



Audit Committee

Wednesday, 11th April, 2018 at 5.30 pm

Hastings & Knepp, Parkside, Chart Way, Horsham

Councillors: Stuart Ritchie (Chairman)
 Paul Marshall (Vice-Chairman)
 John Chidlow
 Brian Donnelly Tim Lloyd
 Adrian Lee Godfrey Newman

You are summoned to the meeting to transact the following business

Tom Crowley
Chief Executive

Agenda

	Page No.
1. Apologies for absence	
2. Minutes To approve as correct the minutes of the meeting held on 13/12/17 <i>(Note: If any Member wishes to propose an amendment to the minutes they should submit this in writing to committeeservices@horsham.gov.uk at least 24 hours before the meeting. Where applicable, the audio recording of the meeting will be checked to ensure the accuracy of the proposed amendment.)</i>	3 - 8
3. Declarations of Members' Interests To receive any declarations of interest from Members of the Committee	
4. Announcements To receive any announcements from the Chairman of the Committee or the Chief Executive	
5. To agree the dates of meetings in 2018/19 as follows: 12 th July 2018 10 th October 2018 12 th December 2018 10 th April 2019	
6. Appointment of External Auditors	

To note that Ernst & Young LLP had been appointed by the Audit Commission and then subsequently managed by the Public Sector Audit Appointments (PSAA) as the Council's external auditors for the period 2012/13 to 2017/18.

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|-----|--|-----------|
| 7. | Audit Progress Report - March 2018
To receive the Audit Progress Report for March 2018 – To be presented by the External Auditor | 9 - 18 |
| 8. | Certification of Claims and Returns 2016-17
To receive the Certification of Claims and Returns 2016/17 – To be presented by the External Auditor | 19 - 30 |
| 9. | Draft Annual Governance Statement 2017/18
To receive the Draft Annual Governance Statement 2017/18 from the Director of Corporate Resources | 31 - 48 |
| 10. | Risk Management - Quarterly Update
To receive the quarterly report from the Director of Corporate Resources on risk management | 49 - 60 |
| 11. | Internal Audit - Quarterly Update Report | 61 - 74 |
| 12. | Internal Audit Strategy and Annual Plan 2018/19 | 75 - 98 |
| 13. | Accounting Policies | 99 - 116 |
| 14. | Urgent Business
Items not on the agenda which the Chairman of the meeting is of the opinion should be considered as urgent because of the special circumstances

To consider the following exempt or confidential information: | |
| 15. | Internal Audit - Quarterly Update Report on Audit Follow ups | 117 - 122 |

Audit Committee
13 DECEMBER 2017

Present: Councillors: Stuart Ritchie (Chairman), Paul Marshall (Vice-Chairman), John Chidlow, Brian Donnelly, Tim Lloyd and Godfrey Newman

Apologies: Councillor: Adrian Lee

AAG/70 **MINUTES**

The minutes of the meeting held on 25 July 2017 were approved as a correct record and signed by the chairman.

AAG/71 **DECLARATIONS OF MEMBERS' INTERESTS**

There were no declarations of interest.

AAG/72 **ANNOUNCEMENTS**

The Chairman noted that he and the Vice-Chair would be attending a CIPFA training course on audit committees in January 2018.

AAG/73 **ANNUAL AUDIT LETTER**

The external audit manager presented the Annual Audit Letter with the purpose of identifying key issues arising from the audit.

Members noted the contents of the letter and that the Audit was on schedule to be completed before July 2018.

AAG/74 **AUDIT PLAN 2017/18**

The Audit Director, Ernst & Young, presented the External Auditors Plan in respect of the 2017/18 audit. The plan set out the audit work proposed for the audit of financial statements; the statutory conclusion on the Council's arrangements to secure value of money; and the review of the Whole of Government Accounts return.

Members noted the key risks that would be assessed during the audit, these included the introduction of the new finance management software; the value of land and buildings owned by HDC; and under the value for money conclusion risk, the purchase of The Forum.

Members suggested that the External Auditor consider whether the scope of the external audit on the value for money risk should be expanded to include: 'The

Bridge' leisure centre, Hop Oast Depot, and the new Waste, Recycling and Cleansing fleet and staffing options.

AAG/75 **PROGRESS REPORT**

The External Audit Manager gave an overview of the plan for the 2017/18 audit.

Members noted the report, especially the summary of Grant Certification Work.

AAG/76 **TREASURY MANAGEMENT STRATEGY 2018/19**

The Group Accountant (Technical) presented the report to Members.

The report indicated that investment criteria and limits were largely unchanged due to an expected fall in investments and the potential of some borrowing.

CIPFA and the DCLG would be reviewing the Strategy that may change it significantly, the results of this review were expected to be published early 2018.

RESOLVED

- i) That the Treasury Management Strategy for 2018/19 be noted

RECOMMENDED TO COUNCIL

- i) That the Treasury Management Strategy for 2018/19 be approved
- ii) That the Treasury Management Indicators for 2018/19 be approved

REASONS

- i) The council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CUPFA Code) which required the Council to approve a treasury management strategy before the start of each financial year
- ii) The Department for Communities and Local Government (DCLG) issued revised guidance on local authority investments in March 2010 that requires the Council to approve an investment strategy before the start of each financial year

AAG/77 **TREASURY MANAGEMENT ACTIVITY AND PRUDENTIAL INDICATORS
MID-YEAR REPORT 2017/18**

The Group Accountant (Technical) presented a report on treasury management activity and prudential indicators for the first half of 2017/18.

Members noted that the Council's external debt was £9m and investments totalled £56.3m, both having increased since 31 March 2017.

RESOLVED

- i) That the treasury management stewardship report for the first half of 2017/18 be noted
- ii) That the mid-year prudential indicators for 2017/18 be noted

REASONS

- i) This mid-year report is a requirement of the Council's reporting procedures
- ii) This report meets the requirements of the relevant CIPFA Codes of Practice for Treasury Management and Prudential Indicators in Capital Finance

AAG/78 **RISK MANAGEMENT - QUARTERLY UPDATE**

The Director of Corporate Resources presented the latest quarterly update of the Corporate Risk Register.

The Senior Leadership Team had reviewed all outstanding actions on the corporate risk register and updated the comments to reflect the current position for each risk. Two emerging risks had been added relating to a change of the Financial Management System (CRR20) and Waste Collection (CRR24).

RESOLVED

That the report be noted.

REASON

To ensure that the Council has adequate risk management arrangements in place.

AAG/79 **INTERNAL AUDIT - QUARTERLY UPDATE REPORT**

The Chief Internal Auditor submitted a report summarising the work of the Internal Audit Department since 25 July 2017.

The report summarised the findings of six internal audits that had been undertaken: Use of Consultants; Forward Plan; Commercial Rents; New Finance System – Data Migration; Taxi Licences; and Community Link. The Audit opinion on each of these was of reasonable assurance.

The report also summarised other work being undertaken by the Internal Audit team and gave a progress update in respect of the Audit Plan. Members noted that 'Cloud Computing' and 'Rural Car Parking' would be removed from the Audit plan.

Members requested that the Director of Corporate Resources raise the subject of the increase of rent arrears on accounts that are managed by the Management Agents with the responsible Head of Service and that a briefing on the matter be issued to Members early 2018.

RESOLVED

That the summary of audit and project work undertaken since July 2017 be noted

REASONS

- i) To comply with the requirements set out in the Public Sector Internal Audit Standards 2013 (amended April 2017)
- ii) The Audit Committee is responsible for reviewing the effectiveness of the Council's system of internal control

AAG/80 **URGENT BUSINESS**

There were no urgent matters to be considered.

AAG/81 **EXCLUSION OF THE PRESS AND PUBLIC**

RESOLVED

That, under Section 100A(2) of the Local Government Act 1972, the press and public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information, as defined in Part I of Schedule 12A of the Act, by virtue of the paragraph specified against each item, and in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

AAG/82 **INTERNAL AUDIT - QUARTERLY UPDATE ON AUDIT FOLLOW-UPS**

The Chief Internal Auditor submitted a report summarising progress since July 2017 on the implementation of actions in respect of audits undertaken in 2016/17, 2015/16, 2014/15 and 2013/14.

