

FAREHAM

BOROUGH COUNCIL

AGENDA

AUDIT AND GOVERNANCE COMMITTEE

Date: Monday, 10 March 2014

Time: 6:00 pm

Venue: Collingwood Room - Civic Offices

Members:

Councillor T G Knight (Chairman)

Councillor L Keeble (Vice-Chairman)

Councillors P J Davies
J M Englefield
Miss T G Harper
D L Steadman
P W Whittle, JP

Deputies: D J Norris
K D Evans



1. Apologies

2. Minutes (Pages 1 - 6)

To confirm as a correct record the minutes of the Audit and Governance Committee meeting held on 25 November 2013.

3. Chairman's Announcements

4. Declarations of Interest and Disclosures of Advice or Directions

To receive any declarations of interest from members in accordance with Standing Orders and the Council's Code of Conduct.

5. Deputations

To receive any deputations of which notice has been lodged.

6. Annual External Audit Plan and Fee (Pages 7 - 30)

To consider a report by the Director of Finance and Resources on the Annual External Audit Plan and Fee.

7. Annual Certification Report (Pages 31 - 44)

To consider a report by the Director of Finance and Resources on the Annual Certification Report.

8. Contractor Quarterly Audit Report (Pages 45 - 68)

To consider a report by the Director of Finance and Resources on the Contractor Quarterly Audit report.

9. Contractor Internal Audit Annual Plan 2014/15 (Pages 69 - 72)

To consider a report by the Director of Finance and Resources on the Contractor Internal Audit Annual Plan 2014/15.

10. Risk Management Progress Reports (Pages 73 - 88)

To consider a report by the Director of Finance and Resources on Risk Management Progress.

11. Review of Financial Regulations (Pages 89 - 108)

To consider a report by the Director of Finance and Resources on a Review of Financial Regulations.

12. Review of the Members Code of Conduct (Pages 109 - 122)

To consider a report by the Director of Regulatory and Democratic Services on a Review of the Members Code of Conduct.

13. Functions of the Audit and Governance Committee (Pages 123 - 130)

To consider a report by the Director of Regulatory and Democratic Services on updates to Part Two of the Constitution - Functions of the Audit and Governance Committee.

14. Review of Audit Committee Work Programme and Annual Report (Pages 131 - 138)

To consider a report by the Director of Finance and Resources on a Review of the Audit Committee Work Programme and Annual Report.

P GRIMWOOD
Chief Executive Officer

www.fareham.gov.uk

28 February 2014

**For further information please contact:
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FAREHAM

BOROUGH COUNCIL

Minutes of the Audit and Governance Committee (to be confirmed at the next meeting)

Date: Monday, 25 November 2013

Venue: Collingwood Room - Civic Offices

PRESENT:

T G Knight (Chairman)

L Keeble (Vice-Chairman)

Councillors: P J Davies, J M Englefield, Miss T G Harper, D L Steadman and
P W Whittle, JP

**Also
Present:**



1. APOLOGIES

There were no apologies for absence.

2. MINUTES

RESOLVED that the minutes of the Audit and Governance Committee held on 23 September 2013 be confirmed and signed as a correct record.

3. CHAIRMAN'S ANNOUNCEMENTS

The Chairman welcomed to the meeting Kate Handy and Catherine Morganti from Ernest and Young, and Andy Jefford and Pat Stothard from Deloittes.

4. DECLARATIONS OF INTEREST AND DISCLOSURES OF ADVICE OR DIRECTIONS

In accordance with the Standing Orders and the Council's Code of Conduct, Councillor Whittle, JP declared a non-pecuniary interest for minute 15 – Counter Fraud Investigation Progress as he is a Justice of the Peace for the South East Magistrates and has recently adjudicated on several fraud cases outside of the Borough.

5. DEPUTATIONS

There were no deputations made at this meeting.

6. LATEST FINANCIAL REGULATIONS UPDATE

The Committee considered a report by the Director of Finance and Resources which reviewed Financial Regulation 19 – Income Collection and Banking.

RESOLVED that the Committee recommends to Council that the proposed changes to Financial Regulation 19, as set out in Appendix B of the report, be approved.

7. CORPORATE ANTI-FRAUD & CORRUPTION POLICY

The Committee considered a report by the Director of Finance and Resources on the Corporate Anti-Fraud and Corruption Policy.

Members discussed the issue of zero tolerance towards acts of fraud against the Council. The Committee supported the need to uphold the highest standards of financial probity and accountability in relation to fraud, and felt strongly that the policy should be well publicised to convey a clear message of intolerance towards acts of fraud and corruption.

RESOLVED that the Committee recommends to Council that:-

- (a) the Committees comments regarding intolerance towards acts of fraud and corruption against the Council be noted; and

- (b) the revised Anti-Fraud and Corruption Policy, as set out in Appendix A of the report, be adopted.

8. UPDATES TO THE CONSTITUTION

The Committee considered a report by the Director of Regulatory and Democratic Services on the proposed changes to the Constitution and to Standing Orders with respect to meetings.

Members were advised that following further advice from legal services, further amendments had been made to the revised Standing Orders with Respect to Meetings document. The Director of Regulatory and Democratic Services addressed the Committee to update them on the new amendments.

Councillor Whittle, JP requested that his reservations be recorded that he feels that there has not been sufficient time allowed for members to review and consult on the proposed changes to the Standing Orders with Respect to Meetings.

The Committee discussed this item at length and it was suggested that a cross-party working group or an all member workshop be set up to review any further changes to the Standing Orders.

RESOLVED that the Committee recommends to the Executive:-

- (a) that the wording of Paragraph 28, 28.1 and 28.2 be amended from 'other matters' to read 'other financial matters';
- (b) that the Executive forms a cross-party member working group to review all future revisions to the Standing Orders with respect to Meetings;
- (c) the Committee's comments and concerns regarding the process for reviewing the revisions to the Standing Orders with Respect to meetings be noted; and
- (d) subject to (a), (b) and (c) above the updated Standing Orders with Respect to Meetings be considered by the Executive before adoption by the Council.

9. CONTRACT PROCEDURE RULES

The Committee considered a report by the Director of Regulatory and Democratic Services on Contract Procedure Rules.

RESOLVED that the Committee recommends to Council that the proposed change to Contract Procedure Rules be approved.

10. EXTERNAL AUDITORS ANNUAL AUDIT LETTER 2012/13

At the agreement of the Committee the Chairman took this item at this point in the meeting.

The Committee considered a report by the Director of Finance and Resources on the External Audit Annual Inspection Letter.

At the invitation of the Chairman, Kate Handy from Ernst and Young presented the report to the Committee and took questions from members.

RESOLVED that the Committee notes the content of the Annual Audit Letter 2012/13 submitted by the Council's external auditors.

11. CONTRACTOR QUARTERLY AUDIT REPORTS

At the agreement of the Committee the Chairman announced that this item would be taken at this point in the meeting.

The Committee considered a report by the Director of Finance and Resources on the Contractor Quarterly Audit Report.

At the invitation of the Chairman, Andy Jefford from Deloitte presented the report to the Committee and took questions from members.

RESOLVED that the Committee notes the progress and findings arising from the Internal Audit planned work being carried out by the Contractor, attached as Appendix A to the report.

12. REVIEW OF WORK PROGRAMME AND TRAINING PLAN

The Committee considered a report by the Director of Finance and Resources which reviewed the Work Programme and the Training Plan.

RESOLVED that the Work Programme for the rest of the year, as set out in Appendix A, be approved.

13. IMPLEMENTATION OF TREASURY MANAGEMENT POLICY AND STRATEGY

The Committee considered a report by the Director of Finance and Resources on the Implementation of Treasury Management Policy and Strategy.

At the invitation of the Chairman the Finance Strategy and Development Manager presented the report to the Committee. Members were asked to note a figure error in the report; Appendix B, Building Societies with Assets over £500 bn, the correct figure should be £5 bn.

The Director of Finance and Resources was asked to explain the administrative arrangements for the Treasury Management Policy and Strategy.

RESOLVED that the Committee notes the mid-year review of the Treasury Management Policy and Strategy document.

14. COUNTER FRAUD STRATEGY PROGRESS

The Committee considered a report by the Director of Finance and Resources on the work carried out as part of the Counter Fraud Strategy.

RESOLVED that the progress made to date as part of the Counter Fraud Strategy be noted.

15. COUNTER FRAUD INVESTIGATION PROGRESS

The Committee considered a report by the Director of Finance and Resources on the nature and outcomes of frauds that are investigated.

Councillor Whittle declared a Non-Pecuniary Interest when he addressed the Committee on this item, as he is a Justice of the Peace for the South East Magistrates and has recently adjudicated on several fraud cases outside of the Borough.

Members discussed the possibility of an incentive for fraud reporting to encourage more people to come forward to report suspect fraud. The Director of Finance and Resources suggested the officers use the Local Authority fraud network to research the effectiveness of using incentives for fraud reporting, with the results being reported back to the Committee at a future date.

RESOLVED that:-

- (a) a report on the use of incentives by other authorities comes back to the Committee at a later date; and
- (b) the content of the report be noted.

16. PUBLIC SECTOR INTERNAL AUDIT STANDARDS AND REVISED INTERNAL AUDIT CHARTER

The Committee considered a report by the Director of Finance and Resources on the Internal Audit Charter.

RESOLVED that the Committee approves the revised Internal Audit Charter, attached as Appendix B of the report.

(The meeting started at 6.02 pm
and ended at 8.18 pm).

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **10 March 2014**

Report of: **Director of Finance and Resources**

Subject: **ANNUAL EXTERNAL AUDIT PLAN AND FEE**

SUMMARY

This report brings to members' attention the proposed Audit Plan from the Council's external auditors, Ernst & Young llp.

The plan provides the Committee with a basis to review the proposed audit approach, the scope of work and associated fee for the 2013/14 audit and to ensure that the work is in line with Members' expectations.

RECOMMENDATION

That the Committee approves the Audit Plan, attached as Appendix A to this report.

Appendix A – [Audit Plan](#)

Background Papers: None

Reference Papers: None

Enquiries:

For further information on this report please contact Andrew Wannell, Director of Finance and Resources (Ext 4620)

Audit Plan

Year end 31 March 2014

Fareham Borough Council

10 March 2014

Ernst & Young LLP



Building a better
working world



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Private and confidential

10 March 2014

Audit and Governance Committee
Fareham Borough Council
Civic Offices
Civic Way
Fareham
Hants
P016 7PU

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. The purpose of this report is to provide the Audit and Governance Committee with a basis to review our proposed audit approach and scope for the 2013/14 audit in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Standing Guidance, auditing standards and other professional requirements, but also to ensure that our audit is aligned with the Committee's expectations.

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

We welcome the opportunity to discuss this report with you on 10 March 2014 as well as understand any other matters which you consider may influence our audit.

Yours faithfully

Kate Handy
For and behalf of Ernst & Young LLP
Enc

EY |

Contents

1. Overview	2
2. Financial Statement Risks.....	4
3. Economy, Efficiency & Effectiveness	6
4. Our audit process and strategy.....	7
5. Independence.....	12
Appendix A Fees.....	15
Appendix B UK required communications with those charged with governance.	17

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 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 in order to provide you with:

- ▶ Our audit opinion on whether the financial statements of Fareham Borough Council give a true and fair view of the financial position as at 31 March 2014 and of the income and expenditure for the year then ended; and
- ▶ A statutory conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

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

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

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

By considering these inputs, our audit is focussed on the areas that matter. By focusing on these, 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 part 2 and 3 of this report we provide more detail on the areas which we believe present significant and other risks to the audit of financial statements and our value for money conclusion, and outline our plans to address them.

We will provide an update to the Audit and Governance Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September 2014.

Our process and strategy

- ▶ Financial Statement Audit
 - ▶ We will apply the concept of materiality in planning and performing our audit, in evaluating the effect of any identified misstatements and in forming our opinion. We set our materiality based on the Council's level of gross expenditure. We also consider qualitative issues, such as the impact on the public's and other stakeholder understanding of your accounts and the information contained. Our audit is designed to identify errors above materiality.

- ▶ We aim to rely on the Council's internal controls in the key financial systems. We identify those 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.
- ▶ To the fullest extent permissible by auditing standards, we will seek to rely on the work of internal audit wherever possible. We have liaised with Internal Audit over their coverage of controls. We will review their work and assess where further work is required.
- ▶ Arrangements for securing Economy, Efficiency and Effectiveness
 - ▶ We adopt an integrated audit approach such that our work on the financial statement audit feeds into our consideration of the arrangements in place for securing economy, efficiency and effectiveness.
 - ▶ The Council is undertaking several new projects, such as
 - ▶ development of the Daedalus site
 - ▶ setting up a housing company
 - ▶ progressing Welborne
 - ▶ purchasing investment properties.
 - ▶ We will assess the Council's arrangements for managing the risks of these projects and their impact on financial resilience. More detail is set out in section 3.

2. Financial Statement Risks

We outline below our assessment of the financial statement risks facing Fareham Borough Council identified through our knowledge of your operations and discussion with members and officers.

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

Significant risks (including fraud risks)	Our audit approach
Risk of management override	
As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. 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 financial statement risks	
Provision for NNDR appeals	
Local authorities are now permitted to retain an element of business rates (NNDR) growth but now also retain for an element of liabilities for appeals.	We will assess your process for determining whether a provision is needed for appeals, the level of estimation uncertainty and whether the estimate gives rise to a significant audit risk.
Daedalus	
This £8.3m project entails improvements to the runway, provision of new hangar space and an Innovation Centre for small businesses. A land lease will be granted to the Council.	<p>We are discussing with officers the accounting treatment for the development including:</p> <ul style="list-style-type: none"> ▶ the classification of the land lease, ▶ the funding (by grant and loan) ▶ the capitalisation of expenditure on the runway ▶ the classification of the capital project as property, plant or equipment, or as investment property.
Purchase of commercial properties	
Under its Commercial Property Investment Acquisition Strategy the Council has purchased commercial properties in 2013-14.	<p>We will review the accounting treatment of acquisitions including:</p> <ul style="list-style-type: none"> • the classification of leases, and • the classification of the properties as property, plant or equipment, or as investment property.

Respective responsibilities in relation to fraud and error

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

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

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

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

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

3. Economy, Efficiency & Effectiveness

Our work will focus on:

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

The table below provides a high-level summary of our risk assessment and our proposed response to those risks.

Other risks	Impacts arrangements for securing:	Our audit approach
Financial standing		
The Council continues to experience challenges from reduced government funding.	Financial resilience Economy, efficiency and effectiveness	<ul style="list-style-type: none"> ▶ We will review the Council's medium term financial strategy and the 2014/15 budget and evaluate the reasonableness of key assumptions. ▶ We will assess the Council's arrangements for ensuring financial resilience in the medium to long term. ▶ We will review the Council's efficiency plan.
Developments and changes in approach		
<p>In line with its corporate priorities, the Council is a key facilitator in several projects such as Welborne - the New Community North of Fareham (NCNF) and the development of the Daedalus site.</p> <p>The Council is to set up a Joint Venture Company to help meet housing needs</p> <p>The Council is purchasing commercial properties to achieve a higher rate of investment return.</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 Council's arrangements for managing its risks. ▶ Assessing the financial implications of the developments for the Council, particularly for financial resilience. ▶ Assessing how the Council has ensured the legality of developments ▶ Assessing how the Council has considered the security, liquidity and yield of investments.

4. Our audit process and strategy

4.1 Objective and scope of our audit

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

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

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

i) Financial Statement Audit

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

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

ii) Arrangements for securing economy, efficiency and effectiveness

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

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

4.2 Audit process overview

As part of our audit planning procedures we have assessed the design of your internal controls determining that an effective audit strategy will be to take a controls reliance approach. Therefore we will test the controls we determine as key to preventing and detecting material misstatement in the processes we list below.

In implementing this strategy, we intend to place reliance on the work of internal audit as much as possible, while complying with the requirements of auditing standards. We will review their files and reperform a sample of their work to assess if we can do this.

Processes

Our initial assessment of the key processes across the entity has identified the following key processes where we will seek to test key controls, both manual and IT. Subject to the results of internal audit's work we plan to carry out rotational testing of controls:

- Accounts receivable
- Accounts payable
- Business rates
- Council tax
- Cash processing
- Housing and Council Tax Benefits
- Payroll (including pensions)

Analytics

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

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

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and to the Audit and Governance Committee.

Internal audit

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

Use of experts

We will use specialist Ernst & Young resource as necessary to help us to form a view on judgments made in the financial statements. Our plan currently includes the involvement of specialists in pensions and we are considering the use of experts for property valuations.

Mandatory procedures required by auditing standards

In addition to the financial statement risks outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

- ▶ Addressing the risk of fraud and error.
- ▶ Significant disclosures included in the financial statements.
- ▶ Entity-wide controls.
- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements.
- ▶ Auditor independence.

Procedures required by the Code

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

4.3 Materiality

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

We have not yet finalised our overall materiality for the Council's financial statements, but this will be set in the range of between £625,000 and £1.251m based on 1% - 2% of gross operating expenditure. We will communicate our final materiality levels to members at a future committee meeting.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

4.4 Fees

The Audit Commission has published a scale fee for all authorities. The scale fee is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice 2010. The indicative fee scale for your audit is £63,407.

4.5 Your audit team

The engagement team is led by Kate Handy. She is supported by Catherine Morganti who is responsible for the day-to-day direction of audit work, and who is the key point of contact for the chief accountant.

4.6 Timetable of communication, deliverables and insights

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

We will provide a formal report to the Audit and Governance Committee in September 2014 incorporating the outputs from our year-end procedures. From time to time matters may arise that require immediate communication with the Audit and Governance Committee and we will discuss them with the committee Chairman as appropriate.

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

Audit phase	Timetable	Audit and Governance Committee timetable	Deliverables
High level planning:		Presented to Committee in March 2013	Audit Fee letter
Risk assessment and setting of scopes	January to March	March 2014 Committee	Audit Plan
Testing of routine processes and controls	February to April		
Year-end audit	July – September		
		September 2014 Committee	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). Confirmation to the NAO regarding the Whole of Government Accounts submission. Audit completion certificate
	October	November	Annual Audit Letter

Our audit process and strategy

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

5. Independence

5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

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

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

5.2 Relationships, services and related threats and safeguards

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

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long-outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies you have approved and that are in compliance with the Audit Commission's Standing Guidance.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded for sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded for sales to you, in compliance with Ethical Standard 4.

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

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

Independence

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

Other threats

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

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

Overall Assessment

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

5.3 Other required communications

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 28 June 2013 and can be found here:

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

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2013/14	Fee 2012/13	Explanation of variance
	£	£	
Total Audit Fee – Code work	63,407	63,407 (actual)	
Certification of claims and returns*	25,100	19,391 (planned)	<p>For 2013-14, the Audit Commission has calculated indicative certification fees based on the latest available information on actual certification fees for 2011-12, adjusted for any scheme that no longer requires certification</p> <p>Our fee for the 2012-13 certification of grant claims is based on the indicative scale fee set by the Audit Commission based on fees for 2010-11.</p> <p>Included in this total is a fee variation of £1,491 for additional testing which has yet to be approved by the Audit Commission.</p>
Non-audit work	0	0	

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

- ▶ The level of risk in relation to the audit of the financial statements is consistent with that in the prior year;
- ▶ We are able to place reliance as planned on the work of internal audit;
- ▶ The financial statements will be available to us in line with the agreed timetable;

Fees

- ▶ Working papers and records provided to us in support of the financial statements are provided in line with our agreed timetable, are of a good quality, consistent with the accounts provided for audit, and are reviewed by an appropriate officer;
- ▶ Prompt responses are provided to our draft reports;
- ▶ An effective control environment operates for the whole of the financial year;
- ▶ No significant changes are made by the Audit Commission to the use of resources criteria on which our conclusion will be based;
- ▶ Our accounts opinion and use of resources conclusion being unqualified.

