the Council to identify risks as part of their role and to undertake training to assist them to do this. When an officer identifies a risk they discuss it with their line manager.

A3.2. It is the responsibility of every manager in the Council to identify, evaluate and manage risks in their service areas. These include risks they identify themselves, risks reported to them from their team(s) and risk allocated to them through the risk governance mechanisms.

A3.3. Managers below service manager must ensure their service manager knows about the risks they are managing so they can be incorporated on the service risk register.

A4. Risk governance

A4.1. The Council has an officer Risk Management Group that oversees all risk registers. It reviews the registers each quarter and develops our risk approach.

A4.2. The Councils' lead officer on risk management is the Executive Head of Governance & Logistics. The Executive Head ensures the risk registers are maintained. Administrative support to the risk management process is provided by the Governance Officer. The Executive Head is the chair of the Corporate Risk Management Group.

A4.3. The Executive Board discusses Corporate Risks every month and members add any new risks to the register. Following a meeting of the Corporate Risk Management Group every quarter the Board reviews the full corporate risk register increasing or

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decreasing the likelihood the risks occurring, adding new risks and putting in and removing service areas where these issues are problem.

A4.4. The Service Managers group discusses risk every month and the chair of the meeting raises any service risks moving towards a corporate level with the Risk Management Group.

A4.5. Project Boards review project risks at every board meeting. The Project Sponsor agrees any risks developing corporate implications and the Project Manager raises with the Risk Management Group.

A4.6. The Governance & Audit Committee has the Councillor role in risk management. This is detailed in its terms of reference in the Council constitution. The Governance & Audit Committee receive an update on these arrangements each year. They receive an update on the key corporate risks as last reviewed by the Executive Board at every meeting.

A5. Risk ownership

A5.1. Each risk on our risk registers has a risk owner. This is the manager most able to address these issues. The risk owner decides, subject to scrutiny as part of our risk management process, how we manage the risk.

A6. Risk evaluation

A6.1. Managers evaluate risks on a scoring scheme of A-D for likelihood and 1-5 for impact. The definitions we use are:

A6.2. Likelihood

A – Very Likely, a more than 75% chance of occurring within the current financial year

B – Likely, a 51%-75% of occurring within the current financial year

C – Unlikely, a 10%-50% of occurring within the current financial year

D – Very Unlikely, less than <10% of occurring within the current financial year

A6.3. Impact

1 – Major - Service unable to be delivered

2 – Significant - Material effect on resources and disruption

3 – Moderate - Could be contained within resources and service

4 – Minor - Hardly noticeable - very minor effect on organisation

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A6.4. Risk appetite

This chart gives a visual representation of the Council's risk appetite.

	1	2	3	4
A	A1	A2	A3	A4
B	B1	B2	B3	B4
C	C1	C2	C3	C4
D	D1	D2	D3	D4

A7. Risk control

A7.1. For each risk the risk owner decides how we will deal with the risk. If possible we try to avoid the risk, in these cases we can quickly remove it from our risk register. With the remaining risks the risk owner will decide to use one, or a mixture, of the following methods:

- risk transfer – if the risk can be transferred to another for a cost less than it would cost the Council to retain the risk we will transfer the risk. The owner normally does this through the use of insurance. Other transfer options include transferring to a specialist organisation.
- risk mitigation – the risk owner will develop ways of lessening the potential impact of the risk.
- risk acceptance – because the cost of mitigation or transfer outweighs the cost of the potential loss, the risk owner will decide to accept the risk or, in most cases, a residual part of the risk.

A7.2. The risk owner details their risk management approach in the risk mitigation section of the risk register.

A8. Maintenance of records

A8.1. The service and corporate risk registers are kept and updated each month in the governance area of the Kahootz information sharing solution. Risk registers for the current financial year and the year before are kept on Kahootz. Risk management service's administrator transfers the service and corporate risk registers from the financial year 2 years before this one to the relevant document management system.

A8.2. Project risk registers are stored on Kahootz with project documentation and are transferred to the document management system after the post-implementation review of the project is completed along with the rest of the project documentation.

A8.3. All risk registers are destroyed after 6 years.