RESOLVED

- i) That the progress in terms of agreed actions implemented since June 2017 be noted
- ii) That the position in respect of the specific areas highlighted by the Chief Internal Auditor be noted

REASON

The Audit Committee is responsible for reviewing the effectiveness of the Council's system of internal control

The meeting closed at 7.21 pm having commenced at 5.30 pm

CHAIRMAN

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Horsham District Council

Audit Committee Progress Report

March 2018



The Members
Audit Committee
Horsham District Council
Parkside
Chart Way
Horsham
West Sussex, RH12 1RL

29 March 2018

Audit Progress Report

We are pleased to attach our Audit Progress Report.

This progress report summarises the work we have undertaken since the last meeting of the Audit Committee in December 2017. The purpose of this report is to provide the Committee with an overview of our plans for the 2017/18 audit, to ensure they are aligned with your service expectations.

Our audits are undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

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

Yours faithfully

Paul King
Associate Partner
For and on behalf of Ernst & Young LLP
Enc.

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

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

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

This Annual 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.

2017/18 audit

Fee letter

We issued our 2017/18 fee letter to the Council in April 2017.

Financial statements audit

We adopt a risk based approach to the audit and, as part of our ongoing planning, we held an audit planning meeting with key officers to discuss significant issues for the audit, how we can work together to improve the accounts production and audit process for 2017/18 and meet the earlier audit deadlines. We will continue to liaise with officers to ensure the 2017/18 audit runs as smoothly as possible and identify any risks at the earliest opportunity.

We set out an outline timetable for the audit in the Audit Plan.

Amendments to the 2017/18 Audit Plan

We have updated our 2017/18 Audit Plan for the change in our audit approach to a fully substantive approach to the audit, as verbally updated at the Audit Committee meeting in December.

We have also now included an additional 'other risk', in respect of the earlier deadline for production of the accounts. As a firm, we have decided that this should be included as an 'other risk' in all of our Local Government Audit Plans to highlight to members the issues and responsibilities that this presents to clients and to EY. This additional risk is set out in the table below.

What is the risk/area of focus?	What will we do?
Earlier deadline for production of the financial statements The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. The timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the accounts by 31 July. These changes provide risks for both the preparers and the auditors of the financial statements. The Council now has less time to prepare the financial statements and supporting working papers. Risks to the Council include slippage in delivering data for analytics work in format and to time required, late working papers and internal quality assurance arrangements. As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed	We will: <ul style="list-style-type: none">• Work with the Council to engage early to facilitate early substantive testing where appropriate.• Provide an early review on the Council's streamlining of the Statement of Accounts where non-material disclosure notes are removed.• Facilitate faster close workshops to provide an interactive forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for the 2017/18 financial year.

timetable. Slippage at one client could potentially put delivery of others at risk.

To mitigate this risk we will require:

- good quality draft financial statements and supporting working papers by the agreed deadline;
- appropriate Council staff to be available throughout the agreed audit period; and
- complete and prompt responses to audit questions.

If you are unable to meet key dates within our agreed timetable, we will notify you of the impact on the timing of your audit, which may be that we postpone your audit until later in the summer and redeploy the team to other work to meet deadlines elsewhere.

Where additional work is required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify you of the impact on the fee and the timing of the audit. Such circumstances may result in a delay to your audit while we complete other work elsewhere.

- Work with the Council to implement EY Client Portal, this will:

- Streamline our audit requests through a reduction of emails and improved means of communication;
- Provide on –demand visibility into the status of audit requests and the overall audit status;
- Reduce risk of duplicate requests; and
- Provide better security of sensitive data.

- Agree the team and timing of each element of our work with you.
- Agree the supporting working papers that we require to complete our audit.

Interim visit

We have substantially completed walkthroughs of the Council's material income and expenditure systems and our early substantive testing. We expect to complete this by mid-April.

As part of this early work, we audited the valuation of the Forum. This identified some issues which we are discussing with officers and Wilks, Head and Eve LLP, the Council's valuers, to ensure that these issues are resolved on a timely basis.

We have also substantially completed our audit of the change to the Council's financial management system. As this change involves additional work outside the scope of our normal audit there will be an additional fee for this work, which we are discussing with officers. As with any other fee variation, this is subject to review and determination by PSAA.

Post Statements audit

We have agreed dates for our post statements audit visit with officers and also agreed a timetable for the receipt of the draft financial statements and working papers. We are planning to commence our post-statements work in June.

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

We will also review and report to the National Audit Office, to the extent and in the form required by them, on your whole of government accounts return.

Value for money assessment

As set out in the Audit Plan, there have been no changes from 2016/17 to the supporting sub-criteria in the Value for Money Conclusion guidance.

At the last Audit Committee meeting, members asked us to consider specifically three areas of focus in our value for money planning work and risk assessment. We have completed our review and our findings and conclusions are set out below. It should be noted, as we stated at the last Audit Committee meeting, that the guidance for the Value for Money Conclusion is on an authority's arrangements for securing value for money.

We have also shared the documentation we obtained and our work with Internal Audit, who are planning to include some elements of work in these areas in their own programme, so as to avoid duplication of effort:

As indicated in the discussion at the last Audit Committee meeting, as additional areas of focus included at the request of the Audit Committee in our consideration of significant risks to our Value for Money Conclusion, this work is outside the scope of our normal audit work and will therefore lead to an additional fee. We are discussing the level of proposed additional fee with officers. Again, as with other fee variations, this would be subject to review and determination by PSAA.

Broadbridge Heath Leisure Centre

We have reviewed project board agendas/minutes, project timelines, and finance trackers for the project. We have also discussed the project with the Head of Finance. Based on this review, we have concluded that the project does not indicate that there is a significant risk to our Value for Money Conclusion for 2017/18.

The majority of key decision making is historical (taking place prior to 2017/18), and the information reviewed indicates that the project is on track both in terms of overall budget and expected timescales for completion. The evidence provided also supports the conclusion that there has been appropriate member involvement in key decision making, and that there is regular monitoring of progress on the project through a project board composed of senior officers and external experts.

Changes to waste, recycling and cleansing fleet and staffing

We have reviewed project board agendas/minutes, option appraisals, KPIs and some of the related finance trackers. We have also discussed the project with the Head of Finance. Based on this review we have concluded that the changes to the waste service do not present a Value for Money Conclusion significant risk for 2017/18.

The value of the procurement is material, but not exceptional, and has been delivered to budget. The approach being adopted – use of rear-loading vehicles, and Alternate Weekly Collection (AWC), is common to a large number of other councils, and therefore not out of the ordinary. A high degree of political and public interest in changes such as adopting AWC is also to be expected, but again not out of the ordinary. The evidence provided also supports that there has been appropriate member involvement in key decision making, and that there is appropriate, regular monitoring of progress on the project through a project board.

Hop Oast Depot Redevelopment

We have reviewed project board agendas/minutes, project highlight reports, and finance trackers. We have also discussed the project with the Head of Finance. We have concluded that the project does not represent a significant risk to our Value for Money Conclusion in 2017/18. As with the Leisure Centre project, the majority of key decision making took place prior to 2017/18 and the information provided indicates that the project has been completed to target both in terms of overall budget and expected timescales.

The project was significant in terms of overall cost, but not out of the ordinary. The evidence provided also supports the conclusion that there has been appropriate member involvement in key decision making, and that there was appropriate, regular monitoring of progress on the project through a project board comprising senior officers and external experts.

2016/17 Grant Certification Work

We are including our annual certification report as a separate item on the agenda for the Audit Committee.

EY | Assurance | Tax | Transactions | Advisory

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Certification of claims and returns annual report 2016-17

Horsham District Council

February 2018

Ernst & Young LLP



Building a better
working world

The Members
Audit Committee
Horsham District Council
Parkside, Chart Way
Horsham
West Sussex
RH12 1RL

15 February 2018
Ref: HDC/HB/2016-17

Direct line: 0118 928 1556
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Dear Members

Certification of claims and returns annual report 2016-17 Horsham District Council

We are pleased to report on our certification and other assurance work. This report summarises the results of our work on Horsham District Council's 2016-17 claims.