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

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

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

Appendix B UK required communications with those charged with governance.

There are certain communications that we must provide to the audit committee of audited clients. These are detailed here:

Required communication	Reference
<p>Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.</p>	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 	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 	Report to those charged with governance
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the 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 	Report to those charged with governance
<p>Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	Report to those charged with governance
<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 	Report to those charged with governance

UK required communications with 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 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 	<p>Report to those charged with governance</p>
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>For listed companies, communication of minimum requirements as detailed in the ethical standards:</p> <ul style="list-style-type: none"> ▶ Relationships between EY, the audited body and senior management ▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence ▶ Related safeguards ▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▶ A statement of compliance with the ethical standards ▶ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence 	<p>Audit Plan</p> <p>Report to those charged with governance</p>
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<p>Report to those charged with governance</p>
<p>Significant deficiencies in internal controls identified during the audit</p>	<p>Report to those charged with governance</p>
<p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	<p>Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if</p>

UK required communications with those charged with governance.

Required communication	Reference
considered necessary	
Fee Information	
▶ Breakdown of fee information at the agreement of the initial audit plan	Audit Plan Report to those charged with
▶ Breakdown of fee information at the completion of the audit	governance and Annual Audit Letter if considered necessary

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FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **10 March 2014**

Report of: **Director of Finance and Resources**

Subject: **ANNUAL CERTIFICATION REPORT**

SUMMARY

This report presents the External Auditor's Annual Certification Report 2012-13 which summarises the findings from the 2012-13 certification work.

RECOMMENDATION

That the Committee consider and comment on the information contained in the Annual Certification Report 2012-13 submitted by the Council's external auditors.

Appendix A: [Annual Certification Report 2012-13](#)

Background Papers: None

Reference Papers: [Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns – March 2013](#)

Enquiries:

For further information on this report please contact Caroline Holmes. (Ext 4645)

Fareham Borough Council

Certification of claims and returns annual report 2012-13

21 February 2014

Ernst & Young LLP



Building a better
working world



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P016 7PU

21 February 2014

Ref: KH/BFC/27976942

Direct line: +44 23 8038 2043

Email: khandy@uk.ey.com

Dear Members

**Certification of claims and returns annual report 2012-13
Fareham Borough Council**

We are pleased to report on our certification work. This report summarises the results of our work on Fareham Borough Council's 2012-13 claims and returns.

Scope of work

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and are required to complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require certification from an appropriately qualified auditor of the claims and returns submitted to them.

Under section 28 of the Audit Commission Act 1998, the Audit Commission may, at the request of authorities, make arrangements for certifying claims and returns because scheme terms and conditions include a certification requirement. When such arrangements are made, certification instructions issued by the Audit Commission to appointed auditors of the audited body set out the work they must undertake before issuing certificates and set out the submission deadlines.

Certification work is not an audit. Certification work involves executing prescribed tests which are designed to give reasonable assurance that claims and returns are fairly stated and in accordance with specified terms and conditions.

In 2012-13, the Audit Commission did not ask auditors to certify individual claims and returns below £125,000. The threshold below which auditors undertook only limited tests remained at £500,000. Above this threshold, certification work took account of the audited body's overall control environment for preparing the claim or return. The exception was the housing and council tax benefits subsidy claim where the grant paying department sets the level of testing.

Where auditors agree it is necessary audited bodies can amend a claim or return. An auditor's certificate may also refer to a qualification letter where there is disagreement or uncertainty, or the audited body does not comply with scheme terms and conditions.

Statement of responsibilities

In March 2013 the Audit Commission issued a revised version of the 'Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns' (statement of responsibilities). It is available from the Chief Executive of each audited body and via the Audit Commission 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.

This annual certification report is prepared in the context of the statement of responsibilities. It is addressed to those charged with governance and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Summary

Section 1 of this report outlines the results of our 2012-13 certification work and highlights the significant issues.

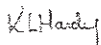
We checked and certified one claim and two returns with a total value of £61,507,120. We met all submission deadlines. As in previous years, we were required to issue a qualification letter for the Housing Benefit claim. Details of the qualification matters are included in section 1.

The Council has made progress on findings reported last year regarding Housing Benefit and Council Tax Benefit subsidy, particularly in awarding of Single Resident Discount to claimants. The quality of working papers supporting the claim remained high. However focus is still needed on reducing errors in assessing income and classification of expenditure. With changes to the benefits regime, including the introduction of the local council tax benefit scheme from 2013-14, the Council will need to maintain its focus on continuing to achieve improvements relevant to the subsidy regime from 2013-14 and managing outstanding issues from 2012-13.

Fees for certification work are summarised in section 2. The Audit Commission applied a general reduction of 40% to certification fees in 2012-13. We have included the actual fees for 2011-12 to assist year on year comparisons.

We welcome the opportunity to discuss the contents of this report with you at the Audit and Governance Committee on 10 March 2014.

Yours faithfully



Kate Handy
Director Ernst & Young LLP
Enc

Contents

1. Summary of 2012-13 certification work	1
2. 2012-13 certification fees.....	5
3. Looking forward.....	6
4. Summary of recommendations.....	7

1. Summary of 2012-13 certification work

We certified one claim and two returns in 2012-13. The main findings from our certification work are provided below.

Housing and council tax benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£23,906,064
Limited or full review	Full
Amended?	Yes – reduced by £1,704
Qualification letter	Yes
Fee – 2012-13	£ 17,141
Fee – 2011-12	£ 42,255
Recommendations and findings from 2011-12:	Progress on findings in 2012-13
The Council needed to reduce the level of errors to mitigate the risk of exceeding the error threshold and losing subsidy.	In 2012-13 we continued to find several small value errors which required us to ask the Council to carry out additional testing. These errors did not cause the Council to breach the error threshold but the Council needs to maintain a focus here. Issues from 2011-12 testing which reoccurred in 2012-13 are set out below.

Councils run the Government's housing and council tax benefits scheme for tenants and council taxpayers. Councils responsible for the scheme claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid.

The certification guidance requires auditors to complete more extensive '40+' testing (extended testing) if initial testing identifies errors in the calculation of benefit or compilation of the claim. We found errors in our initial testing and carried out extended testing in eight areas.

Extended '40+' testing and other testing identified errors. The Council has amended for some of these. They had a net impact of a £1,704 reduction on the claim. We have also reported underpayments, and the extrapolated value of other errors to the DWP in a qualification letter. The following are the main issues included in our qualification letter or discussed with officers.

Calculation of income (rent allowances and council tax benefit)

Errors in calculating income have been reported in previous years. Errors resulted in both under and overpayment of benefit. They included miscalculating earnings and pensions, and incorrectly assessing allowances for pensions contributions for self-employed claimants. The value of extrapolated errors included in the qualification letter was low at £337 (Rent allowances) and £1211 (Council Tax Benefit) however the Council should continue to focus on reducing errors in this area.

Calculation of eligible rent (rent allowances)

We found one low value underpayment caused by an error in the calculation of weekly rent – less than in 2011-12. Additional testing carried out identified no further errors.

Classification of non HRA rent rebates

There is a systematic calculation error within the Council's benefit software which can cause a classification error for some non HRA rent rebates cases. It had no impact on benefit paid to claimants but causes a small underpayment of subsidy from the DWP to the Council. The Council has sought guidance from its software provider. A software script (program) was provided to identify errors of this type, but it did not detect them all, and the issue is currently with the supplier for action.

The Council uses some of its HRA properties for homelessness. Seventeen cases had been misclassified between HRA and non HRA properties. The claim was amended for this. There was no impact on benefit paid to claimants or overall subsidy paid to the Council.

Classification of overpayments

Once overpayments to claimants have occurred, the impact on the subsidy the Council receives from the DWP varies depending on the value and the causes of overpayment, which determine how they are classified in the claim. We found a lower number of misclassification errors on overpayments in 2012-13. As the value of errors found does not exceed the threshold allowed by the DWP for errors there is currently no impact on overall subsidy paid to the Council.

Compilation of the claim

The benefits software has a number of exception reports which enable the Council to accurately compile the year end claim. Though the Council ran all the reports, officers made the conscious decision (based on their interpretation of benefits legislation) not to follow up the output on one report and consequently did not check cases impacted or make amendments. The Council is currently corresponding with the DWP on this issue. There was no impact on claimants but subsidy could be reduced by up to £7,644.

Uncashed cheques

In previous years the auditor recommended that the Council work to reconcile the value of uncashed cheques between the general ledger and the benefits system. Initial work undertaken by the Council in previous years indicated that there were cheques with a value of £6,054 incorrectly recorded on the benefits system. As at 31st March 2013 the Council had made significant progress on the reconciliation but not yet completed it.

As a result of a separate issue an adjustment of £1,700 was made to cancelled cheques resulting in a reduction in subsidy paid to the Council. There was no impact on claimants.

Retention of documents

In 2011-12 we recommended that the Council should assess the impact of its policy on document retention to ensure it does not dispose of evidence required to demonstrate that the ongoing award of Housing and Council Tax Benefits has been made in accordance with legislation.

The Council is planning to lengthen the retention period for relevant documents to address this.

Follow up work for the 2011-12 claims

In June 2013, at the request of the DWP, we issued a supplementary report to the DWP in respect of our 2011-12 qualification letter. This concerned procedures for uncashed cheques and reporting on the work the Council had undertaken to correct errors in respect of Single Resident Discount (SRD).

The SRD errors have been resolved but work is ongoing in respect of uncashed cheques (see above).

The fee for this work was £ 5,733 and is reflected in section 2 of this report.

Recommendations

Recommendations in respect of these findings are set out in Section 4 of this report.

National non-domestic rates return

Scope of work	Results
Value of return presented for certification	37,196,510
Limited or full review	Full
Amended	No
Qualification letter	No
Fee – 2012-13	£1,810
Fee – 2011-12	£1,491
Recommendations from 2011-12:	Findings in 2012-13
None	No matters to report

The Government runs a system of non-domestic rates using a national uniform business rate. Councils responsible for the scheme collect local business rates and pay the rate income over to the Government. Councils have to complete a return setting out what they have collected under the scheme and how much they need to pay over to the Government.

We found no errors on the national non-domestic rates return and we certified the amount payable to the pool without qualification.

Pooling of housing capital receipts

Scope of work	Results
Value of return presented for certification	£406,250
Limited or full review	Limited
Amended	No
Qualification letter	No
Fee – 2012-13	£440
Fee – 2011-12	£1,398
Recommendations from 2011-12:	Findings in 2012-13
None	No matters to report

Councils pay part of a housing capital receipt into a pool run by the Department of Communities and Local Government. Regional housing boards redistribute the receipts to those councils with the greatest housing needs. Pooling applies to all local housing authorities, including those that are debt-free and those with closed Housing Revenue Accounts, who typically have housing receipts in the form of mortgage principal and right to buy discount repayments.

We found no errors on the pooling of housing capital receipts return and we certified the amount payable to the pool without qualification.

2. 2012-13 certification fees

For 2012-13 the Audit Commission replaced the previous schedule of maximum hourly rates with a composite indicative fee for certification work for each body. The indicative fee was based on actual certification fees for 2010-11 adjusted to reflect the fact that a number of schemes would no longer require auditor certification. There was also a 40 per cent reduction in fees reflecting the outcome of the Audit Commission procurement for external audit services.

The indicative composite fee for Fareham Borough Council for 2012-13 was £17,900.

We have proposed an actual fee of £19,391. All variations from the indicative fee have to be approved by the Audit Commission. We submitted a proposal for Housing and council Tax benefits subsidy in December 2013. We have yet to receive confirmation against the variation.

This compares to a fee of £51,195 in 2011-12.

Claim or return	2010-11 Actual fee £	2011-12 Actual fee £	2012-13 Indicative fee £	Proposed 2012-13 Actual fee £
Housing and council tax benefits subsidy claim	24,266	42,255	15,650	17,141
National non-domestic rates return	2,850	1,491	1,810	1,810
Pooling of capital receipts	690	1,398	440	440
Other schemes no longer requiring certification	3,635	2,051		
Certification of claims and returns – annual report	1,915	4,000		
Total	33,356	51,195	17,900	19,391

Housing benefit and council tax benefits subsidy claim– the 2011-12 fee includes additional fee of £5,733 for work requested by the DWP and completed in June 2013.

We are proposing an increase in fee of £1,491 in the fee for the 2012-13 Housing Benefit and Council tax benefits subsidy claim. This is due to the increased extended testing required in 2012-13 in comparison to 2010-11 on which the indicative fee is based (eight sets in 2012-13, six sets in 2010-11). This is being considered by the Audit Commission.

Fees for annual reporting and for planning, supervision and review in 2012-13 have been allocated directly to the claims and returns.

3. Looking forward

For 2013-14, the Audit Commission has calculated indicative certification fees based on the latest available information on actual certification fees for 2011-12, adjusted for any scheme that no longer requires certification. The Audit Commission has indicated that the national non-domestic rates return will not require certification from 2013-14.

The Council's indicative certification fee for 2013-14 is £25,100. The actual certification fee for 2013-14 may be higher or lower than the indicative fee, if we need to undertake more or less work than in 2011-12 on individual claims or returns. Details of individual indicative fees are available at the following link:

[<http://www.audit-commission.gov.uk/audit-regime/audit-fees/201314-fees-and-work-programme/individual-certification-fees/>]

We must seek the agreement of the Audit Commission to any proposed variations to indicative certification fees. The Audit Commission expects variations from the indicative fee to occur only where issues arise that are significantly different from those identified and reflected in the 2011-12 fee.

The Audit Commission has changed its instructions to allow appointed auditors to act as reporting accountants where the Commission has not made or does not intend to make certification arrangements. This removes the previous restriction saying that the appointed auditor cannot act if the Commission has declined to make arrangements. This is to help with the transition to new certification arrangements, such as those DCLG will introduce for business rates from 1 April 2013.

4. Summary of recommendations

This section highlights the recommendations from our work and the actions agreed.

Recommendation	Priority	Agreed action and comment	Responsible officer
Housing and council tax benefits subsidy claim			
The Council continue to focus on reducing the level of errors to mitigate the risk of exceeding the error threshold and losing subsidy. In particular: <ul style="list-style-type: none"> • The Council should continue to focus on reducing errors in calculating income. • The Council should reduce the level of misclassification errors. 	Medium	Agreed	Systems and Support Manager
The Council should ensure all that all actions arising from the software provider's exception reports are addressed.	Low	Agreed	Systems and Support Manager
The Council should complete work reconciling the value of unpresented cheques between the general ledger and the benefits system.	Low	Agreed	Systems and Support Manager

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FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **10 March 2014**

Report of: **Director of Finance and Resources**

Subject: **CONTRACTOR QUARTERLY AUDIT REPORT**

SUMMARY

This report provides the Audit Committee with the information arising from the latest internal audit work to be finalised and gives an update on the completion of the remaining audit from the previous plan and the audits planned for 2013/14.

RECOMMENDATION

That the Committee notes the progress and findings arising from the Internal Audit planned work being carried out by the Contractor, attached as Appendix A to this report.

Appendix A – Contractor Quarterly Internal Audit Progress Update ([separate attachment](#))

Background Papers: None

Reference Papers:

Report by the Director of Finance to the Audit Committee on 12 March 2012 on Contractor Annual Audit Plan 2012/13

Report by the Director of Finance to the Audit Committee on 11 March 2013 on Contractor Annual Audit Plan 2013/14

Enquiries:

For further information on this report please contact Adrian Tang, Audit Manager, Mazars (Ext 4419)



FAREHAM
BOROUGH COUNCIL

Fareham Borough Council
Audit & Governance Committee
Quarterly Audit Progress Report

March 2014

This report has been prepared on the basis of the limitations set out on page 18.

This report and the work connected therewith are subject to the Terms and Conditions of the Contract dated 13 April 2010 and subsequent Letter of Extension dated 01 April 2013 between Fareham Borough Council and Mazars Public Sector Internal Audit Limited. This report is confidential and has been prepared for the sole use of Fareham Borough Council. This report must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law, we accept no responsibility or liability to any third party who purports to use or rely, for any reason whatsoever, on this report, its contents or conclusions.

1. Introduction and background

- 1.1 This report has been prepared for the Members of the Audit & Governance Committee at Fareham Borough Council. This report highlights the progress made to date for delivery of the 2013/14 Internal Audit Plan and the progress made in finalising the 2012/13 plan.

2. Promoting internal control

- 2.1 To promote internal control within the Authority, Internal Audit will report to Committee in the following format:
- An update on progress against delivery of the plan, including an update on any Significant Control Weaknesses and on any proposed amendments to the Internal Audit Plan;
 - Report back on the specific audits finalised since the last meeting of the Audit & Governance Committee, including scope, weaknesses identified and confirmation that management actions have been agreed to address the weakness. Audit opinions are Strong, Reasonable, Limited, or Minimal. Recommendations and actions in the report are categorised using a 3 point scale used on the Council's action management system. Both rating systems are detailed within Annex Four of this report; and
 - Update Members on the current situation regarding limited areas previously reported to Committee. This will inform Members of the action taken by Officers to resolve internal audit issues.

3. 2012/13 & 2013/14 Progress

- 3.1 The current status of the agreed 2012/13 remaining Internal Audit Plan to be delivered is detailed in Annex One along with the number of days delivered. The corresponding information relating to the 2013/14 Internal Audit Plan is detailed within Annex Two. Audits have been completed in accordance with the timings agreed with the Head of Audit & Assurance, and as approved by the Audit & Governance Committee.
- 3.2 As at the 21st February 2014, progress against the 2012/13 plan is as follows:

2012/13 Plan	Last Committee	This Committee
Number of audits in plan	30*	30*
Number of audits finalised	29 (97%)	30 (100%)
Number of reports issued at draft	0 (0%)	0 (0%)
Number of audits in progress	1 (3%)	0 (0%)
Number of planned audit days delivered	229/230 (99%)	230/230 (100%)

* Statistics have been calculated on 30 audits as the Misc. Democratic Services audit was deferred to 2013/14 following management request.

- 3.3 At the time of this report, 100% of the 2012/13 Internal Audit Plan has been completed. Detailed progress is covered within Annex One.
- 3.4 As at the 21st February 2014, progress against the 2013/14 plan is as follows:

2013/14 Plan	Last Committee	This Committee
Number of audits in plan	31	31
Number of audits finalised	7 (23%)	14 (45%)
Number of reports issued at draft	2 (6%)	2 (6%)
Number of audits in progress	3 (10%)	6 (19%)
Number of planned audit days delivered	95/230 (41%)	171.25/230 (75%)

3.5 At the time of this report, 75% of the 2013/14 Internal Audit Plan has been completed. Detailed progress is covered within Annex Two.