Scope of work

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

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to the Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

For 2016-17, these arrangements required only the certification of the housing benefits subsidy claim. In certifying this we followed a methodology determined by the Department for Work and Pensions and did not undertake an audit of the claim.

Summary

Section 1 of this report outlines the results of our 2016-17 certification work and highlights the significant issues.

We checked and certified the housing benefits subsidy claim with a total value of £31,133,401. We met the submission deadline. We issued a qualification letter – details of the qualification matters are included in section 1. Our certification work found errors, but these did not require amendments to the claim form.

The Council has completed four of the five recommendations from 2015-16 and has improved arrangements. Details are included in section 4. We have seen a significant reduction in the volume of errors identified during 2016/17 compared to previous years. This is reflected in the small extrapolation total of £14,484 detailed in Section 1 of this report, compared to £113,406 in 2015/16.

Fees for certification and other returns work are summarised in section 3. The housing benefits subsidy claim fees for 2016-17 were published by the Public Sector Audit Appointments Ltd (PSAA) in March 2016 and are now available on the PSAA's website (www.psaa.co.uk).

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting in April 2018.

Yours faithfully

Paul King
Associate Partner
Ernst & Young LLP
Enc

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1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£31,133,401
Amended/Not amended	Not amended
Qualification letter	Yes
Fee – 2016-17	£12,383
Fee – 2015-16	£13,171*
	*includes an additional £811 fee variation

Recommendations from 2015-16	Findings in 2016-17
Five recommendations were made in 2014-15 which were brought into 2015-16. The Council has successfully completed four of these recommendations in 2016-17.	We have summarised these recommendations and made an assessment of the progress against these at section 4.

Local Government administers the Government's housing benefits scheme for tenants and can claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid.

The certification guidance requires auditors to complete three samples of 20 cases for authorities with a Housing Revenue Account (HRA), covering HRA Rent Rebate, Non-HRA Rent Rebate and Rent Allowance cases, plus an undefined sample of Modified Scheme Cases, where each of these are applicable to the Council. Horsham District Council does not have its own housing stock, therefore testing is limited to Non-HRA Rent Rebate and Rent Allowance cases, including related modified scheme cases. Auditors must complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the audit of previous years' claims. We found errors within the initial samples and carried out extended testing in these areas, along with areas identified within the previous years' claim.

The "40+" testing identified a small number of cases where similar errors had occurred.

For those "40+" tests where we did not test the whole population, we extrapolated the financial impact of our findings to determine the total financial impact of the errors on the claim. This was then reported in our qualification letter, but there was no necessary amendment to make to the claim form.

A summary of the key issues found is shown below:

Claimant Income

Non-HRA Rent Rebates: Our initial testing identified one case where benefit had been underpaid as a result of incorrectly calculating the statutory maternity pay on a four weekly basis opposed to a monthly. As there is no eligibility to subsidy for benefit which has not been paid, the underpayment identified does not affect subsidy and has not, therefore, been classified as an error for subsidy purposes. However, because errors relating to miscalculating the claimant's weekly income could result in overpayments an additional random sample of 40 cases was tested from the population of cases containing an income assessment. Testing of an additional random sample of 40 cases identified three cases where benefit had been overpaid as a result of incorrectly calculating the claimant's income.

In addition, testing of the additional random sample of 40 cases identified three cases where benefit was underpaid or there was no impact as a result of incorrectly calculating the claimant's income. As there is no eligibility to subsidy for benefit which has not been paid, the underpayments identified do not affect subsidy and have not, therefore, been classified as errors for subsidy purposes. We calculated an extrapolated error of £186, which was reported in our qualification letter.

Rent Allowances: Our initial testing identified one case where benefit had been overpaid as a result of the incorrect gross pay figure being used in the income assessment. Testing of an additional random sample of 40 cases identified a further two cases where benefit had been overpaid as a result of incorrectly calculating the claimant's income. In addition, testing of the additional random sample of 40 cases identified two cases where benefit was underpaid or there was no impact on benefit as a result of incorrectly calculating the claimant's income. As there is no eligibility to subsidy for benefit which has not been paid, the underpayments identified do not affect subsidy and have not, therefore, been classified as errors for subsidy purposes. We calculated an extrapolated error of £7,498 which was reported in our Qualification Letter.

Eligible Rent

Rent Allowances: Testing of the additional rent allowances rent sample in 2015/16 identified two cases where benefit had been underpaid as a result of the Authority applying the incorrect eligible rent. Whilst no errors were identified in our initial sample of Rent Allowance claims in 2016/17, using our knowledge of the subsidy claim, we selected 40 claims for testing from the headline cell. Testing of the additional sample identified one case where benefit had been overpaid as a result of not applying a rent decrease. We calculated an extrapolated error of £6,800, which was reported in our Qualification Letter.

Modified Schemes

- Due to no errors being found in the prior year we used our professional judgement to select one case to test. No issues were identified with this case and therefore no reporting was required in the qualification letter.

Extrapolations

The total of the extrapolations and errors in the qualification letter had the effect of increasing:

- current year LA error and administrative delay overpayments by £12,629
- current year eligible overpayments by £1,855.

Where extrapolations impact the LA error and administrative delay overpayments cells, the DWP usually require that the extrapolation amount is repaid to the DWP.

The DWP review the combined LA error and administrative delay overpayments balance, taking the subsidy claim form value and the value of our extrapolations and, where this breaches the upper threshold, the total LA error and administrative delay overpayments incurred during the year are required to be repaid to the DWP. The LA error and administrative delay overpayments upper threshold was £163,392 and the total of the claim form total (£107,014) and the extrapolation effect on the LA error and administrative delay overpayments (£12,629) is £119,643. This is below both the upper and lower threshold (£145,238), and therefore the Council is entitled to the relevant subsidy on these cells.

2. 2016-17 certification fees

The PSAA determine a scale fee each year for the audit of claims and returns. For 2016-17, these scale fees were published by the Public Sector Audit Appointments Ltd (PSAA's) in March 2016 and are now available on the PSAA's website (www.psaa.co.uk).

Claim or return	2016-17	2016-17	2015-16
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	12,383	12,383	13,171*
Total	12,383	12,383	13,171*

*includes an additional £811 fee variation

Indicative fees for 2016-17 housing benefit subsidy certification work are based on final 2014-15 certification fees. PSAA reduced scale audit fees and indicative certification fees for most audited bodies by 25 per cent based on the fees applicable for 2014-15

3. Looking forward

2017/18

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to (PSAA) by the Secretary of State for Communities and Local Government.

The Council's indicative certification fee for 2017/18 is £13,171. This was set by PSAA and is based on final 2015/16 certification fees.

Details of individual indicative fees are available at the following web address:

<https://www.psaa.co.uk/audit-fees/201718-work-programme-and-scales-of-fees/individual-indicative-certification-fees/>

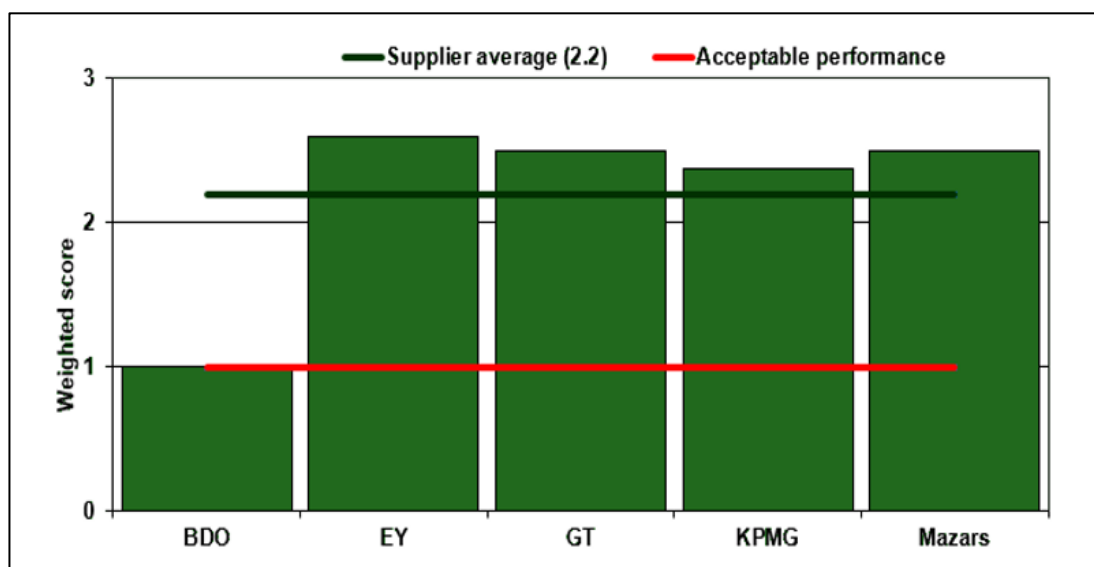
We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the Director of Corporate Resources before seeking any such variation.