4. Changes to the plan

4.1 None to report since the last Audit and Governance Committee.

5. Detailed progress since the last Audit and Governance Committee

5.1 Since the previous Audit & Governance Committee, one further report from the audit of Revenues has been issued at draft stage from the 2013/14 plan. The assurance level will be confirmed to the next Audit and Governance Committee upon finalisation. The Ferneham Hall is still at draft stage but it is hoped it will be finalised by the date of the Committee.

5.2 Eight further reports have been issued in final version as listed below with the opinions given and level of recommendations made:

Audit	Assurance	Recommendations Made		
		New Essential	New Important	Outstanding Previous Essential or Important
2012/13 Plan				
Legal Services Contract	Reasonable	-	2	-
2013/14 Plan				
Payroll	Strong	-	-	1
Cash Collection and Banking	Strong	-	-	1 (Service action)
Licensing of Alcohol and Taxis	Strong	-	1	1
Housing Rents	Strong	-	1	1
Fixed Assets	Strong	-	1	-
e-Financials IT System	Reasonable	-	2	-
Remote Access, Third Party Access and Mobile Working	Reasonable	-	5	-

The above presents the key highlights. However, to enable Management and Members to focus on the areas of concern, we have provided a summary of all finalised reports since the last Committee, as detailed within Annex Three.

Remaining 2012/13 Internal Audit Plan as at 21st February 2014

Annex One

No.	Audit Title	Days in Plan	Days Delivered	Status	Assurance Opinion	New Recommendations			Previous Recs. (E and I only)		
						Essential	Important	Advisory	Implemented	Cancelled	Non Implemented
Quarter 4											
24	Miscellaneous Democratic	5	-	Note 1							
25	Legal Services Contract	8	8	Final	Reasonable	-	2	-	1	-	-

Note 1: The audit has been postponed until Quarter 4 of the 2013/14 financial year as requested by the Manager and previously reported to the Audit & Governance Committee.

2013/14 Internal Audit Plan as at 21st February 2014

Annex Two

No.	Audit Title	Days in Plan	Days Delivered	Status	Assurance Opinion	New Recommendations			Previous Recs. (E and I only)		
						Essential	Important	Advisory	Implemented	Cancelled	Non Implemented
Quarter 1											
1	Management of Tradesmen	7	7	Final	Reasonable	-	1	1	1	1	-
2	Town Centre Management	7	7	Final	Strong	-	-	1	-	-	-
3	Coastal Protection & Land Drainage	6	6	Final	Strong	-	1	-	-	-	-
4	Leisure Centre Trust	6	6	Final	Strong	-	-	3	-	-	-
Quarter 2											
5	Treasury Management	6	5	Started							
6	Insurance	5	5	Final	Reasonable	-	2	2	3	1	1
7	Planning Contributions	8	7.75	Started							
8	Training & Development	8	7.75	Started							
9	Licensing of Taxis & Alcohol	8	8	Final	Strong	-	1	2	6	5	1
10	Public Conveniences	6	6	Final	Reasonable	-	1	1	-	-	-
Quarter 3											
11	Ordering & Payment of Invoices	7	5	Started							
12	Invoicing & Collection of Income	9	0.25	Q4 audit							
13	Payroll	7	7	Final	Strong	-	-	-	1	-	1
14	Fixed Assets	6	6	Final	Strong	-	1	-	-	-	-
15	Revenues	12	11	Draft							
	Performance Management			Note 2							
16	Clean Borough Enforcement & Abandoned Vehicles	7	0.25	Q4 audit							
17	Cash Collection & Banking	9	9	Final	Strong	-	-	4	-	-	1
18	Housing Rents	6	6	Final	Strong	-	1	-	4	-	1
19	Ferneham Hall	9	9	Draft		-	-				
Quarter 4											

No.	Audit Title	Days in Plan	Days Delivered	Status	Assurance Opinion	New Recommendations			Previous Recs. (E and I only)		
						Essential	Important	Advisory	Implemented	Cancelled	Non Implemented
20	Risk Management	6	0.25	Q4 audit							
21	Main Accounting	10	0.25	Q4 audit							
22	Financial Regulations Limited Compliance Testing	2	1	Q4 audit							
24	Housing Benefits & Council Tax Benefits	10	9	Started							
25	Planning Applications	6	5	Started							
26	Off-street Parking	6	0.25	Q4 audit							
27	Homelessness	6	0.25	Q4 audit							
28	Data Protection Follow Up	4	0.25	Q4 audit							
Computer Audit											
29	Remote Access	8	7	Final	Reasonable	-	5	1	1	-	-
30	Main Accounting System (E-Financials) IT System	7	7	Final	Reasonable	-	2	3	-	-	-
31	Website Content Management	10	10	Final	Reasonable	-	1	1	-	-	1
Other											
Audit Committee		4	3								
Audit Management		12	9								
TOTAL		230	171.25 (75%)			0 0%	16 46%	19 54%	16 55%	7 24%	6 21%


Note 2: The audit will be postponed until the 2014/15 financial year to allow the new management system to embed.

Summary of Findings from Completed Audits

Annex Three

2012/13 Legal Services Contract

Audit Opinion and Direction of Travel

Reasonable						
						
Direction of Travel:			N/a – No previous audit coverage in this area			
Area of Scope	New Recommendations Raised			Previous Essential and Important Recommendations		
	Essential (🔴)	Important (🟡)	Advisory (🟢)	Implemented	Cancelled	Non Implemented
Governance and Planning	-	-	-	-	-	-
Contract Administration (Instructing, payment and budgetary control)	-	-	-	-	-	-
Measuring Performance	-	1	-	-	-	-
Value for Money (Benchmarking)	-	-	-	-	-	-
Contract Performance Monitoring, Management Reporting and Performance Management	-	1	-	1	-	-

Weaknesses identified during audit (Essential and Important only)

Priority	Weakness	Action Agreed?
Important (New)	Appropriate performance metrics, such as progress on debt recovery and enforcement cases, and the monitoring of open cases yet to be developed.	Yes
Important (New)	The overall performance of the contract is not monitored and reported internally to relevant stakeholders against the original benefits realisation plan.	Yes

2013/14 Payroll

Audit Opinion and Direction of Travel

Strong						
😊😊						
Direction of Travel:				↑ 2012/13		
Area of Scope	New Recommendations Raised			Previous Essential and Important Recommendations		
	Essential (🔴)	Important (🟡)	Advisory (🟢)	Implemented	Cancelled	Non Implemented
Policies and procedures	-	-	-	-	-	-
Security of, and access to, IT systems	-	-	-	-	-	-
Integrity and reliability of data	-	-	-	-	-	-
Segregation of duties	-	-	-	-	-	-
Starters, including pre-employment screening	-	-	-	1	-	-
Leavers and Transfers	-	-	-	-	-	-
Variations	-	-	-	-	-	-
Statutory and Voluntary Deductions	-	-	-	-	-	-
Overpayments	-	-	-	-	-	-
Management information	-	-	-	-	-	1

Weaknesses identified during audit (Essential and Important only)

Priority	Weakness	Action Agreed?
Important (Existing)	An establishment list is not drawn up on a regular basis and sent to senior managers and directors for them to verify that the establishment list is correct for staff within each service and directorate. Reliance is placed instead on the checks carried out by Accountancy staff.	Yes

2013/14 Cash Collection and Banking

Audit Opinion and Direction of Travel

Strong						
😊😊						
Direction of Travel:				↑ 2012/13		
Area of Scope	New Recommendations Raised			Previous Essential and Important Recommendations		
	Essential (🔴)	Important (🟡)	Advisory (🟢)	Implemented	Cancelled	Non Implemented
Policies, procedures and legislation	-	-	-	-	-	1
Cash transactions and records	-	-	-	-	-	-
Cash collection	-	-	2	-	-	-
Cash payments	-	-	1	-	-	-
Cash holdings	-	-	As above	-	-	-
Banking	-	-	1	-	-	-
Management reporting	-	-	-	-	-	-

Weaknesses identified during audit (Essential and Important only)

Priority	Weakness	Action Agreed?
Important (Existing Service Action Plan)	The Council's assessment of compliance with the payment card industry data security standard is not yet fully complete. We are currently awaiting a report from an external company who have carried out a Gap Analysis and vulnerability scan to identify any issues remaining.	Yes

2013/14 Licensing of Taxis and Alcohol

Audit Opinion and Direction of Travel

Strong						
☺☺						
Direction of Travel:			↑ 2008/09			
Area of Scope	New Recommendations Raised			Previous Essential and Important Recommendations		
	Essential (🔴)	Important (🟡)	Advisory (🟢)	Implemented	Cancelled	Non Implemented
Partnership arrangements with Gosport BC	-	-	1	-	-	-
Policies, procedures and publicly available information	-	-	1	2	-	-
Setting of fees and charges	-	-	-	-	-	-
Processing of applications and issuing of licences for premises, personal licences and Temporary Event Notices (TENS)	-	-	-	2	1	-
Processing of applications and issuing of licences for vehicles, operators and drivers	-	-	-	-	-	-
Licence renewals and cancellations	-	-	-	-	-	-
Receipt and banking of licence fees	-	-	-	2	4	1
Monitoring arrangements incl. investigation of complaints	-	1	-	-	-	-
Enforcement arrangements	-	-	-	-	-	-
Budget monitoring processes	-	1 (as above)	-	-	-	-

Weaknesses identified during audit (Essential and Important only)

Priority	Weakness	Action Agreed?
Important (New)	The Officers Group has not yet been established in line with the Agreement and meeting on a quarterly basis to monitor the partnership, including performance and budget monitoring.	Yes

Priority	Weakness	Action Agreed?
Important (Existing)	Periodic reconciliations are not carried out between monies received and licences issued.	No - Risk Accepted

2013/14 Housing Rents

Audit Opinion and Direction of Travel

Strong						
😊😊						
Direction of Travel:				↑ 2012/13		
Area of Scope	New Recommendations Raised			Previous Essential and Important Recommendations		
	Essential (🔴)	Important (🟡)	Advisory (🟢)	Implemented	Cancelled	Non Implemented
Calculation of rents, in line with the Government Rents Formula and targets	-	-	-	-	-	-
Billing	-	-	-	-	-	-
Recording of receipts and allocation of income (including garages)	-	-	-	-	-	-
Reconciliations between Council's properties and rent accounts	-	-	-	-	-	-
Refunds and accounts adjustments, including cancellations and rent free weeks	-	-	-	-	-	-
Accounts in credit	-	-	-	-	-	1
Rent arrears recovery and Write Offs	-	1	-	4	-	-

Weaknesses identified during audit (Essential and Important only)

Priority	Weakness	Action Agreed?
Important (New)	Former housing tenants' arrears are not being removed from the Housing Rents system when transferred to the Sundry Debtor system to manage the recovery action. The debts are therefore duplicated on 2 systems.	Yes
Important (Existing)	Accounts in credit reports are not regularly reviewed to identify where balances can be used to offset other debts, cover future liability or create a refund.	Yes

2013/14 Fixed Assets

Audit Opinion and Direction of Travel


Strong						
😊😊						
Direction of Travel:			↔ 2009/10			
Area of Scope	New Recommendations Raised			Previous Essential and Important Recommendations		
	Essential (🔴)	Important (🟡)	Advisory (🟢)	Implemented	Cancelled	Non Implemented
Policy and procedures including regulatory and organisational requirements	-	1	-	-	-	-
Maintenance of asset register	-	-	-	-	-	-
Acquisitions and enhancements	-	-	-	-	-	-
Asset usage and running costs	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-
Revaluations	-	-	-	-	-	-
Disposals and write off	-	-	-	-	-	-
Capital charges	-	-	-	-	-	-
Technology Forge IT System	-	-	-	-	-	-
Financial and performance management reporting	-	-	-	-	-	-

Weaknesses identified during audit (Essential and Important only)

Priority	Weakness	Action Agreed?
Important (New)	The current Asset Management Plan is for 2007-2012 and so needs to be updated.	Yes

2013/14 eFinancials IT System

Audit Opinion and Direction of Travel


Reasonable						
						
Direction of Travel:			↔ 2005/06			
Area of Scope	New Recommendations Raised			Previous Essential and Important Recommendations		
	Essential (🔴)	Important (🟡)	Advisory (🟢)	Implemented	Cancelled	Non Implemented
Access Controls	-	-	-	-	-	-
Data integrity following upgrade	-	-	-	-	-	-
Interface controls	-	-	-	-	-	-
Management trail covering key areas of access	-	-	1	-	-	-
System administration controls	-	-	2	-	-	-
Backup and recovery	-	2	-	-	-	-

Weaknesses identified during audit (Essential and Important only)

Priority	Weakness	Action Agreed?
Important (New)	Test restores have not been run to confirm that the backup process is effective.	Yes
Important (New)	The Disaster Recovery Plan does not specify what the Recovery Time or Recovery Point Objectives are in relation to the server used for the eFinancials system.	Yes

2013/14 Remote Access, Third Party Access and Mobile Working

Audit Opinion and Direction of Travel

Reasonable						
						
Direction of Travel:			⇌2005/06			
Area of Scope	New Recommendations Raised			Previous Essential and Important Recommendations		
	Essential (●)	Important (▲)	Advisory (Ⓜ)	Implemented	Cancelled	Non Implemented
Remote Access Policies and Procedures	-	2	-	1	-	-
Remote Access Risk Assessment	-	1	-	-	-	-
Remote Access Change Control	-	-	-	-	-	-
Access Control	-	-	-	-	-	-
Logical/Physical Security of Mobile Devices	-	-	-	-	-	-
Monitoring and Compliance of Remote Access	-	1	-	-	-	-
Transfer of Data to Mobile Devices / ActiveSync	-	1	-	-	-	-
Incident Management	-	-	1	-	-	-


Weaknesses identified during audit (Essential and Important only)

Priority	Weakness	Action Agreed?
Important (New)	It was not possible to confirm that two policies in place at the Council, the Homeworking Policy and the Remote Working Security Policy, had been approved by senior managers and periodically reviewed and updated.	Yes
Important (New)	While employees are required to read and agree with nine compliance documents available on the Council's intranet (including an IT security policy), there is no defined policy owner or leader for these documents or evidence that they have been approved by senior managers.	No - Risk Accepted
Important (New)	While a corporate risk register exists and is maintained, risks pertaining to remote working are not included on any form of risk register and may not have been properly assessed.	Yes

Priority	Weakness	Action Agreed?
Important (New)	Logs recording remote access connections to the Councils network are maintained but are not proactively monitored to identify any unauthorised activity by remote users including third parties.	No - Risk Accepted
Important (New)	While the security settings enforced on mobile devices are broadly in line with Microsoft's good practice standards, it was identified that devices which do not fully support the enforced security settings are being able to access the Council's network to synchronise emails and calendars.	Yes

2013/14 Ferneham Hall

Audit Opinion and Direction of Travel

Reasonable						
						
Direction of Travel:			↑2012/13			
Area of Scope	New Recommendations Raised			Previous Essential and Important Recommendations		
	Essential (🔴)	Important (🟡)	Advisory (🟢)	Implemented	Cancelled	Non Implemented
Income - Tickets for shows and events (box office, online, post)	-	-	1	-	1	1
Income – Bar	-	-	1	-	-	-
Income – other sales (ice creams, merchandise)	-	-	-	-	-	-
Refunds and Complimentary Tickets	-	-	-	1	2	-
Vending Machines	-	-	1	-	-	-
Cash-up, Cash security and Banking	-	-	1	1	-	1
Petty Cash and Floats	-	-	-	-	-	-
Equipment control	-	-	-	4	-	-
Internal and External Hiring	-	-	-	3	-	-
Contracting and Procurement	-	-	-	1	1	-
Expenditure Control	-	-	-	1	-	-





Weaknesses identified during audit

Priority	Weakness	Action Agreed?
Important (Existing)	There is currently no CCTV provision in the building.	Yes
Important	The password controls built into the Databox system are weak in that any password can be used and there is no periodic	Yes




Priority	Weakness	Action Agreed?
(Existing)	requirement for it to be changed. There have been some discussions with the supplier on this matter but no improvements have been achieved.	

Summary of Assurance Opinions Used

Annex Four

Assurance Level	Symbol	Description
Strong		There is a strong system of control designed and operating effectively. Any weaknesses found were low impact and do not significantly affect key controls or the achievement of the objectives of the system.
Reasonable		There is basically a sound system of internal control but weaknesses were found in system design or compliance, which result in some risk to the achievement of the system objectives.
Limited		There are some weaknesses in the system of control designed or the level of compliance which result in significant risk to the achievement of the system objectives.
Minimal		Fundamental weaknesses have been identified such that many key controls are absent or not operating effectively which may put at risk the achievement of the corporate control objectives.

Recommendations and actions in the report are categorised using the following 3 point scale in use on the Council's action management system:

Essential		A fundamental weakness in the control system which presents immediate risk to the service or system of a significant nature. Requires urgent attention by management. Reported to the Audit Committee and implementation of proposed actions are monitored.
Important		A significant control weaknesses where the risk is not imminent or only of a moderate nature. This needs addressing but is not urgent. Reported to the Audit Committee and implementation of proposed actions are monitored.
Advisory		A weakness or opportunity for improvement where the risk poses no great threat and is relatively minor. Consideration should be given to addressing the weakness if there is the appetite and/or capacity to implement the improvements. We will not track actions taken to address these recommendations unless at the manager's request.

Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by us should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Our procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our work and to ensure the authenticity of such material. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Mazars Public Sector Internal Audit Limited

London

March 2014

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FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **10 March 2014**

Report of: **Director of Finance and Resources**

Subject: **CONTRACTOR INTERNAL AUDIT PLAN 2014/15 (Quarter 1)**

SUMMARY

This report summarises the internal audit coverage proposed for the Audit Contractor (Mazars Public Sector Internal Audit Ltd.) to deliver in the first quarter of 2014/15.

RECOMMENDATION

That the Contractor Audit Plan for Quarter 1 of 2014/15, attached as Appendix A, be approved.

INTRODUCTION

1. The Internal Audit Service provides an objective assessment of the Council's framework of governance, risk management and control. Key to this assessment is the delivery of a plan of audits which is set at the start of the year. This plan is the pure "internal audit" assurance process that forms the majority of the Head of Audit's annual opinion.
2. The full Audit and Assurance service is currently provided jointly by a small in-house team and an external contractor which leads on the delivery of the risk based plan for the year. Deloitte and Touche have delivered the contract for the last 4 years. However, the public sector internal audit team have now transferred to Mazars Public Sector Internal Audit Ltd and they will be delivering the 2014/15 plan for the last year under the current contract.
3. This report summarises the approach being taken to set the contractor plan for 2014/15 and proposes a set of audits for delivery in the first quarter.

AUDIT NEEDS ASSESSMENT

4. We are currently updating our audit needs assessment to produce a fully documented risk assessment which meets the requirements of the Public Sector Internal Audit Standards 2012.
5. Officers are also reviewing the content of our annual plans and the way they are executed in line with the current organisational culture with a view to seeing if there is scope to make better use of the resources available and improve the value of the end product of each assignment to the organisation.
6. A full plan for the year will therefore not be ready until June 2014. However, a provisional plan is being set now for delivery in the first 3 months (quarter) of the year.

PROPOSED PLAN FOR QUARTER 1

7. Appendix A shows the plan proposed for the first quarter of 2014/15. This consists of 6 audits and will take approximately 22% of the available audit time for the year. The audits have been selected by taking into consideration the following:
 - The need to deliver different types of audit (e.g. computer, contract, service) and cover different work groups in order to be able to form an annual opinion across the Council's framework of governance, risk management and control.
 - The audits that had already been selected in the draft 2014/15 audit plan produced following the 2013/14 audit needs assessment.
 - The audits which will be least affected by the current structural reorganisation.

RISK ASSESSMENT

8. There are no significant risk considerations in relation to this report

CONCLUSION

9. The quarter 1 plan for 2014/15, outlines a range of work which will appropriately support the Council's Governance Assurance Framework.

Appendices:

Appendix A - Contractor Operational Audit Plan 2014/15 – Quarter 1

Background Papers: None

Reference Papers: Report by the Director of Finance and Resources to the Audit and Governance Committee on 11 March 2013 on the Contractor Annual Audit Plan 2013/14

Enquiries:

For further information on this report please contact Elaine Hammell, Head of Audit and Assurance (Ext 4344)

Contractor Operational Audit Plan 2014/15 – Quarter 1

Audit Title	Type of Audit	Days	Reason for Inclusion	Draft Coverage
Contract Completion (Final Accounts)	Contract Audit	10	Contract audit selected in the draft 3-year plan for coverage in 2014/15. Top level audit covering more than one department. Last audited 2006-7.	Council policy on staged payments. Central payments register. Accuracy and documentation of payments to contractors. Variation Orders. Expense claims. Accuracy of Final Account and release of retention sums.
Payroll and Personnel System (Chris 21)	Computer Audit	10	Computer audit selected in the draft 3-year plan for coverage in 2014/15. Relates to a fundamental system. All IT systems supporting fundamental systems are being covered during the current external audit appointment. Last audited 2007-8	System administration, access controls, data input controls, data processing controls, interface controls, output controls, management trail, backup and recovery.
Foreshore and Beach Huts	Service Audit	4	Service audit selected in the draft 3-year plan for coverage in 2014/15. Increasing income stream. No audit coverage in last 10 years.	Beach Hut allocations and rental income. Sailing Club licences and leases.
Tenancy Management	Service Audit	7	Cyclical audit now due as last audited 2009-10. Previous recommendations to be signed off. Specific testing to be included to feed into the Tenancy Fraud risk assessment.	New tenant checks and agreements. Key management. Tenancy audits. Tenancy termination and transfer. Control over recharges.
Parks and Open Spaces	Service Audit	6	Service audit selected in the draft 3-year plan for coverage in 2014/15. Income stream. No audit coverage in last 10 years.	Maintenance and inspections. Expenditure control. Roundabout sponsorship. Memorial seats. Other rents and leases.
Legionella and Gas Safety Risks Follow Up	Follow Up	5	A number of recommendations made in the 2009/10 audit have been reported as implemented and are awaiting audit sign off.	Follow up of 15 recommendations previously reported as implemented, awaiting official sign off.
Audit Needs Assessment		4		
Audit Management		4		
Total Audit Days		50		

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **10 March 2014**

Report of: **Director of Regulatory and Democratic Services**

Subject: **RISK MANAGEMENT PROGRESS REPORT**

SUMMARY

Version 3 of the Corporate Risk Register has been produced. There are now 31 risks on the register with one being added, and two being deleted and merged with others since last time. 14 of these have been assessed as medium risk and 17 as low risk, compared to 14 and 18 respectively in version 2 of the register.

RECOMMENDATION

That the Committee note the content of version 3 of the Corporate Risk Register attached as [Appendix A](#).

INTRODUCTION

1. A report was presented to this committee in March 2013 launching the first version of the Corporate Risk Register produced under the new risk management framework.
2. Our policy is to update the register every 6 months. This report therefore presents version 3 of the register for member discussion.

THE RISK ASSESSMENT PROCESS

3. The Council maintains a central risk directory which links the top corporate risks to second tier risks managed by Heads of Service and the corporate projects. The risk assessments of the second tier risks are all updated first as part of the risk assessment process. This includes the identification of any risks or projects that need to be added or removed.
4. Each corporate risk is assigned a Director as the risk manager. They use the information available from the Heads of Service risk assessments to help inform their latest assessment of the corporate risk. These are then given a risk assessment score from the scale High, Medium or Low.
5. The list of corporate risks then form the Corporate Risk Register which includes the risk assessment scores and the status update for each risk. The register is reported and challenged by the Chief Executive's Management Team before presentation to the Committee.
6. One the register is finalised, the risks on the central risk directory are monitored at Departmental Management Team meetings and in individual performance meetings with managers. Any individual risks that give concern in that time are highlighted and escalated to the Chief Executive's Management Team.

CHANGES TO THE CORPORATE RISKS

7. **List of Risks:** Version 3 of the Corporate Risk Register, as attached as [Appendix A](#), now consists of 31 generic risk themes. Since last reported there has been one risk added, two risks removed and merged with others, and one risk has had its short name amended. Changes are summarised below:

Risk	What has changed
C34 Failure to progress Part 2 of the Local Plan (Development Sites & Policies Plan) to adoption, to provide a planning framework for the wider Borough (excluding Welborne) and allocate sites for housing, employment, and leisure uses.	New Risk (Medium Risk) This risk has been added to the register as the Plan is currently in its representation and government examination periods and will need to be effectively resourced.
C30 Failure to deliver a customer focussed service (Low Risk)	Risk removed from register and amalgamated with another (Low Risk) This has been deleted and amalgamated with <i>C15 Failure to communicate and engage effectively with the local community</i> . The two risks share similar issues and actions. The merged risk has been renamed as <i>Failure to communicate and engage effectively with the local community and deliver a customer focussed service</i> and assessed as Low Risk

Risk	What has changed
C33 Failure to deliver a new sheltered housing scheme at Collingwood House (Low Risk)	Risk removed from register and amalgamated with another (Low Risk) This has been deleted and re-amalgamated with <i>C13 Failure to deliver and implement a programme of modernising and improving sheltered accommodation across the Borough</i> . These two risks, whilst split into two projects for ongoing review, share the same overall theme, and have been assessed as low risk.
C18 Failure to make best use of existing technology in the way that services are delivered.	Short name Amended This risk has had its short name amended from ICT to Mobile Working to distinguish it from other IT related risks. This risk relates to mobile technology for the delivery of services. Other ICT related risks are covered under two other risks <i>C21 Inadequate arrangements in place to respond to a critical disruption</i> relating to ICT suppliers and data and <i>C22 Inadequate Governance and Systems of Control</i> relating to ICT and communications security and integrity.

8. **Risk Assessments:** The Corporate Risk Register shows the latest risk assessment given to each corporate risk along with updated information on their status. There are still no risks assessed as High and there are 14 Medium risks and 17 Low risks, compared to 14 and 18 respectively in version 2 of the register. In addition to the changes above the risk assessment has been reduced for one risk as follows:

Risk ref and short name	Risk Manager	Previous Score	Current Score	Reason
Decreased				
C5 Failure to achieve proposed improvements for retail areas in the Borough	Richard Jolley	Medium	Low	In November retailer announced agreement to acquire lease at Lock Heath District centre mid-February 2014 and open by the end of March 2014. Planning application submitted for signage, shop fronts, and ancillary works by the retailer.

RISK ASSESSMENT

9. There are no significant risk considerations in relation to this report

CONCLUSION

10. The revised Corporate Risk Register, attached as Appendix A, meets the requirements of the new Risk Management Policy adopted in 2012/13. The risks contained in the register will be managed and monitored by officers and the register updated in time for it to be reported to the meeting of the Committee in September 2014.

Appendices

Appendix A - Corporate Risk Register (version 3) ([separate attachment](#))

Background Papers: None

Reference Papers:

Report by the Director of Regulatory and Democratic Services to the Audit and Governance Committee on 24 September 2012 on the Risk Management Policy

Enquiries:

For further information on this report please contact Elaine Hammell. (Ext 4344)

Appendix A

CORPORATE RISK REGISTER - Version 3 - March 2014

Risk Ref	Corp Priority (Improvement reference)	Risk Description	Risk Manager	Latest risk sheet	Current status	Current Risk Score
HIGH RISKS ☹						
		None				☹
MEDIUM RISKS 😊						
1	All (1)	<p>Welborne</p> <p>Failing to progress the planning framework for Welborne, provide effective communication about the new community or address the infrastructure funding issues.</p>	Richard Jolley	Feb 2014	<p>Planning framework - preparation of Welborne Plan and associated concept master plan, transport and green infrastructure strategies, infrastructure delivery plan (IDP), viability and other supporting technical evidence studies progressed to revised timetable with Publication Plan approved by Council on February 2014.</p> <p>Homes & Community Agency [HCA] facilitating workshops and work streams with Strategic Board members (including principal landowners) to resolve key outstanding issues prior to consideration of Welborne Plan at examination and to inform submission of outline planning application(s).</p> <p>Infrastructure Funding - in parallel with preparation of Welborne Plan, and drawing on the associated Infrastructure Delivery Plan, consultants appointed to undertake work on preparation of an Infrastructure Funding Strategy. Ongoing consideration of public funding sources with HCA and Solent Local Enterprise Partnership, such as New Homes Bonus, Local Infrastructure Fund, Solent Growth Fund.</p>	😊




Risk Ref	Corp Priority (Improvement reference)	Risk Description	Risk Manager	Latest risk sheet	Current status	Current Risk Score
					<p>Recruitment to two Welborne Development Management posts now completed; interim arrangements in place for resourcing progression of Welborne Plan to adoption; Phase 1 2013/14 Capacity Funding award from DCLG received for funding for technical evidence studies, staff costs and future delivery-related projects with review required prior to release of possible Phase 2 2014/15 award.</p> <p>Quarterly update reports provided to Executive on costs of and funding sources for Welborne work.</p>	
4	2 Prosperity (4)	<p>Daedalus</p> <p>Failure to provide a planning framework for the Daedalus site and support the Local Enterprise Partnership in the promotion of the Enterprise Zone.</p>	Richard Jolley	Feb 2014	<p>Detailed work on planning S106 agreement related to outline planning application for the whole Daedalus site progressed to resolution, following recent agreement with Homes & Community Agency over provisions relating to retention of and access to runways enabling planning consent to be granted on 20 December 2013.</p> <p>Centre for Engineering and Manufacturing Advanced Skills Training Centre for Engineering and Manufacturing Advanced Skills Training [CEMAST] scheme now being implemented.</p> <p>Progression of Innovation Centre & runway refurbishment by FBC as outlined in Project 4.3 status.</p> <p>Extensive liaison taking place with HCA on their detailed infrastructure & development proposals for Hangars East and West, including the reallocation of existing tenants as appropriate.</p>	☹️
8	4 Leisure (8)	<p>Coldeast</p> <p>Failure to deliver proposed community facilities at the Coldeast development site or alternative location.</p>	Martyn George	Feb 2014	<p>Section 106 agreement sets out clear trigger points for the transfer of land and or funding.</p> <p>Homes and Communities Agency have transferred land for swimming pool, allotment and cemetery at Coldeast ahead of Sec 106 triggers. Transfer completed Oct 2013.</p>	☺️



Risk Ref	Corp Priority (Improvement reference)	Risk Description	Risk Manager	Latest risk sheet	Current status	Current Risk Score
9	4 Leisure (9)	<p>Community Buildings</p> <p>Failure to provide modern, fit for purpose community buildings in the most appropriate locations.</p>	Martyn George	Feb 2014	<p>Executive have approved funding (£1.5M) for the refurbishment of the leisure centre swimming pool in 2014.</p> <p>The Development Sites and Policies Plan identifies sites for a new community centre in Fareham Town. Competing priorities and lack of funding for a new community centre prevent this from proceeding at the current time.</p>	☹️
12	5 Housing (11)	<p>Affordable Homes</p> <p>Failure to deliver 500 new affordable homes by 2017.</p>	Martyn George	Feb 2014	<p>Concern at lack of sites coming forward for affordable housing, partly due to lack of sites and partly due to impact of Community Infrastructure Levy on development viability impacting adversely on affordable housing.</p> <p>Concern that forecast delivery is unlikely to achieve affordable homes target. Following the budget statement in Dec 2013, Local Authorities are awaiting further announcements from HM Treasury DCLG and Homes & Communities Agency on future funding for Local Authorities to build new homes for rent.</p>	☹️
16	7 Dynamic Council (15)	<p>Asset Management</p> <p>Failure to maximise the Council's assets resulting in missed opportunities for generating revenue and or capital receipts or delivering other corporate and service priorities.</p>	Andy Wannell	Feb 2014	<p>Commercial property acquisitions are progressing well, which have led to improved revenue streams for the Council. Corporate Assurance Management Group continues to meet regularly to identify potential further opportunities within the borough.</p>	☺️
17	7 Dynamic Council (16)	<p>Sustainable Budget</p> <p>Failure to minimise Council tax increases through delivery of a sustainable budget.</p>	Andy Wannell	Feb 2014	<p>Robust plans are in place for the budget 2014, and efficiency plans prepared to support a balanced budget into the medium term.</p>	☹️
19	None	<p>Policy Changes</p>	Martyn George	Feb 2014	<p>Satisfactory progress.</p>	☹️

Risk Ref	Corp Priority (Improvement reference)	Risk Description	Risk Manager	Latest risk sheet	Current status	Current Risk Score
		Failure to respond to new legislation and the governments changing policy agenda.				
21		<p>Business Continuity</p> <p>Inadequate arrangements in place to respond to a critical disruption.</p>	Garry White	Feb 2014	<p>The Head of Community Safety and Enforcement is finalising the work with the Heads of Service to ensure their Business Continuity Plans for critical services are up to date and fit for purpose. These will be used to 'refresh' the critical services matrix and an update report will be provided to CXMT. Further resilience has been provided by the development of more office based facilities at the depot (Building Control Partnership) that provides flexibility if key and critical services need to be relocated from the civic offices. The development of further partnerships such as the Southampton and Fareham Legal Partnership and the Fareham and Gosport Environmental Health Partnership provide flexibility and resilience in that these services can be provided from other locations.</p> <p>The recent emergency planning exercise involved evacuation of the depot and officers were able to relocate and work from locations within the civic offices to ensure continuity of service provision.</p> <p>The Council has approximately 200 staff that have the capacity to work remotely using Citrix software.</p>	☺
22		<p>Governance</p> <p>Inadequate Governance and Systems of Control.</p>	Andy Wannell	Feb 2014	<p>There are no material concerns in this regard, although it is recognised that the planned organisational changes, together with new approaches to service delivery, may present an increased risk during the transitional period.</p>	☺
25		<p>Service Delivery</p> <p>Current level of service cannot be delivered within existing budget.</p>	Andy Wannell	Feb 2014	<p>There is generally a good understanding of the services which are under pressure, and resources have been allocated to meet those demands and achieve target dates for projects to be delivered. Steps have been taken to increase resources in some areas where excess demand exists, and resources have been restructured in others to ensure that the demands upon the service are best met (e.g. Development Management).</p>	☺

Risk Ref	Corp Priority (Improvement reference)	Risk Description	Risk Manager	Latest risk sheet	Current status	Current Risk Score
					The Medium Term Financial Strategy for the Council reflects the emerging demands for services and plans are in place to ensure that this can be properly resourced.	
27		Income Loss of income	Andy Wannell	Feb 2014	The services which present the greatest risk remain car parking, commercial estates, Ferneham Hall and treasury management. Close monitoring of these areas is carried out, and steps have been taken to generate income from alternative sources, e.g. commercial property acquisitions, to compensate. The reductions have been taken into account in setting the Medium Term Financial Strategy.	☹️
32		Health and Safety – Employee Failure to meet Health & Safety responsibilities in relation to employees.	Garry White	Feb 2014	<p>Annual Health and Safety Performance report presented to the Executive on 2 September 2013. There has been a reduction in all work place accidents by 7, from 52 in 2011/12 to 45 in 2012/13. The accident statistics to date (April to February 2013/14 (three quarters) shows a total of 45 to date.</p> <p>Quarterly Safety Committee meetings continue to take place involving Unions and employee representatives, the notes of which are available on the intranet and circulated.</p> <p>Quarterly meetings also take place of the Corporate Premises H&S Group that manages the higher level H&S risks in Council premises.</p> <p>Outcome of the Zurich Inspection that took place in 2013 concluded that overall the Council complied with relevant legislation and also exhibited systems and procedures that are in excess of our legal obligations in a number of areas.</p> <p>CXMT also receive quarterly absence management reports that highlight the level of sickness that may be attributable to certain work related causes.</p>	☹️

Risk Ref	Corp Priority (Improvement reference)	Risk Description	Risk Manager	Latest risk sheet	Current status	Current Risk Score
					<p>The follow up inspection by the Health and Safety Executive of the Council's Waste Management arrangements in September 2013 highlighted that the H&S management of the service reflects best practice.</p> <p>The Council's Safety Advisor continues to follow up and assist on each departments H&S Action Plan from the previous year's audits to ensure actions are being progressed. The results of which will be reported to CXMT.</p>	
34	1 Environment (2) 2 Prosperity (4) 4 Leisure (9) 5 Housing (12)	Local Plan [New] Failure to progress Part 2 of the Local Plan (Development Sites & Policies Plan) to adoption, to provide a planning framework for the wider Borough (excluding Welborne) and allocate sites for housing, employment, and leisure uses.	Richard Jolley	To be Completed	<p>Development Sites & Policies Plan approved by Council on 13 February 2014 for representation period and submission to government for independent examination.</p> <p>It is anticipated that significant representations will be received in relation to housing land supply issues. Additionally, large-scale planning application recently received for Newlands Farm.</p> <p>Revised resourcing arrangements to be put in place to progress Plan through examination and to adoption.</p>	☹️
LOW RISKS ☺️						
2	1 Environment (2)	Recycling Failure to reduce the quantity of household waste and maximise the amount that is reused or recycled.	Paul Doran	Feb 2014	Recycling rate static at 37%, which is still the third highest level within Hampshire authorities. Refresher training has been carried out for all refuse crews on dealing with contamination of recycling bins. This has reduced the level of repeated contamination.	☺️
3	1 Environment (3)	Sustainability Benefits of the Council's Environmental Sustainability Strategy and other environmental strategies are not fully delivered.	Richard Jolley	Feb 2014	Environmental Sustainability Strategy has been subject to fundamental review with new carbon reduction targets, and actions categorised as project-based, on-going or related to Welborne. Revised Strategy reported to CXMT in March and Member Panel in May 2013, prior to Executive consideration in October 2013.	☺️