2018/19

From 2018/19, the Council will be responsible for appointing their own reporting accountant to undertake the certification of the housing benefit subsidy claim in accordance with the Housing Benefit Assurance Process (HBAP) requirements that are being established by the DWP. DWP's HBAP guidance is under consultation and is expected to be published in January 2018.

We would be pleased to undertake this work for you, and have provided a competitive quotation for this work.

We currently provide HB subsidy certification to 106 clients, through our specialist Government & Public Sector team. We provide a quality service, and are proud that in the PSAA's latest Annual Regulatory and Compliance Report (July 2017) we score the highest of all providers, with an average score of 2.6 (out of 3).



Additionally, as we have been appointed by PSAA in December 2017 as your statutory auditor we can provide a comprehensive assurance service, making efficiencies for you and building on the knowledge and relationship we have established with your Housing Benefits service.

4. Summary of recommendations

We have made one recommendation as a result of our 2016-17 work, and consider that all other recommendations from 2015-16 have been successfully completed. We have outlined all recommendations from both the current and prior year below, together with our assessment of progress to date.

We acknowledge that the Council takes getting the Housing Benefit Subsidy claims right very seriously and they have undertaken a change of the Revenues and Benefits Service management during 2016-17 to ensure that this is done. The Council have also employed a subsidy specialist external company, Branch and Lee, to data cleanse the earned income claims for 2017-18 and eradicate any errors in those claims. This is in addition to the steps already being taken in the agreed actions and comments section of the table below. They also compare relative performance by benchmarking the Housing Benefit Subsidy to that of similar local authorities. The DWP publish this data at <https://www.gov.uk/government/collections/housing-benefit-expenditure-and-subsidy-data>.

Recommendation	Priority	Agreed action and comment	Deadline	Responsible officer	Progress to date
1 Undertake work or review the 2016-17 subsidy claims in high risk areas, such as claims with self-employed earnings and earned income, to ensure that these claims have been correctly processed and to reduce the likelihood of future qualifications of the subsidy claim.	High	The running of subsidy each month has recommenced. The subsidy officer undertakes checks of high risk cases; there is a written procedure and a signed check-list which are in turn supported by details of specific cases checked. A quarterly exercise is undertaken to compare and contrast current subsidy with the subsidy claim in past years.	Ongoing	Kevin Stewart, Business Unit Leader for Revenues and Benefits	Evidence of review of the modified schemes and overpayment classification has been reviewed as part of the certification work. The initial training focus was on earned income and we identified fewer errors in this area in our initial testing for 2014-15. The training focus in 2015-16 was on self-employed earnings and we saw a reduction in the number of errors identified in this area. We again note for 2016-17 improvements to the total number of errors identified, although we did still identify multiple errors relating to earned income.

Prior Year Completed Recommendations:

Recommendation	Priority	Agreed action and comment	Deadline	Responsible officer	Progress to date
1 Review the CenSus Quality Plan to ensure that it is robust and addresses the weaknesses reported in the 2013-14 qualification letter	Completed	A Quality plan was Implemented as a result of the 2012-13 certification work. This plan was internally audited and assurance given that the actions in the plan had been effectively undertaken. Some elements of the plan have been incorporated into 'everyday business' and are ongoing. A further plan based on the 2013-2014 certification work was developed and was finalised following the DWP Performance Development Team visit to offer guidance and advice.	Completed	Tim Delany, Head of Revenues and Benefits (CenSus)	We are aware the Quality Plan has been implemented and have seen evidence of this reducing the volume of errors identified, therefore we have closed this recommendation from the prior year.
2 Monitor progress against the CenSus Quality Plan and report progress to the CenSus Programme Board (PMB) and CenSus Joint Committee (CJC).	Completed	Activity and outcomes related to the 2013-2014 action plan have been reported at each PMB and CJC. The Benefits Manager reported and discussed progress with the Head of Service each month.	Completed	Tim Delany, Head of Revenues and Benefits (CenSus)	We have seen evidence of the Quality Plan implementation, with fewer errors identified in the areas of focus. Therefore we have closed this recommendation from the prior year.
3 Increase quality assurance checks and implement training in areas where errors have been identified including self-employed and earned income.	Completed	Additional staff were deployed to complete an exercise to review all earned income and self-employed cases and to conduct 100% quality checks on 'current' cases. Several strands of training have been and are being implemented	Completed	Morag Freitas, CenSus Benefit Manager	We have seen evidence of the Quality Plan implementation, with fewer errors identified in the areas of focus. Therefore we have closed this recommendation from the prior year.

Recommendation	Priority	Agreed action and comment	Deadline	Responsible officer	Progress to date
		Employ additional staff to check the accuracy of earnings case assessments	Completed	Morag Freitas, CenSus Benefit Manager	This was a new action put in place during 2016-17. We have seen that additional members of staff have been employed by Council and we have seen a few number of errors this year as a result of this, therefore we deem the action to be completed.
		Introduce a clerical action sheet for completion in all cases to enable staff to a) explain/justify their decision on the evidence in each case and b) take the time to review their decision in each case	Completed	Morag Freitas, CenSus Benefit Manager	This was a new action put in place during 2016-17. We have noted fewer errors within 2016-17, therefore we deem this action to be completed.
4 Introduce robust, evidenced checks on the preparation of the subsidy claim to ensure that the Head of Finance and HR can certify the claim to state that the Council's administrative systems, procedures and key controls for awarding benefits operate effectively.		As above	Completed	Tim Delany, Head of Revenues and Benefits (CenSus)	We have seen evidence of the Quality Plan implementation, with fewer errors identified in the areas of focus. Therefore we deem this recommendation completed.

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Report to Audit Committee

11th April 2018

By the Director of Corporate Resources

INFORMATION REPORT



Not exempt

Draft Annual Governance Statement 2017/18

Executive Summary

The annual review of the Council's governance, risk management and internal control arrangements has been undertaken to support the production of the Annual Governance Statement for 2017/18. This review included information and assurance gathering processes to ensure that the published Annual Governance Statement is correct as well as a review of the Council's Governance framework against the best practice framework devised by CIPFA/SOLACE.

The aim of the review process is to ensure that the Council has effective governance, risk management and internal control processes in place to assist with accountability and the delivery of objectives. Additionally, the review process has identified any shortfalls in these arrangements to enable them to be addressed.

Recommendations

That the Committee is recommended:

- i) To review the draft Annual Governance Statement for 2017/18.

Reasons for Recommendations

- i) As part of good governance, it is important that the Annual Governance Statement is approved by the Audit Committee

Background Papers: Supporting evidence, Head of Service Assurance Statements, and the Annual Internal Audit Report.

Consultation: The Senior Leadership Team, Monitoring Officer, Head of Community & Culture, Head of Finance, Head of HR & OD, Head of Technology Services and the Chief Internal Auditor.

Wards affected: All

Contact: Julie McKenzie Project Assurance Manager, 01403-215306

Attachments:

Appendix A: Annual Governance Statement 2017/18

Appendix B: Local Code of Corporate Governance

Appendix C: Governance Assurance Framework

Appendix D: AGS Action Plan 2017/18

Appendix E: AGS Action Plan 2018/19

Background Information

1 Introduction and Background

- 1.1 The Accounts and Audit (England) Regulations 2015 require the Council to review, at least annually, the effectiveness of its governance arrangements and publish an Annual Governance Statement.
- 1.2 Senior officers have been consulted and supporting documentation has been updated to reflect the current position.