Risk Ref	Corp Priority (Improvement reference)	Risk Description	Risk Manager	Latest risk sheet	Current status	Current Risk Score
5	2 Prosperity (5a and 5b)	<p>Retail areas</p> <p>Failure to achieve proposed improvements for retail areas in the borough.</p>	Richard Jolley	Feb 2014	<p>Fareham Town Centre - Executive approved Action Plan to support town centre being progressed; update on programme for implementation of actions provided to Executive in March 2013.</p> <p>Parking policy changes successfully introduced in April 2013; street furniture, enhanced signage and dedicated website/marketing strap line to be implemented during February – May 2014. Continued liaison with retailers via Business Breakfast events.</p> <p>Locks Heath District Centre – Planning policy framework for considering further investment proposals for the centre to be provided through progression of Development Sites & Policies Plan (approved by Council on 13/02/14) to examination and adoption. Awaiting tri-partite discussions in relation to any further redevelopment proposals.</p>	
6	2 Prosperity (6)	<p>PUSH</p> <p>Failure to support Partnership for Urban South Hampshire and Solent Local Enterprise Partnership to deliver economic growth and improved skills.</p>	Richard Jolley	Feb 2014	<p>Extensive support currently provided to Solent Local Enterprise Partnership to support delivery of Solent Enterprise Zone at Daedalus, including progression of outline planning consent for site, progression of Centre for Engineering and Manufacturing Advanced Skills Training project, progression of detailed infrastructure & development proposals for Hangars East & West in partnership with Homes and Communities Agency, progression of innovation centre and runway refurbishment by FBC.</p> <p>Provision being made for approximately £80m Solent Growth Fund bid to support Fareham/Gosport package for Welborne & Enterprise Zone by the Solent LEP in the Solent Economic Plan - to be submitted to government at end of March 2014 with decisions in early July 2014.</p>	
7	3 Safe and Healthy	<p>Crime and Disorder</p> <p>Increase in the incidents of</p>	Garry White	Feb 2014	<p>The incidents of reported crime in Fareham continues to fall and this was reported in the annual report to the Council's Scrutiny Board on the Performance of the</p>	

Risk Ref	Corp Priority (Improvement reference)	Risk Description	Risk Manager	Latest risk sheet	Current status	Current Risk Score
	(7)	crime, disorder and anti social behaviour.			<p>Fareham Community Safety Partnership on 4 July 2013. The work of the Community Safety Partnership has seen a 34% reduction in all reported crime within the borough over the last 5 years and 24% reduction in reported Anti Social Behaviour in the last year.</p> <p>The Partnership is third best performing in Hampshire and nationally in its most similar family group.</p> <p>The last residents' survey conducted in 2013 highlighted that the majority of residents think Fareham remains a safe and healthy place to live and work. 90% thought that the Police and FBC were successfully dealing with crime, Anti Social Behaviour and neighbour nuisance, compared to 88% in 2011 and 66.9% in 2009.</p> <p>The Partnership together with the Local Children's Partnership (LCP) contributes to the effective delivery of the Fareham's Supporting Families Programme. Co-location of agencies has led to efficient and effective multi agency working.</p> <p>A new Community Safety Strategy and Action Plan is currently being developed to cover the period 2014 -17. The financial pressures facing all our Community Safety Partners needs to be monitored to ensure that this does not directly impact upon our performance.</p>	
11	4 Leisure (10)	<p>Outdoor Recreation</p> <p>Failure to fully implement the improvement programme for parks, play areas and sports facilities.</p>	Martyn George	Feb 2014	The Open Spaces Improvement Programme was reviewed by Executive in November 2013, confirming the planned programme of work for 2014/15.	
13	5 Housing (12)	<p>Sheltered Housing</p> <p>Failure to deliver and implement a programme of</p>	Martyn George	Feb 2014	New Sheltered Housing Scheme under construction on site of former Collingwood House. Plans in preparation for new sheltered scheme at Coldeast. Results of consultation on change of use of existing sheltered schemes to be reported to Executive in Spring 2014.	

Risk Ref	Corp Priority (Improvement reference)	Risk Description	Risk Manager	Latest risk sheet	Current status	Current Risk Score
		modernising and improving sheltered accommodation across the Borough.				
14	6 Community (13)	Gateway Failure to tackle the underlying causes of deprivation in the Fareham Park area.	Martyn George	Feb 2014	Fareham Park Project Officer resigned December 2013. Secondment arrangements in place effective from 13 January 2014. Successful application for Public Health Grant (£32k) to be invested in Fareham Park under the title of "Clued Up 2 go" based on youth counselling/support services.	☺
15	6 Community (14)	Community Engagement and Customer Focus [Amended description] Failure to communicate and engage effectively with the local community and deliver a customer focussed service.	Martyn George	Feb 2014	Vanguard training for Directors and Heads of Service completed Dec 2013. First phase of planned programme of interventions across 5 services underway and progressing well. Progress reported to Members via Member workshop and report to Executive. Well received by Members.	☺
18		Mobile Working [Amended description] Failure to make best use of existing technology in the way that services are delivered.	Andy Wannell	Feb 2014	No material concerns are identified.	☺
20		Partnerships Failure of a significant partnership or contract	Martyn George	Feb 2014	Satisfactory monitoring and review procedures in place.	☺
23		Performance Management Inadequate Performance Management Framework	Garry White	Feb 2014	The Corporate Strategy was approved by Council at its meeting on 10 October 2013. All employees of the Council are now using the new approach to Individual Performance Management and this is being monitored by Personnel. The performance on corporate projects and priorities are closely monitored by CXMT who received a progress update from the Corporate Policy Officer on 29 January 2014. The results of the 2013 Residents Survey were reported	☺

Risk Ref	Corp Priority (Improvement reference)	Risk Description	Risk Manager	Latest risk sheet	Current status	Current Risk Score
					to the 6 January 2014 meeting of the Executive . Most of the results showed an upward trend in satisfaction since 2011. The majority, 97% of respondents were happy with their local area as a place to live, 89% thought the Council provided value for money and 90% were happy with the way the Council run things. The Annual Governance Statement review of effectiveness concluded that the arrangements the Council have in place continue to be regarded as fit for purpose in accordance with the governance framework.	
24		<p>People Management</p> <p>Poor people management and resourcing</p>	Garry White	Feb 2014	<p>Implementation of the Individual Performance Management scheme and finalisation of the corporate training programme is now complete and the individual performance management approach is up and running and has received positive feedback from staff. Work is currently being undertaken to assess the uptake of the training identified in the corporate training plan for 2013/14 and work is currently being undertaken on the training needs for 14/15. Support is also being given to employees to maximise the benefits of the Skillgate / e-learning system where it contributes to improved service delivery.</p> <p>Workforce planning is part of the day to day work undertaken by all managers at FBC and is reflected in the Council's approach to service planning. This is being developed to reflect the priorities of the Council to ensure that employees have the appropriate skills to meet new and challenging priorities in the longer term.</p>	☺
26		<p>Health and Safety - Public</p> <p>Failure to meet Health and Safety responsibilities in relation to public liability.</p>	Andy Wannell	Feb 2014	No material areas of immediate concern, although we have highlighted that steps should be taken to strengthen the inspections regime on a consistent basis.	☺
28		Emergency Planning	Garry White	Feb 2014	Annual Emergency Planning report presented to the Executive in September . The training and exercising that has been provided to date has enabled the Council to	☺

Risk Ref	Corp Priority (Improvement reference)	Risk Description	Risk Manager	Latest risk sheet	Current status	Current Risk Score
		Failure to provide an appropriate response in an emergency			<p>provide an effective response to emergency incidents and is detailed in this report.</p> <p>Emergency Response Plan recently updated. Emergency Planning exercise undertaken in December 2013. The exercise highlighted that FBC are more than capable at responding to a major incident and meeting their statutory obligations of the Civil Contingencies Act 2004. The exercise also demonstrated that FBC have well equipped facilities and well trained staff that are well prepared to respond to an emergency within the Borough, requiring local authority support.</p> <p>The Wallington Flood Plan was also updated including input from HCC and FBC following lessons learnt from the 2012 flooding and this was also tested as part of the exercise.</p> <p>Training continues to be provided in conjunction with HCC Emergency Planning Team.</p> <p>The Chief Executive has also co-ordinated a number of meetings of the Council's Adverse Weather Group to co-ordinate the Council's response to the recent severe weather which has highlighted the support we can provide to the other agencies and the residents of the borough.</p> <p>Following a recent reorganisation of some of the Council's functions, the responsibility for the General Duty Out of Hours Service is now the responsibility of the Head of Parking and Enforcement who is also responsible for emergency planning and business continuity. Therefore this provides a logical link, in terms of co-ordination and consistency in the way we respond to what could potentially become an emergency response.</p>	

Risk Ref	Corp Priority (Improvement reference)	Risk Description	Risk Manager	Latest risk sheet	Current status	Current Risk Score
29		<p>Elections</p> <p>Challenge to an election process</p>	Garry White	Feb 2014	Any issues or improvements that are identified from previous elections are used to review procedures and feed into the project plan and risk register. The introduction of Individual Electoral Registration in June 2014 (subject to legislation) will result in changes to the way in which people register to vote at an election as new, potential electors must be notified to the Department for Works and Pensions and matched before being included on the register. FBC are currently testing and matching with the Department for Works and Pensions to streamline the process but it will have a big impact on the last day for registering (11 days before the election) if adequate resources are not in place for the parliamentary election in 2015. The Cabinet Office have produced a risk assessment and FBC's Election Services Team are using this and have produced a working risk assessment as part of our own implementation plan.	
31		<p>Equality</p> <p>Failure to meet Equality and Inclusion Standards.</p>	Andy Wannell	Feb 2014	No material causes for concern	

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **10 March 2014**

Report of: **Director of Finance and Resources**

Subject: **REVIEW OF FINANCIAL REGULATIONS**

SUMMARY

Officers are currently carrying out a detailed review of each Financial Regulation in order to streamline them down to the key controls that members and officers are required to adhere to.

Two more regulations have now been reviewed and are submitted for comment. These cover Regulation 1 – Responsibilities of Members, and Regulation 2 – Responsibilities of the Statutory Officers.

RECOMMENDATION

That the proposed changes are considered and any comments forwarded to the Council, to aid its decision in approving these revised regulations.

INTRODUCTION

1. Financial Regulations form part of the Council's constitution and provide a detailed strategic and operational framework for managing the authority's financial affairs. There are currently twenty-one Financial Regulations.
2. Since November 2010, officers have been reviewing individual regulations and streamlining them down to the key rules that are necessary for the Council to adequately manage its financial affairs. Sixteen regulations have been completed to date.
3. The review has been completed for two more regulations which are now being brought to members for comment.

FINANCIAL REGULATION 1 – RESPONSIBILITIES OF MEMBERS

4. [Appendix A](#) and [Appendix B](#) give the current regulation and the proposed new regulation with the changes highlighted. Changes have been made to the regulation to:
 - (a) Restrict the content to the financial and governance responsibilities of members and avoid excess duplication with the Council's constitution, and the Terms of Reference for individual committees.
 - (b) Remove duplication of specific responsibilities covered by other parts of the Financial Regulations.
 - (c) Recognise that the Audit and Governance Committee has replaced the separate Audit and Standards Committees.
 - (d) Recognise that legislative changes mean that individual executive members can now make decisions as well as the Executive as a whole.
 - (e) Recognise that the Audit and Governance Committee have a role in overseeing the financial stability of the Council and raising any concerns with Full Council.

FINANCIAL REGULATION 2 – RESPONSIBILITIES OF THE STATUTORY OFFICERS

5. [Appendix C](#) and [Appendix D](#) give the current regulation and the proposed new one which contains the changes as highlighted in the document, which include:
 - (a) General section added as a rule that the relevant legislation governing the statutory officers should be complied with.
 - (b) Additional general responsibilities added for all the statutory officers based on those stipulated at other councils.
 - (c) Rules on maintenance of reserves removed from the responsibilities of statutory officers as this was already covered by Financial Regulation 6.
 - (d) Responsibility added for Members and Officers to draw to the attention of the Statutory Chief Finance Officer at the earliest opportunity, any subject which may lead to him/her issuing a formal (S114) report that a proposal is unlawful or likely to exceed the financial resources;

RISK ASSESSMENT

6. There are no significant risk considerations in relation to this report

CONCLUSION

7. The proposed new approach to streamlining Financial Regulations will continue to guide the strategic and operational financial affairs of the authority in accordance with the latest national and local requirements.

Appendices:

Appendix A: Financial Regulation 1 – Responsibilities of Members - Current version ([separate attachment](#))

Appendix B: Financial Regulation 1 – Financial Responsibilities of Members – Proposed version ([separate attachment](#))

Appendix C: Financial Regulation 2 – Responsibilities of the Statutory Officers - Current version ([separate attachment](#))

Appendix D: Financial Regulation 2 – Responsibilities of Statutory Officers – Proposed version ([separate attachment](#))

Background Papers: None

Reference Papers:

Report of the Director of Finance and Resources to the Audit Committee on 30 November 2010 “Annual Review of Financial Regulations”.

Enquiries:

For further information on this report please contact Elaine Hammell. (Ext 4344)

REGULATION 1: RESPONSIBILITIES OF MEMBERS

Quick Link

- 1.1 Overall Responsibilities
- 1.2 The Council
- 1.3 The Executive
- 1.4 The Scrutiny Board and Review Panels
- 1.5 The Standards Committee
- 1.6 Other Committees
- 1.7 The Audit Committee

1.1 OVERALL RESPONSIBILITIES

All members have a general duty of care to the Council and responsibility for taking all reasonable actions to:

- a) Provide for the security of assets under their control (including ICT systems).
- b) Ensure use of resources is legal and properly authorised.
- c) Ensure use of resources achieves best value.
- d) Ensure that at no time any assets, income or other resources under their control are put at risk of loss or waste.

1.2 THE COUNCIL

The (Full) Council has the general responsibility for:

'Setting the Council's Policy and Budget Framework'

The Council must therefore ensure the following:

- 1.2.1 **Strategy Approval:** Corporate strategies are approved in accordance with the projected resources of the Council.
- 1.2.2 **Treasury Management:** The Treasury Management Strategy and Annual Investment Strategy adequately balance perceived risks with the need to maximise the cash resources for the Council.
- 1.2.3 **Budget Approval:** Approved revenue budgets, capital programmes and council tax levels are in accordance with the Council's Financial Strategy.
- 1.2.4 **Budget Amendments:** Supplementary estimates are only approved after consideration of the Council's overall budgetary position.
- 1.2.5 **Members Allowances:** The recommendations of the Independent Advisory Panel have been given appropriate consideration prior to the approval of the scheme of members allowances.

SECTION A: FINANCIAL RESPONSIBILITIES – REG 1 (Members)

- 1.2.6 **Statutory Officer Reports:** Appropriate action is taken on any s114, s114A, s5 or budget overspend reports issued by the statutory officers.
- [These refer to sections 114/A of the Local Government Finance Act 1988 and section 5 of the Local Government and Housing Act 1989. The responsibilities of the statutory officers under these acts are detailed in [Regulation 2](#).]
- 1.2.7 **External Audit:** Appropriate action will be taken in response to any concerns raised in the External Audit Annual Audit and Inspection Letter.
- 1.2.8 **Corporate Governance:** Appropriate action will be taken in response to any concerns raised by the Audit Committee in relation to issues of Corporate Governance.
- 1.2.9 **Anti-Fraud and Corruption Policy:** Appropriate action will be taken in response to any concerns raised by the Audit Committee in response to the review of the Anti-Fraud and Corruption Policy.
- 1.2.10 **Risk Management Policy and Strategy:** Appropriate action will be taken in response to any concerns raised by the Audit Committee in response to the review of the Risk Management Policy and Strategy.

1.3 THE EXECUTIVE

The Executive has the general responsibility for:

'Making Decisions on Council's Services within the Policy and Budget Framework set'

The Executive must therefore ensure the following:

- 1.3.1 **Financial Strategy:** The Financial Strategy for the Council is considered and any appropriate action needed identified and recommended to Council.
- 1.3.2 **Treasury Management Strategy:** The Treasury Management Strategy is considered in light of the Council's Financial Strategy and projected resources and any appropriate action needed identified and recommended to Council prior to approval.
- 1.3.3 **Setting of Budgets:** Detailed estimates of income and expenditure for all services and committees, and the proposed Council Tax levels are prepared within the context of the Council's Financial Strategy for approval by the Council on an annual basis.
- 1.3.4 **Power to Incur Expenditure:** Expenditure is only incurred if it forms part of the approved Service Revenue Budget or Capital Programme, or is urgent and is in accordance with the provisions of the Constitution, [Regulation 6](#) or [Regulation 8](#).

SECTION A: FINANCIAL RESPONSIBILITIES – REG 1 (Members)

- 1.3.5 **Amendments to Budgets (virements):** Any decision to reallocate revenue or capital budget funds from one service to another does not exceed the virement rules approved by the Council. See [Regulation 8](#) and [9](#).
- 1.3.6 **Budgetary Control:** The overall revenue budget and capital programme approved by the Council is not exceeded.
- 1.3.7 **Action if Resources Likely to be Exceeded:** Any report issued by the Statutory Chief Finance Officer, indicating that expenditure is likely to exceed the resources available, is considered and referred to the Council.
- 1.3.8 **Decision-Making:** The forward rolling plan of key decisions uses the agreed criteria, as set out in the Constitution.
- 1.3.9 **Financial Implications of Decisions:** Any proposals, which have significant financial implications, are only made by the whole Executive and meet the consultation requirements, set out in the Constitution. In all cases a report must be considered, in consultation with the Statutory Chief Finance Officer, which clearly identifies the costs and benefits before any decision is taken.
- 1.3.10 **Capital Scheme Approval:** Approved capital schemes are in accordance with the Council's Capital Strategy and Asset Management Plan. Any increases in the value of any single scheme are approved in accordance with [Financial Regulation 9.2.5](#).
- 1.3.11 **Award of Contracts:** Propriety and Best Value are maintained in the award of any Council contract.
- 1.3.12 **S115B Reports** - An appropriate report is prepared for the Scrutiny Board in response to any s114 or s114A reports on financial misconduct issued by the Statutory Finance Officer.

[These refer to sections 114/A of the Local Government Finance Act 1988. The responsibilities of the Statutory Finance Officers under these acts are detailed in [Regulation 2](#).]

1.4 THE SCRUTINY BOARD AND REVIEW PANELS

The Scrutiny Board has the general responsibility to:

'monitor and review the policy, strategy and finance activities of the Council; to help the Council develop appropriate policies and strategies; and to scrutinise the decisions of the Executive to make sure it is delivering effective services and providing value for money'.

The Review Panels have the general responsibility for:

'monitoring and reviewing the activities of the Council associated with their portfolio, and to help develop appropriate policies and strategies. In particular they examine Executive decisions before or after implementation to ensure they are within the Policy and Budget Framework set'.

The Scrutiny Board with the Review Panels must therefore ensure the following:

- 1.4.1 **Setting of Service Budgets:** Annual budgets proposed for the provision of Council services are reviewed against the policy and strategy set for the service.
- 1.4.2 **Budgetary Control:** Any specific budgets allocated to the Scrutiny Board or Review Panel are adequately controlled.

1.5 THE STANDARDS COMMITTEE

The Standards Committee has the general responsibility for:

'Advising on an internal framework of ethical governance'

The Standards Committee must therefore ensure the following:

- 1.5.1 **Promotion of Probity and Ethics:** The required standards of conduct are promoted amongst members and employees.
- 1.5.2 **Committee Budget:** Detailed estimates of income and expenditure for the Committee's services are submitted to the Executive for approval by the Council on an annual basis.
- 1.5.3 **Budgetary Control:** The budget approved by the Council is not exceeded.

1.6 THE OTHER COMMITTEES

The Other Committees consist of:

- a) **The Licensing and Regulatory Affairs Committee**
- b) **The Planning Development Control Committee**
- c) **The Appeals Committee**
- d) **any other Committees appointed by the Council.**

Other Committees have the general responsibility for:

"Carrying out non-executive functions within the powers delegated to them by the Council"

The Other Committees must therefore ensure the following:

- 1.6.1 **Setting of Budgets:** Detailed estimates of income and expenditure for the Committee services, where applicable, are submitted to the Executive for approval by the Council on an annual basis.

- 1.6.2 **Budgetary Control:** The individual Committee budgets approved by the Council are not exceeded.
- 1.6.3 **Action if Resources Likely to be Exceeded:** Any report issued by the Statutory Chief Finance Officer, indicating that expenditure is likely to exceed the resources available, is considered and referred to the Council.

1.7 THE AUDIT COMMITTEE

The Audit Committee has the responsibilities to:

'provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment; and to oversee the financial reporting process.'

These responsibilities are defined further in **FRSD 28 – Audit Committee Responsibilities.**

The Committee must therefore ensure the following:

- 1.7.1 **Financial Policies:** Recommendations are made to Council which will support appropriate arrangements being made for the proper administration of financial affairs. This includes reviewing the annual updates to the Council's Financial Regulations and Contract Standing Orders.
- 1.7.2 **Risk Management Policy:** The Council's risk management policy is pertinent to being custodians of public monies.
- 1.7.3 **Risk Management Strategy:** The Council's risk management strategy is appropriate to support the development and embedding of risk management processes throughout the Council.
- 1.7.4 **Strategic Risk Registers:** Adequate action is taken to identify, assess and control any strategic risks identified for the Council.
- 1.7.5 **External Audit Plan:** The External auditors' plan of work for the year is considered and approved as necessary.
- 1.7.6 **External Audit Report:** The External Audit Annual Audit and Inspection letter is considered and any appropriate action needed is reported to the Council.
- 1.7.7 **Internal Audit Plans:** Internal audit coverage is appropriate and provides assurance across the framework of internal control in the Council. Actions are being taken to address weaknesses found.

SECTION A: FINANCIAL RESPONSIBILITIES – REG 1 (Members)

- 1.7.8 **Internal Control Assurance:** The Head of Audit's Annual Report is considered and any appropriate actions taken.
- 1.7.9 **Anti-Fraud and Corruption Policies:** Appropriate Anti-Fraud and Corruption Policies and Strategies are maintained and reports on the work carried out in respect of these are received and any appropriate action needed is reported to the Council.
- 1.7.10 **Code of Corporate Governance:** The annual review of the Code of Corporate Governance is considered and any appropriate action needed identified and reported to the Council.
- 1.7.11 **Statement of Accounts:** The authority's statement of accounts, income and expenditure, balance sheet and Annual Governance Statement, are scrutinised and approved as necessary.

Other Points of Reference (underline denotes a hyperlink is available)

Constitution Part 1 – The Constitution

[Regulation 2: Responsibilities of Statutory Officers](#)

[Regulation 5: Corporate Planning](#)

[Regulation 6: Financial Strategies](#)

[Regulation 7: Financial Reporting](#)

[Regulation 8: Revenue Budgets](#)

[Regulation 9: Capital Budgets](#)

[Regulation 10: Risk Management](#)

[Regulation 11: Internal Audit](#)

[Regulation 12: Treasury Management](#)

[Regulation 18.4: Members Allowances](#)

[Financial Regulation Support Document 28: Responsibilities of an Audit Committee](#)

REGULATION 1: FINANCIAL RESPONSIBILITIES OF MEMBERS (Proposed)

[Quick Link](#)

- 1.1 Overall Responsibilities
- 1.2 The Council
- 1.3 Decision Making Groups and Individuals
- 1.4 The Audit and Governance Committee

1.1 OVERALL RESPONSIBILITIES

1.1.1 **All members** have a general duty of care to the Council and responsibility for taking all reasonable actions to:

- a) Ensure use of resources is legal and properly authorised.
- b) Ensure use of resources achieves best value.
- c) Ensure that at no time any assets, income or other resources under their control are put at an unacceptable risk of loss or waste.

1.2 THE COUNCIL

1.2.1 **Constitution and Governance Framework:** The Council is responsible for approving the Council's constitution and governance framework and ensuring that appropriate action is taken in response to any concerns raised by the Audit and Governance Committee.

1.2.2 **Policy Framework and Budget:** The Council is responsible for approving the Council's policy framework, the annual budget, budget strategy and Treasury Management Strategy within which the decision making groups and individuals operate.

1.2.3 **Statutory Reports:** The Council should ensure that appropriate action is taken in response to any formal reports issued by the statutory officers or external auditors.

1.3 DECISION MAKING GROUPS AND INDIVIDUALS

1.3.1 Member groups and individuals who are delegated the power to make decisions on behalf of the Council should carry out their responsibilities within the policy, governance and financial frameworks set by the Council.

1.4 THE AUDIT AND GOVERNANCE COMMITTEE

1.4.1 **Governance Framework:** The Audit and Governance Committee is responsible for recommending changes to the governance framework to the Council, including changes to the Financial Regulations.

- 1.4.2 **Annual Governance Statement:** The Audit and Governance Committee is responsible for overseeing the annual review of the effectiveness of Council's governance framework and approving the Annual Governance Statement on behalf of the Council.
- 1.4.3 **Statement of Accounts:** The Audit and Governance Committee is responsible for the approval of the annual Statement of Accounts on behalf of the Council.
- 1.4.4 **Financial Stability:** The Audit and Governance Committee are responsible for overseeing the Council's financial stability and should bring to the attention of the Council any concerns arising from the Statement of Accounts or reports issued by the external auditors.

REGULATION 2: RESPONSIBILITIES OF STATUTORY OFFICERS

[Quick Link](#)

- 2.1 The Head of Paid Service
- 2.2 The Monitoring Officer
- 2.3 The Statutory Chief Finance Officer

The Local Government Act 2000 and subsequent amendments stipulate that all local authorities must appoint the following 3 statutory officers, who are granted a high degree of statutory protection from dismissal and discipline due to the significance of their roles:

- The Head of Paid Service (from s4 of the Local Government and Housing Act 1989)
- The Monitoring Officer (from s5 of the Local Government and Housing Act 1989)
- The Chief Finance Officer (from s114 of the Local Government Finance Act 1988)

This regulation outlines the key responsibilities of these officers in relation to financial management, other than those established in the Schedule of Officer Delegations.

The latter post is referred to as the Statutory Chief Finance Officer (SCFO) throughout these regulations to distinguish it from other financial responsibilities of senior finance officers, irrespective of whether they are fulfilled by the same post holder.

2.1 THE HEAD OF PAID SERVICE (HPS)

This post is responsible for the corporate and strategic management of the authority as a whole.

This role is assigned to the Chief Executive Officer.

The Head of Paid Service must therefore ensure the following:

- 2.1.1 **Records of Decisions:** A system for recording all Council's decisions is maintained, including those made by or on behalf of the Executive.
[N.B. This responsibility is shared with the Monitoring Officer].
- 2.1.2 **Employee Costs:** An annual report is provided to the Council on the number of people employed for the discharge of functions provided by or on behalf of the Council, and the total cost of this employment.

2.2 THE MONITORING OFFICER (MO)

This post is responsible for overseeing that no action of the Council contravenes any legislation or code of practice or may lead to a charge of maladministration.

This role is assigned to the Solicitor to the Council.

The Monitoring Officer must therefore ensure the following:

- 2.2.1 **Records of Decisions:** A system for recording all Council's decisions is maintained, including those made by or on behalf of the Executive.
[N.B. This responsibility is shared with the Head of Paid Service].
- 2.2.2 **Validity of Decisions:** The Executive are advised if their decisions are not within the budget and policy framework.
[N.B. This responsibility is shared with the Statutory Chief Finance Officer].
- 2.2.3 **Section 5 Reports:** A report is made to the Council or the Executive, as appropriate, after consultation with the Head of Paid Service and Statutory Chief Finance Officer, if any proposal, decision or omission will give rise to unlawfulness or maladministration.
[Responsibility under section 5 of the Local Government and Housing Act 1989.]
- 2.2.4 **Member Allowances:** The approved scheme of Member Allowances is published in accordance with the statutory regulations.

2.3 THE STATUTORY CHIEF FINANCE OFFICER (SCFO)

**This post is responsible for ensuring the proper financial administration of the Council's services and affairs, and ensuring that all expenditure is lawful.
 This role is assigned to the Director of Finance and Resources.**

The Statutory Chief Finance Officer must therefore ensure the following:

- 2.3.1 **Section 151 Responsibility:** A framework for the proper administration of the Council's financial affairs is established, as set out in these Financial Regulations.
[Responsibility under section 151 of the Local Government Act 1972.]
- 2.3.2 **Accuracy of Advice:** Accurate, impartial advice and information on financial issues and options is given to the Chief Executive's Management Team, the Council and all its committees and members.
- 2.3.3 **Validity of Decisions:** The Executive are advised if their decisions are not within the budget and policy framework.
[N.B. This responsibility is shared with the Monitoring Officer].
- 2.3.4 **Notification if Resources Exceeded:** A report is issued to the Executive, and subsequently the Council, if it appears that expenditure in the year is likely to exceed the resources available.

2.3.5 Section 114 and 114A Reports: A report is issued to the Executive, all members and the Council's external auditor (after consultation with the Head of Paid Service and Monitoring Officer) if the SCFO considers that any proposal, decision or course of action by the Council, a committee, a member of the Executive or an officer:

- will involve incurring unlawful expenditure, or
- is unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account unlawfully.

[Responsibility under section 114 of the Local Government Act 1988. Where the unlawful action is to be carried out by a Member of the Executive these are termed s114A reports.]

The "Finance Strategy and Development Manager" and "Management and Financial Accounting Manager" are deputised to act in this matter if the SCFO is unable to perform these duties.

2.3.6 Adequate Reserves: A report is made to the Council each year, when the Council is calculating its annual budget and Council Tax precept, on:

- the robustness of the estimates made for the purposes of the calculations,
- the adequacy of the proposed financial reserves.

2.3.7 Section 27 Reports Where, during this process, it appears to the Statutory Chief Financial Officer that a controlled reserve is likely to be inadequate during the year, a report is made to the Executive or the Council on:

- the reasons for that situation,
- the appropriate action, if any, required to be taken to prevent such a situation arising.

[Responsibility under section 27 of the Local Government Act 2003 Part II)

Where reports are made under these duties, Members must have regard to them when making decisions regarding the budget and Council Tax.

2.3.8 Other Duties: Detailed responsibilities of the Statutory Chief Financial Officer as part of the 'financial administration framework' are also included in the relevant sections of the other Financial Regulations.

2.3.9 Delegation of Powers: The Statutory Chief Finance Officer may authorise an officer to exercise a power or duty conferred in Sections B, C, D or E of these regulations on their behalf.

Other Points of Reference (underline denotes a hyperlink is available)

Constitution Part 1 – The Constitution (chapter 10 The Councils Officers)

Constitution Part 4.5: Scheme of Delegation to Officers

[Financial Regulation 4: Authorisation Limits](#)

[Financial Regulation Support Document 3: Expenditure Authorisation Limits](#)

[Regulation 6: Financial Strategies](#)

[Regulation 7: Financial Reporting](#)

REGULATION 2: RESPONSIBILITIES OF STATUTORY OFFICERS - PROPOSED

[Quick Links](#)

- 2.1 **General**
- 2.2 **The Head of Paid Service**
- 2.3 **The Monitoring Officer**
- 2.4 **The Statutory Chief Finance Officer**

2.1 **GENERAL**

2.1.1 In accordance with the Local Government Act 2000 and subsequent amendments, the Council must appoint the following 3 statutory officers:

- Head of Paid Service (HPS)
- Monitoring Officer (MO)
- Chief Finance Officer (SCFO)

2.1.2 These officers must be free to carry out their obligations as stipulated by legislation which includes:

- Section 151 of the Local Government Act 1972 (SCFO)
- Sections 114 and 114A of the Local Government Finance Act 1988 (SCFO)
- Sections 4 and 5 of the Local Government and Housing Act 1989 (HPS and MO)
- Sections 25 and 27 of the Local Government Act 2003 (SCFO)
- The Accounts and Audit Regulations (SCFO)

2.2 **THE HEAD OF PAID SERVICE**

2.2.1 **Management:** The Head of Paid Service is responsible for the overall corporate management and **operational activity** of the Council.

2.2.2 **Professional Advice:** S/he is responsible for the provision of professional advice to all parties and committees in the decision-making process.

2.2.3 **Records of Decisions:** S/he is responsible, together with the Monitoring Officer, for ensuring a system for recording and reporting Council decisions is maintained.

2.3 THE MONITORING OFFICER

- 2.3.1 **Standards of Conduct:** The Monitoring Officer will contribute to the promotion and maintenance of high standards of conduct through provision of support to the Audit and Governance Committee.
- 2.3.2 **Constitution:** The Monitoring Officer will maintain the Constitution and ensure that it is available for consultation by Members, staff and the public.
- 2.3.3 **Records of Decisions:** S/he is responsible, together with the Head of Paid Service, for ensuring that procedures for recording and reporting decisions, and the reasons for those decisions, are operating effectively.
- 2.3.4 **Advice on Budget and Policy Framework:** S/he is responsible, together with the Statutory Chief Finance Officer, for advising the Executive if their decisions are not in accordance with the budget and policy framework.
- 2.3.5 **Unlawfulness and Maladministration:** S/he is responsible for overseeing that no action of the Council contravenes any legislation or code of practice or may lead to a charge of maladministration.
- 2.3.6 If s/he considers that any proposal, decision or omission will give rise to unlawfulness or maladministration s/he will make a Section 5 report to the Council or the Executive, as appropriate, after consultation with the Head of Paid Service and Statutory Chief Finance Officer.

2.4 THE STATUTORY CHIEF FINANCE OFFICER (SCFO)

- 2.4.1 **Financial Administration:** The Statutory Chief Finance Officer is responsible for:
- establishing a framework for the proper administration of the Council's financial affairs;
 - setting and monitoring compliance with financial management standards;
 - establishing an adequate and effective system of internal audit;
 - advising on the corporate financial position and on the key financial controls necessary to secure sound financial management;
 - giving accurate, impartial advice and information on financial issues and options to the Chief Executive's Management Team, the Council and all its committees and members.

-
- 2.4.2 Detailed responsibilities of the Statutory Chief Financial Officer as part of the 'financial administration framework' are also included in the relevant sections of the other Financial Regulations.
- 2.4.3 **Robust Budget:** The Statutory Chief Financial Officer shall issue a Section 25 report each year before the Council's budget is approved.
- 2.4.4 **Advice on Budget and Policy Framework:** Along with the Monitoring Officer, the Statutory Chief Finance Officer is responsible for advising the Executive if their decisions are not within the budget and policy framework.
- 2.4.5 **Unlawful Proposals:** The Statutory Chief Finance Officer shall issue a Section 114 (2) report to the Executive, all members and the Council's external auditor if s/he considers that any proposal, decision or course of action by the Council, a committee, a member of the Executive or an officer:
- will involve incurring unlawful expenditure, or
 - is unlawful and likely to cause a loss or deficiency, or
 - is about to enter an item of account **which is unlawful**.
- 2.4.6 In preparing a report s/he shall consult as far as practicable with the Head of Paid Service and the Monitoring Officer.
- 2.4.7 **Expenditure Exceeds Resources:** The Statutory Chief Finance Officer shall issue a Section 114 (3) report to the Executive, and subsequently the Council, if it appears that the expenditure in the **financial** year is likely to exceed the resources available.
- 2.4.8 **Deputies:** The "Nominated Operational Finance Manager and Nominated Strategic Finance Manager" are deputised to perform the Section 114 duties if the Statutory Chief Finance Officer is unable to perform these duties.
- 2.4.9 **Members and Officers shall draw to the attention of the Statutory Chief Finance Officer at the earliest opportunity, any subject which may lead to a formal report.**

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **10 March 2014**

Report of: **Director of Regulatory and Democratic Services**

Subject: **REVIEW OF THE MEMBERS CODE OF CONDUCT**

SUMMARY

Members have been operating under the new standards arrangements since July 2012 when a new code and arrangements for standards were approved by Council at its meeting on 21 June 2012. During the first years of operation the arrangements have worked well in that they are less prescriptive than the previous arrangements and provided more opportunity for matters to be dealt with at an early stage if warranted. This report highlights the current arrangements and the work that has been undertaken by the Hampshire and Isle of Wight Local Authorities (HIOWLA) with the objective of developing a pan-Hampshire Code of Conduct for Members. The report also highlights a way forward for consideration by the Committee that takes account of the work undertaken by HIOWLA as part of developing a more consistent Code of Conduct for Members across Hampshire Authorities.

RECOMMENDATION

HIOWLA authorities have been requested to review and where necessary revise their Codes of Conduct for Members in order to develop a more generic and consistent Code of Conduct for Members. Given that a number of Fareham's members are also Hampshire County Council members, it is recommended that:

- a) Once Hampshire County Council have reviewed their Code of Conduct for Members that this be reported to the committee so that Fareham's code can be reviewed in light of this and the request from HIOWLA to ensure as far as possible the two are consistent and complementary; and,
- b) In the meantime the requirement for members to enter in the authority's register of interests the receipt of any gift or hospitality, where the Member estimates the value to be at least £50, within 28 days of receipt be incorporated into Fareham's existing Code of Conduct for Members.

INTRODUCTION

1. At the meeting of the Audit and Governance Committee on the 11 March 2013, the Committee considered a motion which was submitted to Council on 22 February 2013 by Councillor N R Gregory which had been referred to it for consideration. The motion related to the Code of Conduct for Members and the sanctions available for dealing with any breach of the code. In considering the matter, it was resolved that the motion was not supported but the Monitoring Officer bring a report back to the Committee in one year's time to give an update on how the current arrangements are working with possible recommendations for improvement.
2. The new arrangements for dealing with the misconduct of members has seen a significant move from a national system to a local one, with proportionate arrangements set locally and a focus on the more serious complaints.
3. There was also the introduction of the criminal law to some aspects of conduct, but at the same time a considerable watering down of many of the sanctions made available to Standards Committees in recent years.
4. The introduction of the new arrangements was hampered by the lateness of the detailed regulations covering the content of the Code of Conduct and the Disclosable Pecuniary Interests regime. There were also legal uncertainties, some now resolved, over the practical effect of some of the changes. Notwithstanding the challenges, the Council were able to put in place arrangements by the July 2012 deadline that met the requirements of the Localism Act.
5. Another significant change was the appointment of our two Independent Persons. They are new statutory appointees, recruited and appointed by the Council to have independent oversight over the way the Council deal with Member complaints and who are consulted at various stages in our procedures.
6. This report sets out the position in terms of the current arrangements at Fareham and the options that have been considered by the Hampshire and Isle of Wight Local Authorities (HIOWLGA) that have been considered in order to develop a pan- Hampshire Code of Conduct for Members.

Current Arrangements as a result of the Localism Act 2011

7. A report was presented to the meeting of Council on 21 June 2012 that explained the effect and implications of the Localism Act 2011. The Act changed the arrangements governing standards of members conduct and abolished the then current national standards regime that was in place governing the conduct of members.
8. However, section 27 of the Localism Act still placed a duty on the Council to promote and maintain high standards of conduct by both Members and Co-opted Members of the Council, and to adopt a Code of Conduct to deal with the conduct expected of Members and Co-opted Members when acting in an official capacity.