2 Relevant Council Policy

The Audit Committee is responsible for approving the Annual Governance Statement in accordance with the Committee's terms of reference.

3 Details

- 3.1 The Annual Governance Statement for 2017/18 is attached in Appendix A.

4 Next Steps

- 4.1 The Committee is asked to approve the Annual Governance Statement.

5 Outcome of Consultations

- 5.1 Key officers have been consulted when compiling the Annual Governance Statement, including the Senior Leadership Team; Monitoring Officer; Head of Community & Culture; Head of Finance; Head of Human Resources and Organisational Development; and the Chief Internal Auditor. In addition, Heads of Service have completed and signed Annual Assurance Statements covering their areas of responsibility.

6 Other Courses of Action Considered but Rejected

- 6.1 None.

7 Resource Consequences

- 7.1 There are no direct staffing consequences arising from this report.

8 Legal Consequences

- 8.1 Regulation 6 of The Accounts and Audit (England) Regulations 2015 requires that:-

6.—(1) A relevant authority must, each financial year—

- (a) conduct a review of the effectiveness of the system of internal control required by regulation 3; and
- (b) prepare an annual governance statement;

(2) If the relevant authority referred to in paragraph (1) is a Category 1 authority, following the review, it must—

(a) consider the findings of the review required by paragraph (1)(a)—

- (i) by a committee; or
- (ii) by members of the authority meeting as a whole; and

(b) approve the annual governance statement prepared in accordance with paragraph (1)(b) by resolution of—

- (i) a committee; or
- (ii) members of the authority meeting as a whole.

8.2 In 2016 CIPFA/SOLACE published a revised framework for Corporate Governance: "Delivering Good Governance in Local Government Framework". This framework provides a useful and practical update and follows seven core principles of good governance. The Framework urges local authorities to review and report on the effectiveness of the governance arrangements.

9 Risk Assessment

9.1 There are no risks associated with this report.

10 Other Considerations

10.1 This report has no effect on Crime & Disorder; Human Rights; Equality & Diversity or Sustainability.

Horsham District Council
DRAFT Annual Governance Statement 2017-18

1. SCOPE OF RESPONSIBILITY

Horsham District Council is responsible for ensuring that its business is conducted in accordance with the law, regulations and proper standards, and that public money is safeguarded from waste, extravagance or misappropriation. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness in the exercise of its responsibilities.

Horsham District Council approved and adopted a Local Code of Corporate Governance on 22 March 2017 which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA), and Society of Local Authority Chief Executives (SOLACE) Framework for Delivering Good Governance in Local Government. A copy of the Local Code is available on our website or can be obtained from the Council offices. This statement explains how Horsham District Council has complied with the Code and also meets the requirements of the Accounts and Audit (England) regulations 2015 in particular regulation 6(1)(b), which requires all relevant bodies to prepare an Annual Governance Statement.

2. THE GOVERNANCE ASSURANCE FRAMEWORK

The Governance Assurance Framework has been in place at Horsham District Council for the year ended 31 March 2018 and up to the date of the approval of the Annual Report and Statement of Accounts for the 2017/18 financial year.

The Council's Governance Framework encompasses the way the Council is controlled and managed, both strategically and operationally, and how it will deliver its services. The structures and processes, risk management and other internal control systems are in place to monitor and manage the delivery of the Council's aims and objectives:

The core principles of the Council's Governance Framework are set out below:

A: Integrity; Ethical Values: the Rule of Law

B: Openness; engaging with institutional stakeholders; engaging with individual citizens and service users.

C: Defining Outcomes; sustainable, economic, social and environmental benefits.

D: Determining and planning interventions; optimising achievement of intended outcomes.

E: Developing the capacity of the entity through its leadership and other individuals.

F: Managing risks; managing performance; robust internal control; managing data; strong public financial management.

G: Good practice in transparency, reporting and audit to deliver effective accountability.

3. CORPORATE GOVERNANCE, VISION AND OBJECTIVES

The Corporate Governance Framework is aligned with the Council's Corporate Plan which outlines the Council's vision, aims and objectives. The current Corporate Plan was published in February 2016 on the Council's website and covers the period 2016-2019.

- The Council aims to deliver high quality services that meet the needs of the local community. This is set out in the Council's Corporate Plan for Horsham which is the core of the Council's purpose and vision and defines the Council's key priorities and strategic aims. This is formally reviewed and updated each year.
- The Corporate Plan is supported by the Medium Term Financial Strategy and the Council's annual budget to ensure the implications on the Council's finances are considered when the objectives are set.
- Departmental strategies and annual service plans are developed which support the delivery of the Corporate Plan, by identifying how each department contributes to the delivery of the overall aims and objectives of the Council.
- The Council's Performance Management Framework includes key performance indicators associated with the Corporate Plan. Performance on a basket of key corporate indicators is reported to the Senior Leadership Team, the Cabinet Portfolio Holders and to the Scrutiny and Overview Committee. Annual performance against targets is published on the Council's website in the Performance Indicator End of Year Report. The Council's Annual Report, which is also published on the Council's website, provides an annual summary of the year's progress against the stated Corporate Plan priorities.
- Every report submitted to the Cabinet or regulatory committee must outline how the recommended action helps to achieve one or more of the Corporate Plan priorities.

4. MEMBERS AND OFFICERS WORKING TOGETHER

The Council's Constitution gives guidance on the roles and responsibilities of Members, the Chief Executive and Chief Officers, and the Scheme of Delegation is periodically reviewed.

The Leader, Cabinet Members, and Chairmen and Vice Chairmen of standing committees receive briefings from senior management on a regular basis and Members receive training as part of the induction process.

A review of governance arrangements at the Council was reported to Full Council on 27 April 2016. The Governance Review focused on ensuring Horsham District Council has the most suitable and effective governance arrangements. The Council continues to operate The Cabinet Executive Model supported by a number of Policy Development Advisory Groups. The process of undertaking this review has widened the collective knowledge and understanding amongst Members which has continued in 2017/18.

Cabinet policy development advisory groups meet periodically on significant areas of business to ensure there is engagement with back bench Councillors on strategic direction.

In March and April 2017 the Overview and Scrutiny Committee reviewed its effectiveness using the guidance from the Centre for Public Scrutiny. The outcome of this review was the Committee disbanded its standing sub-committees and agreed to establish up to 3 task and finish groups to review particular issues.

The Council participates in a number of partnerships with other local authorities. In particular the Revenues and Benefits, Building Control and Procurement. In March 2017 the Council issued notice to its partners to leave its revenues and benefits partnership with Mid Sussex and Adur District Councils. From 1 April 2018 the Council

will purchase its revenues and benefits service from the LGSS partnership based in Northamptonshire. In May 2017 the Council, in agreement with its partners Adur and Worthing and Mid Sussex Councils broke up its ICT partnership in favour of local working combined with a move to the Cloud. The Council also engages in local community development work with other local public bodies.

5. VALUES AND HIGH STANDARDS OF BEHAVIOUR

The Council has incorporated in its Constitution a Member Code of Conduct and an Employee Code of Conduct. A register of declared interests is held for officers. Member's Registers are available on the Council's website. Members are required to review their registers annually. Members are responsible for ensuring that if there are changes to their interests that the Monitoring Officer for the Council is notified of these changes. The Standards Committee promotes and maintains high standards of conduct by Councillors and also considers whether a complaint or allegation of misconduct by a Member should be investigated. The Council has also appointed Independent Person in accordance with the Localism Act 2011. The Council has two Independent persons who attend the Standards Committee.

As part of an ongoing Organisational Development Programme to ensure we have employees with the right skills, behaviours and attitudes, the organisation has developed core values of 'customer focus', 'achieving excellence' and 'our people'. Desired behaviours are set out in the Corporate Behavioural Framework which forms part of annual performance appraisals. Individuals are assessed against desired behaviours, with training needs identified to improve personal performance.

The culture of the organisation sets the foundation for the prevention of fraud and corruption by creating an environment that is based on openness and honesty in all Council activities.

The Council has the following policies and procedures in place which aim to prevent or deal with any instances of fraud, dishonesty or malpractice.

- Anti-Fraud and Corruption Policy
- Anti-Money Laundering Policy
- Whistleblowing Policy
- HR Disciplinary Policies
- Council's Equality Scheme
- Information Security Policies

6. TAKING INFORMED AND TRANSPARENT DECISIONS AND MANAGING RISK

The Council's Constitution sets out how the Council operates and the process for policy and decision making. A comprehensive review of the Constitution was completed in September 2016, and the amendments were approved by Full Council on 7th December 2016. Minor improvements to the constitution have been made during the year.

The Council's Risk Management arrangements are reviewed for effectiveness by the Audit Committee to ensure the process is embedded in the culture of the authority.

The Audit Committee also reviews the Corporate Risk Register which details the most significant risks facing the Council.

All Heads of Service are responsible for implementing strategies at departmental level ensuring adequate communication, training and the assessment and monitoring of risks. All officers are responsible for considering risk as part of everyday activities and provide input to the risk management process.

The Chief Internal Auditor provides an annual opinion on the Council's governance arrangements, risk management systems and the overall control environment in his end of year report to the Audit Committee.

7. CAPACITY AND CAPABILITY OF MEMBERS AND OFFICERS

Training programmes for Council employees are identified from regular 1-2-1s, team meetings, staff appraisals and personal development programmes.

New Members to the Council receive induction training in key areas (including the Constitution), ethical governance, decision-making processes and the Council's Code of Members' Conduct. The induction also includes an introduction to the Council's services. All new Members are allocated a 'buddy' who is a senior Council officer tasked with helping the new Members to settle into the Council. There is an ongoing training programme of Member briefings on important areas of the Council's work. There is also ongoing training covering specific issues in a variety of areas. In preparation for the introduction of the General Data Protection Regulations in May 2018 all staff have been given training and all Councillors offered training.

8. ENGAGEMENT WITH LOCAL PEOPLE AND OTHER STAKEHOLDERS

The Council works hard to communicate its aims for the District. It conducts a wide range of service specific surveys to ascertain the views and needs of its residents. In autumn 2017 the Council carried out a customer satisfaction survey of the District. The results of this survey were analysed in the latter months of the financial year and an action plan will be developed in early 2018/19. The Council consults with Parish Councils and the Rural Towns Forum (i.e. a consortium of parish level Community Partnerships). It is a leading partner within the Think Family Partnership, Community Safety and Health and Wellbeing Partnerships, linking statutory and non-statutory agencies to provide a co-ordinated approach to delivery of the programme across the District. The Council works with voluntary and community sector partners to ensure effective provision of community engagement activities across the district. These partnerships share feedback from their own stakeholder consultation.

These groups help the Council to assess the priorities of different sections of the community that have different needs, particularly in areas such as Think Family Neighbourhoods, Grants and funding, Parish Councils where resources are being targeted. Compliments and feedback received are monitored and reported to the Overview and Scrutiny Committee as part of the quarterly performance management report.

9. DETAILS OF KEY GOVERNANCE MECHANISMS

Sources of assurance received for each of the core principles are set out in the Horsham District Council's Local Code of Corporate Governance. (See Appendix B).

10. REVIEW OF EFFECTIVENESS OF THE GOVERNANCE FRAMEWORK

The Council's governance framework includes decision-making processes set out in the Council's Constitution, together with rules and procedures. A review of governance focussing on political structure and the decision-making process at a high level was completed in April 2016. The Council continues to operate the Cabinet Executive Model. Since this date the only significant changes to the governance framework were the Overview and Scrutiny Committee deleting its sub-committee in favour of task and finish groups, and the Council agreeing to the deletion of the CenSus Joint Committee from 1 April 2018 because the CenSus partnership will no longer exist from this date.

Mechanisms for maintaining and reviewing the effectiveness of the Council's governance arrangements throughout the year include:

- The Council comprises 44 Members and, as a whole, takes decisions on budget and policy framework matters as defined by the Constitution, including deciding on the aims and objectives of the Council as set out in the Corporate Plan and other decisions that are reserved in law to be taken only by the Council
- The Overview and Scrutiny Committee is able to scrutinise the decisions of the Cabinet and maintains an overview of Council activities which includes monitoring performance management.
- The Cabinet is ultimately responsible for considering overall financial and performance management. Budget and performance monitoring reports are received on a quarterly basis by Overview and Scrutiny Committee.
- The Standards Committee meets quarterly and at every meeting considers an update report on complaints against Councillors. The Committee also keeps under review the Council's policies and procedures for maintaining high ethical standards.
- The Audit Committee meets three times a year to review the Council's risk management and control arrangements. It also reviews the Council's Treasury Management and Investment Strategies and has delegated authority to review and approve the statutory financial statements and consider reports from the Council's external auditors.
- The role of the Director of Corporate Resources (as Chief Financial Officer) includes stewardship and probity in the use of resources and performance, extracting best value from the use of those resources. The Chief Financial Officer complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government.
- An annual audit plan is developed, in consultation with senior managers, which outlines the assignments to be carried out and estimated resources. The audit plan is sufficiently flexible to enable the Internal Audit team to respond to changing risks and priorities of the organisation.
- The Head of Legal and Democratic Services (as Monitoring Officer) has a duty to ensure that operations are carried out lawfully. During the year, there was a vacancy in post, but the statutory function of Monitoring Officer was undertaken by the Monitoring Officer from Crawley Borough Council on an interim basis

11. IMPROVEMENTS DURING THE YEAR

The following improvements to the Governance Framework were recognised during 2017/18:

- An annual review of performance indicators has been undertaken by Heads of Service and the Senior Leadership Team to ensure that these are meaningful and useful in helping services to achieve their objectives.
- The Overview and Scrutiny Committee reviewed its effectiveness leading to it deleting its sub-committee in favour of Task and Finish Groups focussing on specific key subjects. Overview and Scrutiny has carried out Cabinet lead interviews at its meetings to ensure it understands the full range of work overseen by these Councillors.
- E-Learning training has continued for staff. Learning and development has focused on helping to discharge the Council's statutory responsibilities in relation to health and safety, General Data Protection Regulation (GDPR), Equality and Discrimination.
- A robust Training programme has been completed for all staff member to ensure the Council adheres to statutory safeguarding responsibilities
- Implementation of a new financial management computer system allowing clearer budgetary control by managers, with less intervention by finance staff, a simplification of the chart of accounts and a review of approval levels by budget holders.
- The implementation of the new financial management system as an infrastructure as a service system considerably reduces the risk of loss of the system in the event of a disaster at the Parkside building.
- A new Legal Case Management system was procured that will allow more accurate recording of our legal cases and better control of work in the Legal Services team.
- The replacement of Citrix with Direct Access has stabilised access to technology and systems files for remote working.
- A Corporate Governance Group including the s151 and Monitoring Officer was introduced meeting quarterly to review all governance issues.
- A Business Continuity group was introduced to review the Council's business continuity arrangements and review key business continuity risks.
- The agreement with the LGSS Councils for the provision of revenues and benefits services will considerably reduce the risk of the loss of the revenues and benefits system as a result of a disaster at the Parkside building.
- West Sussex County Council have replaced their generator at the Parkside building reducing the risk of loss the Council's operations and technology in the event of a power outage.
- An agreement has been put in place to move internal audit into the Orbis partnership from 1 April significantly increasing the resilience of this small team.
- A project risk management toolkit has been developed during 2017/18 which is to be used in the future for both existing and new projects. For larger projects, a structured process will be followed to help ensure that significant risks are identified and appropriately managed.

12. SIGNIFICANT GOVERNANCE ISSUES

The 2016/17 Annual Governance Statement included an Action plan for 2017/18. Progress against the risks identified is reported in Appendix D

New significant governance issues are reported to the Audit Committee. At the current time no significant governance issues have been identified but a number of recommendations for improvement are set out in a new action plan in Appendix E.

Certification

It is our opinion that Corporate Governance, along with supporting controls and procedures, remains strong for the Council.

Signed

.....

Leader of the Council

.....