Members Code of Conduct

9. The current Code of Conduct as required by the Localism Act is consistent with the Seven Principles of Public Life, known as the Nolan Principles of: selflessness, integrity, objectivity, accountability, openness, honest and leadership.
10. The Code of Conduct also contains provision for the registration and disclosure of specified pecuniary interests, and interests other than pecuniary interests which the Council requires to be registered.

Members' Interests

11. The provisions in respect of the registration and disclosure of Members' Interests also changed and the Code of Conduct for Members reflected the new arrangements. Section 29 of the Localism Act required the Monitoring Officer to establish and maintain a Register of Members' and Co-opted Members' interests, to make the register available for inspection, and to publish it on the Council's website.
12. The Register had to include details of Disclosable Pecuniary Interests (DPIs), as defined in Regulations made by the Secretary of State, of themselves, their spouse or person they live with as husband and wife or civil partner. This was all done and a Register of Members' Interests is in place and this is published on the Council's website and Members update these as and when their interests change.
13. In addition, in order to promote good governance, and to minimise any allegations of bias in decision making, the provision in respect of the registration and disclosure of what, under the old Code of Conduct, would constitute a personal interest was retained. A personal interest currently arises where it relates to either a personal interest a Member must register, or to a personal interest not required to be registered, where the well-being or financial position of the Member, his family, or persons with whom the Member has a close association, is likely to be affected by the business more than the majority of inhabitants of any electoral wards of the Council, or inhabitants of the Council's area generally. It was considered appropriate that personal interests should continue to be registered and this was included within the Council's current Code of Conduct.

Arrangements for dealing with complaints

14. The Localism Act requires the Council to make 'arrangements' for dealing with complaints of breaches of the Code of Conduct for Members.
15. As a result the Council's Audit Committee was renamed the Audit and Governance Committee and is now made up of 7 Members and its terms of reference extended to deal with Standards issues as well as any alleged complaints about member conduct by way of a Standards Sub Committee.
16. The actual arrangements and procedure for dealing with complaints of breaches

of the Code of Conduct for Members were agreed by Council at its meeting on 21 June 2012 and these new arrangements and responsibilities came into effect on 1 July 2012. The Code of Conduct for Members and the procedure for dealing with complaints is published on the Council's website.

Independent Persons

17. Part of the arrangements that the Localism Act required was to appoint Independent Person(s) who would be used as a 'sounding board' when dealing with complaints about members conduct. The Independent Person **must** be consulted by the authority before it makes a finding as to whether a member has failed to comply with the Code of Conduct or decides on action to be taken in respect of that member. They may also be consulted by the council at any stage in respect of a standards complaint. In addition the Independent Person could also be consulted by a member of the Council against who a complaint has been made.
18. The Council appointed 2 Independent Persons which mitigates against the risk of the Council being unable to fulfil its statutory duty should one of the Independent Persons be conflicted out or incapacitated. The two Independent Persons are David Basson and Mary Kilbride.

Complaints dealt with to date

19. All complaints are taken seriously and investigated as appropriate. In order to be considered under the formal complaints process complaints must be submitted in writing, must provide substantiated information, and should outline what form of resolution the complainant is seeking. When a complaint does not meet these criteria and does not reveal a potential breach of the Members' Code of Conduct it is treated as a 'general enquiry'. This means that the Monitoring Officer responds to the complainant explaining why the matters complained of do not constitute a potential breach of the Members' Code of Conduct.
20. When a written complaint is submitted which provides the relevant information, the Monitoring Officer will consider the complaint against an assessment criteria and make a decision as to whether it will be treated as a valid complaint or not.
21. For the period 1 April 2012 to 31 March 2013, the Monitoring Officer received 10 separate complaints about Councillors, 7 of which were treated as formal complaints and assessed against the criteria set out in the complaints procedure. All these were resolved at an early stage of the complaints procedure meaning that there have been no determinations or findings of a failure to comply with the Code of Conduct that needed to be referred following investigation by the Monitoring Officer to the Standards Sub Committee.
22. For the period 1 April 2013 to date (12 February 2014) 6 separate complaints about Councillors were received, 3 of which were treated as formal complaints, one being resolved as part of the complaints procedure and no determinations or findings of a failure to comply with the Code of Conduct.

Hampshire Wide Code

23. When Fareham's current Code of Conduct for Members was approved in June 2011, Members also resolved that account would be taken of any Hampshire wide generic Code as part of any future review of the Council's Code of Conduct for Members.
24. This is particularly important where Members are 'double' or even 'triple-hatted' and have to work to different codes. This obviously causes confusion if the ethical standards to which they must adhere vary depending on the capacity in which they are acting, or which authority's meeting they are attending. It was felt that this could increase the risk of inadvertent failure to comply.
25. HIOWLA authorities also expressed support for the development of a pan-Hampshire code of conduct and Hampshire County Council's Head of Legal Services has undertaken work to explore co-operation and collaboration between the HIOWLA authorities to produce a joint code to implement the requirements of the Localism Act on Members' conduct.
26. At the meeting of the Hampshire and Isle of Wight Local Authorities (HIOWLGA) on 22 November 2013 consideration was given to the matter of a pan-Hampshire Code of Conduct for members. The options that were considered are attached as Appendix A.
27. HIOWLA considers that it is in the interests of Members of its constituent authorities, and the public served by those authorities, to adopt a consistent approach to the registration and disclosure of Members' pecuniary and non-pecuniary interests that are relevant to the business of the authorities. It is considered such an approach will reduce confusion as to when relevant interests should be disclosed, and minimise the risk of inadvertent failure to comply with relevant requirements.
28. After considering the matter Option 2 was identified as the preferred way forward as this achieves consistency in the registration and disclosure of DPIs, other pecuniary and non-pecuniary interests
29. It was felt that this strikes a reasonable balance between achieving consistency in the disclosure of interests, while retaining flexibility for some local variation in the setting of standards for other aspects of conduct and behaviour. Further, this would not preclude the adoption of consistent standards for such other aspects of conduct and behaviour at some future stage, should this be desired.
30. In terms of Option 2 a suitable draft document is attached at Appendix B that could be incorporated into our code for adoption.
31. HIOWLA cannot resolve to adopt a Code of Conduct on behalf of any constituent authority, or to unilaterally amend any authority's existing Code or Standing Orders. However, HIOWLA can agree to ask each constituent local authority to review and, where necessary, consider revising its existing Code and Standing Orders with a view to ensuring that these include the core provision set out in Appendix B.

32. As a result the Chairman of HIOWLGA has written to all Leaders and Chief Executive of HIOWLGA (see Appendix C) requesting that all HIOWLGA authorities review and, where necessary revise their existing Code and Standing Orders with a view to ensuring that, in addition to the mandatory requirements of the Localism Act they also include the core provisions set out in Appendix B to this report.
33. Authorities may, of course, adopt such further provision in their Code of Conduct or Standing Orders as they consider appropriate, but are requested to ensure that no such provision is inconsistent with the core provisions set out in Appendix B.

Sanctions

34. The Act does not replicate the previous array of sanctions and does not give the Council or its Committees or Officers any powers to impose sanctions such as suspension or requirements for training or an apology. So, where a failure to comply with the Code of Conduct is found, the range of actions which the authority can take in respect of the member is limited to censure and such other action which are permitted under general local government law.
35. Under the previous arrangements local authorities and an independent tribunal had the power to suspend members for varying periods of time as a sanction against poor behaviour.
36. The only sanctions that are available now, apart from the use of a political parties internal discipline procedures are censure or a criminal offence of failing to declare or register interests relating to disclosable pecuniary interests. The latter route will rarely be used.

The Way Forward

37. Fareham's code generally meets the requirements of option 2 that was identified by HIOWLA as the preferred option. The main difference however is that in Fareham's code there is no requirement that relates to gifts and hospitality and in certain circumstances where a member has a personal interest, that is also a pecuniary interest, they are allowed to attend a meeting to make representations and then must leave the room where the meeting is being held while any discussion or voting takes place.
38. The wording of our current Code of Conduct for Members could be further refined and to this effect bearing in mind that a number of Fareham's Councillors are Hampshire County Councillors it would be beneficial that we ensure that the two codes are complementary.
39. As such the Monitoring Officer has been liaising with the Head of Legal Services and the Monitoring Officer of Hampshire County Council to ascertain at what stage they are in the review of their Code of Conduct for Members in light of the request from HIOWLA. It is therefore proposed that once Hampshire County Council have undertaken a review of their code to reflect option 2, that this is then reported to the Committee to ensure the content and wording of Fareham's Code is as far as possible consistent.

Conclusion

40. Given that a number of Fareham members are Hampshire County Council members and as such have to take account of two codes, it is recommended that once Hampshire County Council have reviewed their Code of Conduct for Members that this be reported to the committee so that Fareham's code can be reviewed in light of this and the request from HIOWLA to ensure as far as possible the two are consistent and complimentary.
41. Under the Localism Act there is no requirement to register gifts and hospitality but for transparency purposes it is also recommended that the requirement relating to Gifts and Hospitality is also adopted and incorporated into Fareham's Code of Conduct for Members in the meantime.

Background Papers:

Reference Papers:

Report to Council, 26 April 2012, The Localism Act and the new Standards Regime
Report to Council, 21 June 2012, Standards Arrangements
Report to HIOWLA, 22 November 2013, Localism Act- Options for a Pan-Hampshire Members' Code of Conduct

Enquiries:

For further information on this report please contact Garry White. (Ext 4395)

Options that were considered by the Hampshire and Isle of Wight Local Authorities (HIOWLGA) on 22 November 2013

Option 1 – Consistent Approach to Disclosable Pecuniary Interests

3.1 At the HIOWLA meeting on 22 June 2012, the Regulations on disclosable pecuniary interests (“DPIs”) had only recently been published, and had yet to come into force.¹ These are now in place and provide a basic level of commonality across all of the authorities as to the requirements upon Members for the registration and disclosure of pecuniary interests. The first option therefore involves a view that, in the light of experience in practice, this now secures a sufficient level of consistency and that no further provision is required.

3.2 The advantages of this option are:

- It strikes a balance between consistency in the key area of registration and disclosure of significant pecuniary interests, while recognising that authorities have discretion to adopt additional provisions where they consider this appropriate to local needs
- It is easy to implement, representing the status quo

3.3 The disadvantage of this option is:

- The ability for authorities to adopt additional provisions in their codes enables further requirements to be adopted on the registration and disclosure of pecuniary interests other than DPIs (e.g. gifts and hospitality), and non-pecuniary interests. This may still lead to confusion for multi-hatted members therefore, who would still need to adhere to slightly different rules on registering and disclosing interests

4. Option 2 – Consistent Approach to Pecuniary and Non-Pecuniary Interests other than DPIs (“Personal Interests”)

4.1 This option goes one step further than Option 1 and would involve all authorities adopting a common set of requirements concerning registration and disclosure of those pecuniary interests that do not meet the description of a DPI, and non-pecuniary interests. Further, there could be consistency as to when a Member, who has a DPI or other interest in a matter being considered at a meeting, is required to leave the meeting room for that item.

4.2 Research suggests that a common approach may be achievable here:

¹ The Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012, which came into force on 1 July 2012

- 4.3 Personal Interests: A number of the Hiowla authorities already require there to be at least some registration and/or disclosure of personal interests. The Localism Act reduced the scope of interests legally required to be registered and disclosed, leaving the making of additional provision to local discretion. There is a feeling that some disclosure of personal interests remains appropriate in the handling of certain potentially sensitive types of business (e.g. planning applications, the award of grants and contracts), where reliance solely on the rules relating to DPIs would not afford a sufficient level of transparency.
- 4.4 A number of authorities regard a “personal interest” as arising in an item of business where it relates to or is likely to affect any of the following bodies of which the Member is a member: a public or charitable body, any body to which the Member has been appointed by the authority, any political party, trade union or other body one of whose principal purposes is to influence public opinion or policy.
- 4.5 Similarly, a number of authorities provide that a “personal interest” will also arise where a decision on an item of business might reasonably be regarded as affecting the well being or financial position of the Member, a member of the Member’s family or person with whom they have a close association, more than other council tax payers, ratepayers or inhabitants of the authority’s area.
- 4.6 Based on the current range of approaches, a possible basis for a common, proportionate approach would be a requirement to disclose a personal interest orally at a meeting, where it is relevant to an item of business being considered at that meeting. There would be no requirement to enter the interest in the published register of interests, though the oral disclosure at a meeting would be recorded in the minutes of that meeting. Once the interest has been disclosed, there would be no requirement for the Member to leave the room, and the Member would be able to participate in discussion and vote on the matter. There would be no requirement to include the interest in the register of interests which is published on the web.
- 4.7 Although many of the Hiowla authorities accept the principle that there should be some registration and/or disclosure of personal interests, the detailed provisions adopted by the authorities vary. Acceptance of a need for change on the part of some authorities would be required, as the price to be paid for achieving a common Hiowla-wide approach.
- 4.8 Gifts and Hospitality: A number of authorities have adopted a requirement to register the receipt of gifts or hospitality. The general threshold of value for registration varies, between £25 and £50. It may be possible to reach agreement in principle that such a requirement should be universally adopted, with an agreed value, say £50.
- 4.9 Exclusion from the Room where a Member has a DPI: In general, authorities require through their standing orders that a Member who holds a DPI in a matter being considered at a meeting should leave the room while the discussion and vote on that item take place.
- 4.10 The advantage of this Option 2 would be:
- All authorities would operate consistent provisions regarding all aspects of the registration and disclosure of interests, reducing risk of confusion amongst

Members, and of inadvertent failure to comply with the relevant authority's code

4.11 The disadvantage of this option would be:

- It still does not address the issue of consistency in requirements concerning aspects of conduct other than registration and disclosure of interests

5 Option 3 – Consistent Approach to DPI's, other Pecuniary and Non-Pecuniary Interests, and other Aspects of Conduct

5.1 This Option involves going one step further than Option 2 by ensuring consistency in provision regarding aspects of conduct other than registration and disclosure of interests. While the precise wording may differ slightly from one authority's code to another, many currently include provision in areas such as the following:

- Treating others with respect
- Maintaining confidentiality
- Observing requirements of equalities legislation
- Upholding, and not compromising, the impartiality of officers
- Not using position as a Member to secure an advantage
- Using resources of the authority for authorised purposes, and not for political purposes

5.2 There are two ways in which greater consistency could be achieved.

5.3 **Option 3A** would involve agreeing the principles (such as those listed in para 5.1 above) which should be covered by each authority's Code, yet leave it at each authority's discretion to settle upon its own precise wording. **Option 3B** would involve agreeing the actual wording for all authorities to adopt.

5.4 The advantage of Option 3A would be that:

- There is consistency in the principles of proper conduct that members are required to observe
- There is discretion for authorities as to the style in which the requirements are expressed
- It may better facilitate agreement and adoption, as it would not be necessary to resolve issues where there are different views on detailed drafting

5.5 The disadvantage of Option 3A would be that:

- There is still some minor inconsistency in the particular requirements Members are required to observe

5.6 The advantage of Option 3B would be that:

- It achieves complete consistency across all authorities on not only the principles, but the precise details, of the requirements placed upon Members

5.7 The disadvantage of Option 3B would be that:

- It may be viewed as too prescriptive and not recognising a role for local variation to meet local needs
- It may be difficult to reach agreement.

Core Provision to be made in the Codes of Conduct and Standing Orders of Hampshire and Isle of Wight Local Authorities (HLOWLA) to achieve consistency of approach to Member Conduct

Summary

HLOWLA considers that it is in the interests of Members of its constituent authorities, and the public served by those authorities, to adopt a consistent approach to the registration and disclosure of Members' pecuniary and non-pecuniary interests that are relevant to the business of the authorities. It is considered such an approach will reduce confusion as to when relevant interests should be disclosed, and minimise the risk of inadvertent failure to comply with relevant requirements.

It has therefore been agreed to invite each constituent authority to review its Code of Conduct for Members and Standing Orders and, where necessary, to consider revising these to ensure that, in addition to the mandatory requirements of the Localism Act, they include the core provisions set out below.

Authorities may of course adopt such further provision in their Code of Conduct or Standing Orders as they consider appropriate, but are requested to ensure that no such provision is inconsistent with the core provisions set out below.

The term "Member" includes member and co-opted member, throughout.

Code of Conduct

1. Personal Interests

- 1.1. A Member has a "personal interest" in an item of business where it relates to or is likely to affect any of the following bodies of which they are a member: a public or charitable body, any body to which the Member has been appointed by the authority, any political party, trade union or other body one of whose principal purposes is to influence public opinion or policy.
- 1.2. A Member also has a "personal interest" in an item of business where a decision in relation to it might reasonably be regarded as affecting the well being or financial position of the Member, a member of the Member's family or person with whom they have a close association, more than other council tax payers, ratepayers or inhabitants of the authority's area.
- 1.3. A Member shall disclose a "personal interest" at a meeting of the authority, committee or sub-committee, where the Member considers that interest to be relevant to an item of business being considered at that meeting. The disclosure shall be made at the commencement of the meeting, or when the interest becomes apparent, and shall be recorded in the minutes of the meeting.
- 1.4. Disclosure of a personal interest does not affect the ability of the Member to participate in discussion or vote on the relevant item, provided it is not also a

disclosable pecuniary interest.

2. Gifts and Hospitality

- 2.1. A Member shall enter in the authority's register of interests the receipt of any gift or hospitality, where the Member estimates the value to be at least £50, within 28 days of receipt.

Standing Orders

3. Exclusion from Meeting Where Member Holds a Disclosable Pecuniary Interest

- 3.1. The authority's Standing Orders shall provide for the exclusion of a Member of the authority from a meeting while any discussion or vote takes place on a matter in which the Member has a disclosable pecuniary interest, unless a dispensation has been granted.

HAMPSHIRE AND ISLE OF WIGHT
LOCAL GOVERNMENT ASSOCIATION



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Chairman

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My ref: SW/mw

16 January 2014

All Leaders of HIOWLGA
cc All Chief Executives of HIOWLGA

Dear Councillor

Pan-Hampshire Code of Conduct

At the meeting of Hampshire and Isle of Wight Local Authorities (HIOWLGA) on 22 November 2013, consideration was given to the matter of a Pan-Hampshire Code of Conduct for Members. A copy of the report considered at the meeting is attached.

It was considered to be in the interests of Members of our constituent authorities (a number of whom are Members of more than one authority), and the public that those authorities serve, to adopt a consistent approach to the registration and disclosure of Members' pecuniary and non-pecuniary interests. Such an approach will reduce confusion as to when relevant interests should be disclosed, and minimise the risk of inadvertent failure to comply with relevant requirements.

After considering the options set out in the report, Option 2 was identified as the preferred way forward. Under the Localism Act, it is for each local authority to adopt and, where necessary, revise, its Code of Conduct. It was agreed therefore that all HIOWLGA authorities would be asked to review and, where necessary, revise their existing Code and Standing Orders, with a view to ensuring that these include the core provisions set out in the appendix to the report.