Chief Executive

On behalf of the Members and senior officers of the Council.

Appendix B HDC Code of Corporate Governance

HORSHAM DISTRICT COUNCIL LOCAL CODE OF CORPORATE GOVERNANCE

Corporate Governance comprises the systems, processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

To deliver good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their entity's objectives while acting in the public interest at all times.

The Council's behaviours and actions that demonstrate good governance are set out in response to the CIPFA core principles.

A: Integrity; Ethical Values: the Rule of Law

- Member and Officer Codes of Conduct are included in the Constitution setting out the values and behaviours that the Council requires Members and officers to adopt.
- Rules of Procedure govern the expected conduct at meetings of the Council and its committees.
- The Anti-fraud and Corruption Policy is designed to encourage and promote the prevention and detection of fraud.
- Member and Officer Registers of Interests, Gifts and Hospitality safeguard both Members and officers against conflicts of interest.
- The Whistleblowing Policy ensures anyone with a concern can have confidence that it will be dealt with appropriately.
- There are core competencies for officers and a performance appraisal process monitors officer behaviours.
- The Standards Committee considers complaints or allegations made against Councillors, as required by the Localism Act 2011.
- In accordance with 'Working Together to Safeguard Children 2015' and 'The Care Act 2014', we recognise the need to ensure the welfare of all individuals when they come into contact with services provided by the Council.



B: Openness; engaging with institutional stakeholders; engaging with individual citizens and service users.

- The Constitution sets out how the Council operates, how decisions are made and the procedures and codes of conduct that are followed.
- The Overview and Scrutiny Committee reviews the Council's decision making processes and monitors the internal and external delivery of services.
- The Audit Committee is independent of Cabinet and Scrutiny functions. It receives reports on the work of External and Internal Audit and Risk Management.
- The formation of a new Governance Committee has been agreed which will meet to review the Council's Constitution when the need arises.
- The Council supports local communities that produce their own Neighbourhood Plans providing a vision for their area.
- The Council engages with the public in a number of public consultations. These are publicised on the Council's website and the feedback informs the Council's decision making process.
- The majority of the Council's meetings are open to the public. Agendas, papers and minutes are published on the Council's website.
- The Council recognises that supporting and engaging communities is a shared agenda with many partners including West Sussex County Council, the Police, Health and sports Services and the community and voluntary sector. Working together we are all committed to ensuring Horsham District remains a great area to live and work.
- Senior management communicates with staff by means of regular cascade meetings organised by the Senior Leadership Team: Director's meetings; Team meetings; Chief Executive Talks; the "Council Matters" publication; weekly SLT feedback and update messages on the Staff Intranet.
- Consultation takes place with Parish Councils and other Voluntary and Community groups throughout the District to ensure effective provision of community engagement activities. These groups help the Council to assess the priorities of different sections of the community that have different needs.

C: Defining Outcomes; sustainable, economic, social and environmental benefits.

- The Corporate Plan for the period 2016-19 which is published on the Council's website identifies key priorities for the Council.
- Departmental Service Plans have been put in place in order to deliver the objectives of the Corporate Plan.
- The Council ensures objectives are deliverable by producing a Medium Term Financial Strategy and detailed financial budget plans.
- Progress against the Council's aims and objectives is monitored by means of its performance management framework and set of detailed performance management indicators.
- The Council Identifies and manages any corporate and departmental risks to achieving its objectives through its risk management process and issues regular reports to senior management and Members.
- Value for money is driven through the Council's Corporate Procurement Code.
- Information relating to Council plans and initiatives is published via its website and the Horsham District news magazine.

D: Determining and planning interventions; optimising achievement of intended outcomes.

- The Medium Term Financial Strategy is updated at least twice a year and takes into account changes in the financial outlook. It is used as a basis for the annual budget setting process in which all Service Managers reconsider their departmental budgets. The Annual Budget and Council Tax rate are approved by full Council before the commencement of each financial year.
- Progress against the budget is reviewed on a monthly basis
- Key performance targets for each service area are set and progress against these is monitored regularly.
- The Council is investigating alternative models of service delivery to improve efficiency whilst meeting the needs of customers.
- The Council is working with Community and Voluntary sector partners to develop projects and deliver efficient and effective services.
- A review of the Council's IT Strategy is taking place to ensure service delivery is supported efficiently and flexibly.
- Benchmarking against others provides information that assists the Council to design services that are fit for purpose by looking at options to improve delivery.

F: Managing risks; managing performance; robust internal control; managing data; strong public financial management.

- Decision making protocols are set out in the Council's Constitution.
- Agendas and minutes of Council/Committee meetings are published on the Council's website and include details of decisions taken.
- The Overview and Scrutiny Committee reviews the Council's decision making processes and monitors the internal and external delivery of services.
- Budget monitoring processes are in place and a summary of the Council's financial position is reported to senior management monthly and to Members quarterly.
- The Council has an established Risk Management Strategy and embedded Risk Management processes. Corporate and Departmental risks are formally reviewed quarterly.
- The Internal Audit Section reports to the Audit Committee. Its work is planned to ensure there are robust systems of internal control in place to mitigate risks and provide assurance to senior management and Members.
- The Audit Committee meets three times a year to review the effectiveness of the control environment and risk management framework.
- A Corporate Governance Group has been introduced to oversee the Council's Governance arrangements.
- A complaints procedure is published on the Council's website. Quarterly monitoring reports are submitted to senior management and Members.
- The Council has a suite of policies covering information and data security and guidance is available for all staff on the Council's Intranet.

E: Developing the capacity of the entity through its leadership and other individuals.

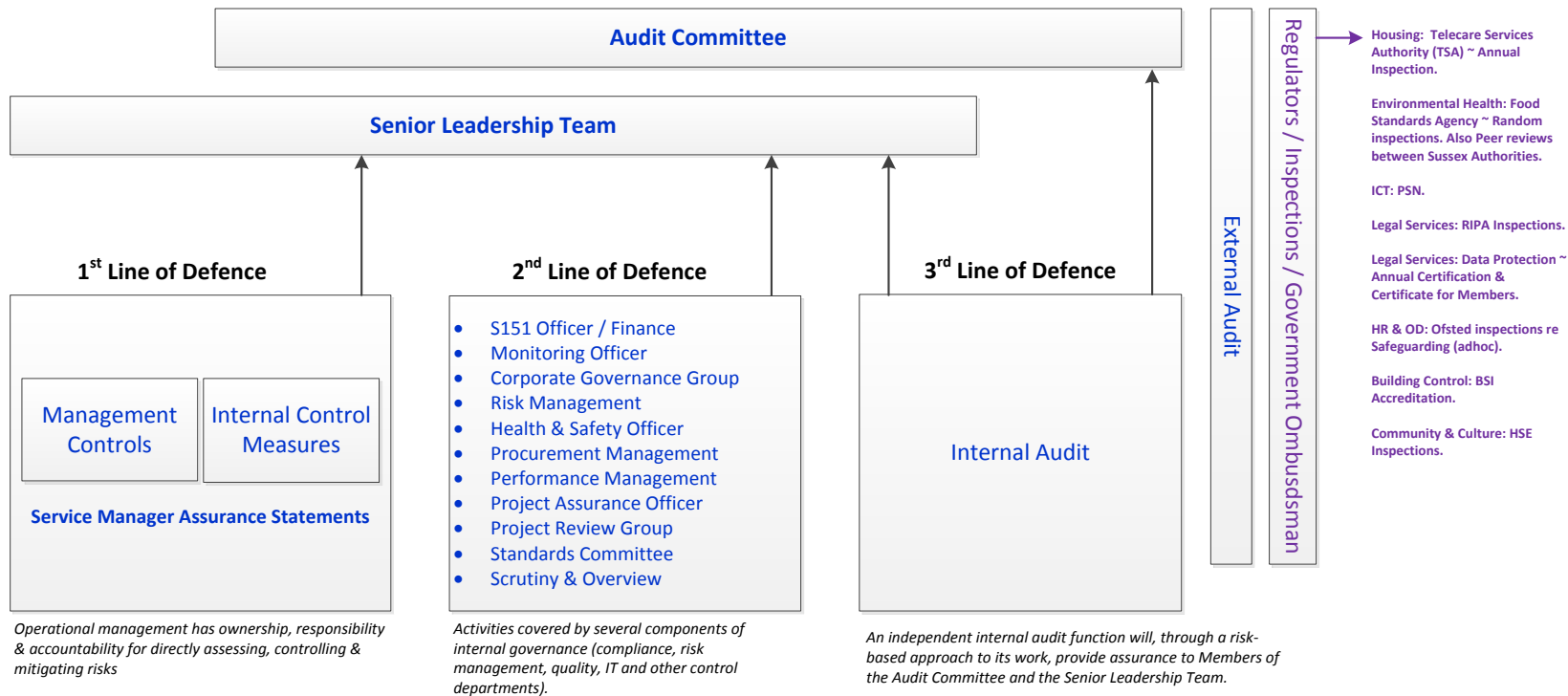
- The Constitution sets out how the Council operates; how decisions are made and which Codes of Conduct are followed. The roles of Members are clearly set out and a Member/Officer protocol is included.
- A Scheme of Delegation has been established that determines the levels at which decisions are taken.
- Detailed regulations (for example Financial Regulations and Contract Standing Orders) have been established which officers must follow when undertaking their roles.
- A performance management framework monitors employees' performance through the annual performance appraisal system and helps to aid workforce planning. The process also identifies an individual's training needs.
- The Standards Committee deals with issues relating to Member performance.
- Partnership agreements are in place for each of the Council's strategic partnerships and Joint Management Boards meet regularly to monitor the agreements.
- A health and wellbeing programme is available to all employees.
- An induction training programme is in place for both Members and employees.
- Regular Managers' conferences enable managers to meet to consider current issues affecting the Council and to work together to identify solutions.