I would be grateful if you could make the necessary arrangements for this review to take place within your own authority. While the outcome of that consideration is a matter for your authority, I would invite you to have regard to the value that will be added by the arrangements of all HIOWLGA authorities, governing the disclosure of Member interests, sharing the same essential characteristics.

Yours faithfully

Councillor Seán Woodward
CHAIRMAN

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **10 March 2014**

Report of: **Monitoring Officer**

Subject: **FUNCTIONS OF THE AUDIT AND GOVERNANCE COMMITTEE**

SUMMARY

This report confirms updates to the Part Two of the Constitution – Functions of the Audit and Governance Committee, following changes agreed by Council at its meeting on 12 December 2013.

RECOMMENDATION

That the Audit and Governance Committee:

- (a) notes the updates to its functions, as specified in Part Two of the Council's Constitution – Functions of the Audit and Governance Committee relating to the Standing Orders with Respect to Meetings, as attached at Appendix A to the report; and
- (b) recommends to Council the updates to the Functions of the Audit and Governance Committee that relate to the review of Financial Regulations, as highlighted in Appendix A to the report.

INTRODUCTION

1. The Head of Democratic Services undertook a review of the Council's Standing Orders with Respect to Meetings and following consultation with the Scrutiny Board, the Executive and the Audit and Governance Committee, presented the recommended updates to the meeting of the Council on 12 December 2013.

BACKGROUND

2. The views of the Executive were sought at its meeting on 2 December 2013 regarding a change to Standing Order 62 – Variations and Revocations of Standing Orders. Officers considered that it would be more appropriate and less bureaucratic for future amendments of the Standing Orders with Respect to Meetings to become part of the function and Terms of Reference of the Audit and Governance Committee. This would help to clarify and support changes to the Constitution which require Parts One to Three to be considered by the Executive, in consultation with the Scrutiny Board. Parts Four to Eight would then be under the function of the Audit & Governance Committee.
3. The Executive agreed to the change and the wording of Standing Order 62.1 was amended to reflect this.

PROPOSAL

4. To take account of the decision of the Executive and of the Council on 12 December 2013, the Audit and Governance Committee is asked to note the amendments to Part Two of the Constitution – Functions of the Audit and Governance Committee, which is attached at Appendix A.
5. To reflect changes to be considered by the Audit and Governance Committee regarding the Review of Financial Regulations (item 11 on the agenda for the meeting of 10 March 2014), the Audit and Governance Committee is asked to recommend updates to its functions to the Council.
6. Additional and amended wording is highlighted in bold text and underlined (for ease of reference) in Appendix A.

RISK ASSESSMENT

7. There is a risk to the Council that not having a Constitution and specifically, the Functions of the Audit and Governance which are robust and up to date could damage its reputation for good governance and undermine public confidence in the Council as a whole.

CONCLUSION

8. That the updates to Part Two of the Council's Constitution - Functions of Audit and Governance Committee be noted and that Council be recommended to approve the additions that relate to the review of Financial Regulations, as highlighted in Appendix A to the report.

Appendix A – [Functions of the Audit and Governance Committee](#)

Reference Papers: Fareham Borough Council Constitution.
Report to Council (cl-131212-r03-lus) 12 December 2013

Enquiries: For further information on this report please contact Leigh Usher. (Ext 4553)

Part 2: Chapter 8

Functions of the Audit and Governance Committee

1. The purpose of the Audit and Governance Committee is to:
 - a. Oversee and assess the Council's risk management, control and corporate governance arrangements and to provide independent advice on the adequacy and effectiveness of these arrangements;
 - b. To lead on the Council's duties under Chapter 7 of the Localism Act 2011 and to design, implement, monitor, approve and review the standards of ethics and probity of the Council both for councillors and employees; and
 - c. To promote, maintain and strengthen high standards of conduct by members and co-opted members of the Council.
2. The general functions and areas of responsibility of the Audit and Governance Committee are:

General

- a) To review any issue referred to it by the Chief Executive or a director or any council body.
- b) To seek assurance that action is being taken on risk related issues identified by auditors, inspectors or risk managers.
- c) To lead on the Council's duties under Chapter 7 of the Localism Act 2011 and oversee, maintain and strengthen high standards of conduct in public office.

Governance Framework

- a) To oversee the Council's arrangements for corporate governance and agree necessary actions to ensure compliance with best practice.
- b) To review and make recommendations to Council on its Financial Regulations and Contract Procurement Rules.
- c) **To review and make recommendations to Council on the Constitution's Standing Orders with Respect to Meetings.**
- d) To consider the effectiveness of the Authority's risk management arrangements and the systems of internal control.
- e) To review the adequacy of the Council's corporate risk registers.

- f) To review the policies and measures in place to prevent fraud and corruption.
- g) To oversee the production of the Council's Annual Governance Statement and to recommend its adoption.
- h) To oversee the implementation of the Council's Treasury Management Strategy and Policy

Audit Activity

- a) To review Internal Audit's strategy, plans and performance.
- b) To review summary internal audit reports and the main issues arising and seek assurance that action has been taken where necessary.
- c) To consider the Head of Audit and Assurance's annual report and opinion and a summary of internal audit activity (actual and proposed) and review the level of assurance it can give over the Council's corporate governance arrangements.
- d) To consider the findings of the review of effectiveness of the systems of internal audit.

External Audit and Inspection

- a) To comment on the scope and depth of external audit work and to ensure it gives value for money.
- b) To consider the external auditor's Annual Audit Letter, the Annual Governance Report and any other specific reports of external audit and inspection agencies as deemed appropriate to the committee role and responsibilities.
- c) To monitor the arrangements for effective co-operation between internal audit, external audit and other review bodies.

Accounts

- a) To approve the Authority's Statement of Accounts, income and expenditure and balance sheet or record of receipts and payments (as the case may be), in accordance with the Accounts and Audit Regulations.
- b) To consider whether appropriate accounting practices have been followed and whether there are concerns arising from the financial statement or from the audit that need to be brought to the attention of the Council
- c) To consider the External Auditor's report on issues arising from the audit of accounts.
- d) Oversee the Council's financial stability and bring to the attention of Council any concerns arising from the Statement of Accounts or reports issued by the external auditors.**

Standards

- a) Advise on an internal framework of probity and standards of conduct that should be followed by members and officers.
- b) Formulate, monitor and revise, as necessary, Local Codes of Conduct for members and officers.
- c) Formulate, monitor and revise, as necessary, a protocol for member/officer relationships.
- d) Issue guidance and best practice advice with regard to probity and ethics including the following:
 - the declaration and registration of members' interests
 - claims for members' allowances and expenses
 - acceptance of, or dealing with, offers of hospitality and gifts made by third parties
 - the provision to members of hospitality, goods, services and facilities by the Council
 - the undertaking of travel and foreign visits.
- e) Advise on such other matters of a similar kind that may be referred to the Committee.
- f) Issue advice and guidance to members representing the Council on outside bodies.
- g) Receive, consider and, where necessary, act on reports guidance and advice from the Council's Monitoring Officer and the Local Government Ombudsman.
- h) Provide appropriate training for members and officers with regard to any of the above and the ethical governance of the Council generally.
- i) Appoint such sub-committees, panels or working parties as are deemed appropriate to undertake specific parts of these Terms of Reference.
- j) Consider complaints against members' conduct and assess allegations of breaches of the Code of Conduct for Members to determine such complaints.
- k) Monitor and review members' training and development.
- l) To establish a Standards Sub-Committee to investigate and determine appropriate actions in respect of alleged breaches of the Members' Code of Conduct.

Functions of Standards Sub-Committee

The Audit and Governance Committee has determined that it will appoint a Standards Sub Committee to discharge its functions relating to complaints about member conduct to assess written allegations that a member or co-opted member of the Council has failed or may have failed to comply with the Members' Code of Conduct in accordance with Chapter 7 Localism Act 2011 or any amendment or re-enactment thereof and to administer sanctions where appropriate.

Where referred by the Monitoring Officer to grant dispensations to members under section 33 of the Localism Act or any amendment or re-enactment thereof

The Sub - Committee will comprise three members of the Audit and Governance Committee ensure that it deals with its functions in a fair and proper manner having regard to the Council's Code of Conduct, the relevant statutory provisions and the rules of natural justice.

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **10 March 2014**

Report of: **Director of Finance and Resources**

Subject: **REVIEW OF WORK PROGRAMME AND ANNUAL REPORT**

SUMMARY

This report summarises the work carried out by the Audit and Governance Committee during 2013/14 and proposes the programme of work for 2014/15.

RECOMMENDATION

- (a) The Council is recommended to note the report;
- (b) That the Committee work programme for 2014/15, as shown in [Appendix B](#), be approved.

INTRODUCTION

1. The Audit Committee has been in operation at the Council since December 2005. Its purpose is to oversee the Council's risk management, control and corporate governance arrangements and to provide independent advice on the adequacy and effectiveness of these arrangements.
2. From June 2012 the Committee merged with the Standards Committee and became the Audit and Governance Committee.
3. Good practice recommends that the Committee reports to the Council each year on its performance in relation to its purpose and functions set out in the constitution. This is the sixth annual report of the Committee and relates to its activity during 2013/14.

COMMITTEE ORGANISATION 2013/14

4. The Committee continued to operate this year in accordance with best practice as detailed in the Chartered Institute of Public Finance and Accountancy (CIPFA) publication "Audit Committees – Practical Guidance for Local Authorities" with a high level of compliance with the 2006 CIPFA publication "A Toolkit for Local Authority Audit Committees".
5. The Committee met four times in the year and reported directly to the Council. It was comprised of seven members who reflect the political balance of the Council. The chairman of the Committee for the year had no Executive responsibilities and was not required to deputise at the Scrutiny Board during the year. The committee was supported in its work by the Director of Finance and Resources.

COMMITTEE ACTIVITY IN 2013/14

6. A summary of the work carried out by the Committee in fulfilment of its functions for the year is given in [Appendix A](#). The following points should be noted:
 - (a) The Committee was not requested to review any issues by the Chief Executive Officer, any director or Council body during the year.
 - (b) The Committee obtained assurance that actions were being taken on risks identified by auditors, inspectors or risk managers by the following methods:
 - levels of recommendation implementation reviewed for each completed audit reported in the quarterly audit reports, along with grade movements and the results of specific follow up work;
 - review of Head of Audit's report in June giving the annual measures of audit recommendation implementation;
 - reviewed progress made on the 2011/12 Annual Governance Statement action plan in the review of evidence to support the Annual Governance Statement 2012/13.
 - (c) The Committee requested further information three times in respect of:
 - the Council's use of powers to freeze the assets of a benefits claimant suspected of non-disclosure of capital;
 - the use made of reward schemes at other councils to encourage fraud referrals from the public;

- the action being taken by managers in relation to the issues raised in the Ferneham Hall follow up audit.

(d) There were no issues arising from the review of the Statement of Accounts and subsequent external audit report that the Committee felt needed to be brought to the attention of the Council.

7. There were five additional pieces of work carried out by the Committee in addition to the original work programme set which are highlighted in [Appendix A](#).
8. There have been four reports in the original work programme for the year not presented to the committee for the reasons summarised below.

Report Title	When Due	Reason for Non Completion
3 yearly review of the Audit Strategy	September 2012	This item has been on hold for a while whilst the impact of the new audit standards has been ascertained. Work has continued on parts of the Strategy with the aim of bringing it to the Committee when ready The updated Charter was presented to the Committee in November 2013.
2 yearly annual progress report on Business Continuity	September 2013	This report has had to be deferred to the next year work programme and may need to become a 3 yearly report or restricted to coverage in the Corporate Risk Register only.
3 yearly review of the Sanctions and Redress Policy	March 2014	This was considered a low priority piece of work and has been deferred to next year.
Members training and development programme for 2014/15	March 2014	This has been postponed to the next year after the elections when new member's requirements can be included in the programme. This will be rescheduled as an annual report for the June meeting.

TRAINING EVENTS

9. The Committee had one training events in the year before the November meeting, covering the Annual update on Treasury Management.

WORK PROGRAMME FOR 2014/15

10. The proposed annual work plan for the Committee based on coverage in past years and the functions for the Committee is attached as [Appendix B](#). It should be noted that the review of Compliance with the Local Code of Corporate Governance is now being moved to an "as needed" report as it is considered that the themes are adequately covered elsewhere by the reviews leading up to the Annual Governance Statement.

RISK ASSESSMENT

11. There are no significant risk considerations in relation to this report.

CONCLUSION

12. There has been a high level of compliance with best practice in the way that the Audit and Governance Committee operates and the reports received.

Appendices:

[Appendix A](#) – Summary of the work carried out by the Committee in 2013/14

[Appendix B](#) – Work Programme for 2014/15

Background Papers: None

Reference Papers: Minutes of and reports to Audit and Governance Committee for the Municipal Year 2013/14

Enquiries:

For further information on this report please contact Elaine Hammell. (Ext 4344)

SUMMARY OF WORK CARRIED OUT BY THE AUDIT AND GOVERNANCE COMMITTEE - 2013/14

Committee Function	Topic	Committee Activity			
		June 2013	Sept 2013	Nov 2013	March 2014 (due)
COMMITTEE WORKING ARRANGEMENTS					
Work Programme of the Committee		Reviewed content of work programme	Reviewed content of work programme	Reviewed content of work programme	To note annual report and review work programme for 2014/15
Review of the Constitution				EXTRA -Review and comment on the updated Standing Orders for meetings	
Functions of the Committee					EXTRA -To approve latest content of constitution on the functions of Audit and Governance Committee
ETHICAL FRAMEWORK AND STANDARDS					
Standards of Conduct			Noted complaints made to the Local Government Ombudsman and allegations of breaches of the Code of Conduct for Members for 2012/13		EXTRA -To review how the revised member code of conduct has operated in its first year.
Member Training and Development					
GOVERNANCE FRAMEWORK					
Framework			Reviewed sources of evidence supporting the Annual Governance Statement. Approved the Annual Governance Statement and recommended it for signature.		
Key Policies		Recommended to Council the changes to Financial Regulations 10, 11, and 14 (Risk Management, Audit Arrangements and Other Council Assets)		Recommended to Council the changes to Financial Regulation 19 (Income and Banking) Recommended to Council a change to Contract Procedure Rules Noted report on the implementation of Treasury Management Strategy & Policy	To recommend to Council the changes to Financial Regulation 1 and 2. (Responsibilities of Members and Statutory Officers)
Risk Management			To note the content of version 2 of the Corporate Risk Register		To note the content of version 3 of the Corporate Risk Register.

Committee Function	Topic	Committee Activity			
		June 2013	Sept 2013	Nov 2013	March 2014 (due)
Anti Fraud and Corruption	<p>EXTRA – Recommended to Council to approve and adopt an updated Benefits Anti-Fraud Policy</p> <p>Noted progress on Counter Fraud Strategy</p> <p>Noted progress on Counter Fraud investigations</p>			<p>Recommended to Council to adopt a revised Corporate Anti-Fraud and Corruption Policy</p> <p>Noted progress on Counter Fraud Strategy</p> <p>Noted progress on counter Fraud investigations</p>	
INTERNAL AUDIT ASSURANCE					
Internal audit strategy and plans				EXTRA - Approved revised Internal Audit Charter	Contractor Plan 2014/15 (Quarter 1) presented for approval
Findings from internal Audit work	<p>Noted Annual Report of the Head of Audit 2011/12 as a source of evidence for the Annual Governance Statement</p> <p>Noted findings from completed audits from Contractor Plan (Quarterly Reports)</p>	Noted findings from completed audits from Contractor Plan (Quarterly Reports)		Noted findings from completed audits from Contractor Plan (Quarterly Reports)	Next quarterly report to be noted.
EXTERNAL ASSURANCE					
External Audit strategy and plans	Approved external audit plan for the 2012/13 accounts				To approve the external audit plan and fees for the 2013/14 accounts
Findings from External Audit work				Reviewed and noted Annual Audit Letter to Members arising from work carried out in respect of 2012/13.	To consider the external audit annual certification report 2013/14
STATEMENT OF ACCOUNTS					
Statement of Accounts		<p>Approved Statement of Accounts 2012/13 to be published</p> <p>Noted External Audit Annual Governance Report 2012/13</p> <p>Approved signing of Letter of Representation</p>			
OTHER					
Updates on legal issues (none)					

AUDIT AND GOVERNANCE COMMITTEE - PROPOSED WORK PROGRAMME - 2014/15

Committee Function and Report Subject		Frequency	Last Reviewed	June 2014	September 2014	November 2014	March 2015
COMMITTEE WORKING ARRANGEMENTS							
Review of Work Programme and training plan		Quarterly	2013-14	YES	YES	YES	YES and Annual Report
Review of the Functions of the Committee		3 yearly	2013-14				
Review of the Constitution		As needed	2013-14				
ETHICAL FRAMEWORK AND STANDARDS (NEW)							
Standards of Conduct	Review of Code of Conduct for Members	As needed	2013-14				
	Review of member / officer protocol	As needed	2008-09				
	Overview of Complaints against the Council	Annual	2013-14		YES		
Member Training and Development	Review of Members Training and Development and Determination of Programme	Annual	2012-13	YES			
GOVERNANCE FRAMEWORK							
Framework	Local Code of Corporate Governance	As needed	2012-13				
	Annual Governance Statement	Annual	2013-14		YES		
Key Policy	Review of Financial Regulations	3 yearly	2013-14	YES	YES		
	Review of Contract Procedure Rules	3 yearly	2013-14		YES		
	Implementation of Treasury Management Policy and Strategy	Annual	2013-14			YES	
Risk Management	Policy and Strategy	As needed	2012-13				
	Risk Management Progress Reports	6 monthly	2013-14		YES		YES
	Business Continuity	3 yearly	2011-12			YES	
	Specific Risk Management topics	As needed	None				
Counter Fraud	Benefits Anti-Fraud and Corruption Policy	As needed	2013-14				
	Counter Fraud Policy and Strategy	3 yearly	2013-14				
	Anti-Bribery Policy	As needed	2011-12				

Committee Function and Report Subject		Frequency	Last Reviewed	June 2014	September 2014	November 2014	March 2015
	Sanctions and Redress Policy	3 yearly	2008-09		YES		
	Counter Fraud Strategy Progress	6 monthly	2013-14	YES		YES	
	Counter Fraud Investigation Progress	6 monthly	2013-14	YES		YES	
INTERNAL AUDIT ASSURANCE							
	Internal Audit Strategy	3 yearly	2006-07	YES			
	Contractor Internal Audit Annual Plan	Annual	2013-14				YES
	Contractor Quarterly Audit Reports	Quarterly	2013-14	YES	YES	YES	YES
	Head of Audit's Annual Opinion	Annual	2013-14	YES			
EXTERNAL ASSURANCE							
	External Audit Annual Plan and Fee	Annual	2013-14				YES
	External Audit Annual Inspection Letter	Annual	2013-14			YES	
	Annual Certification Report	Annual	2013-14				YES
	Specific reports from external audit and inspection agencies	As needed	2011-12 (RIPA)				
STATEMENT OF ACCOUNTS							
	Statement of Accounts	Annual	2013-14		YES		
	External Audit Annual Governance Report	Annual	2013-14		YES		
OTHER							
	Updates on legal issues	As needed	2012-13				
	Issues referred from the Chief Executive Officer, Directors and Other Council Bodies	As needed	None				