G: Good practice in transparency, reporting and audit to deliver effective accountability.

- All committee agendas, papers and minutes are available to the public on the Council's website (and in hard copy on request from the Council's offices).
- The Council publishes its Audited Annual Accounts and Annual Governance Statement including an action plan for improvement for any areas of concern.
- All external audit reports are published and corrective action is taken to address any issues highlighted as necessary.
- The Council has an effective Internal Audit section which reports to the Audit Committee. The work of Internal Audit is planned to ensure there are robust systems of internal control in place to mitigate risks and provide assurance to Members. Progress to implement agreed recommendations for improvement in control processes is monitored and reported to Members.
- Partnership arrangements are effectively monitored by Partnership Boards.

Appendix C: HDC Governance Assurance Framework

ASSURANCE FRAMEWORK



Assurance Framework Documentation

<ul style="list-style-type: none"> • Constitution • Code of Conduct • Complaints Procedure • Equalities Scheme • Service Manager Assurance Statements • Communications Strategy • Financial Policies & Procedures • Risk Management Strategy & Toolkit • Risk Registers • Performance Framework 	<ul style="list-style-type: none"> • Employee Policies • Pay Policy • Anti-Fraud & Corruption Policy • Whistleblowing Policy • Annual Internal Audit Report & Opinion • Statement of Accounts • Annual Audit Letters from EY • Annual Complaints Report • Report of Local Government Ombudsman • Results of External Inspections 	<ul style="list-style-type: none"> • Corporate Plan & Service Plan • MTFS & Budget • Money Laundering Policy • Partnership Agreements / SLAs • Treasury Management & Investment Strategy • Procurement Code • Values & Behaviours
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APPENDIX D: ANNUAL GOVERNANCE STATEMENT ~ ACTION PLAN FOR 2017/18

No.	Area for Improvement	Actions	Responsible Officer	Outcomes
	Governance related training is needed for officers.	A programme of regular governance training will be developed (e.g. health & safety, anti-fraud, information and data security). This is being incorporated into HDC's new online appraisals and training system.	Director of Corporate Resources	31/03/18 Complete
	Improvement in ICT Disaster recovery arrangements	<p>To complete the Cloud Transition Project – part of the long term ICT Disaster Recovery Strategy, by 2019, in collaboration with Mid Sussex DC and Adur & Worthing.</p> <p>To put together a fully documented recovery plan to identify what systems will need to be operational in what timescales, and what Technology Services will need to do to bring them back.</p> <p>HDC's warm site will be located at the Hop Oast Depot from the end of June 2017 as this site will have a fully operational 100mb WAN link.</p>	Head of Technology Services	<p>By 2019 In progress</p> <p>30/06/17 In progress</p> <p>30/06/17 Complete</p>
	Improvement in daily and monthly bank reconciliation process.	Re-design of bank reconciliation process when the new Financial Management System is introduced during 2017/18	Head of Finance	30/09/17 Completed
	HDC's Overview and Scrutiny function.	Complete a review of the Overview and Scrutiny function. Paper and recommendations to the Overview and Scrutiny meeting 05/06/17		30/06/17 Complete

APPENDIX E: ANNUAL GOVERNANCE STATEMENT ~ ACTION PLAN FOR 2018/19

No.	Area for Improvement	Actions	Responsible Officer	Target Date
1	Information security policies	Review and rewrite information security policies	Head of Technology Services	31/5/18
2	S151 and Monitoring Officer sign off of decision reports	Roll out of tracking and sign off through Modern.gov	Democratic Services Manager	30/6/18
3	Officer/Member protocol	Reintroduce an officer/member protocol	Head of Legal & Democratic Services	30/6/18
4	Revenues and Benefits disaster recovery	Move of all Horsham and Mid Sussex based revenues and benefits systems to Milton Keynes Council	Head of Revenues and Benefits (LGSS)	31/7/18
5	Verto Project Management system	Review and redesign of the Verto Project Management system	Project Assurance Manager	31/7/18
6	Reliability of power supply at the depot	Purchase and implementation of a generator	Head of Property Services	31/7/18
7	Horsham in-house technology disaster recovery plan	Complete the DR plan for the in house technology	Head of Technology Services	31/3/19
8	Legal Services' case management & disaster recovery	Implement the new Legal Services Case Management System	Legal Services Business Manager	30/9/18
9	Plan for major power outage	Prepare a plan for dealing with this type of emergency	Well-being/ Community Safety Manager	30/9/18

10	Contract for the production of the Horsham Pantomime	Review of the arrangements for the Horsham Pantomime to ensure financial probity, value for money and transparency.	Head of Community Services	30/11/18
11	Software and technology support contracts	Review all software and technology support contracts ensuring their value for money and fitness for purpose	Head of Technology Services	31/12/18
12	Access to HR records in a civil emergency, disaster recovery of HR and budgetary control of salaries information	Implementation of the HR module of Technology One (Cloud based finance system)	Head of HR and OD	31/12/18
13	Mandatory governance training courses	Ensure all mandated governance courses are complete by the deadlines	Heads of Service	31/3/19
14	Improve disaster recovery and reliability of email systems	Roll out of office 365	Head of Technology Services	31/12/18

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Report to Audit Committee

11th April 2018

By the Director of Corporate Resources

INFORMATION REPORT



**Horsham
District
Council**

Not Exempt

Risk Management ~ Quarterly Report

Executive Summary

This report includes an update on the Corporate Risk Register for consideration and provides an update on progress with the quarterly departmental risk register reviews.

Recommendations

That the Committee is recommended to:

- i) Note the contents of this report.

Reasons for Recommendations

As part of good governance, it is important that this document is considered by Members.

Background Papers

Covalent Performance Management System / Corporate Risk Register

Wards affected: All

Contact: Julie McKenzie, Project Assurance Manager 01403-215306

Background Information

1 Introduction and Background

- 1.1 The Audit Committee is charged with responsibility for monitoring the effectiveness of the Council's risk management arrangements.
- 1.2 The report provides details of key changes to the Council's Corporate Risk Register, and an update on progress regarding the departmental risk registers (see 3.1 and 3.2 below).

2 Relevant Council Policy

- 2.1 The Council's Risk Management Policy is detailed in the Council's Risk Management Toolkit. The Council's Risk Management Strategy is a component part of the Policy, and this document sets out to achieve the following objectives:
 - Fully integrate risk management into the culture of the Council and its strategic and service planning processes;
 - Ensure that the risk management framework is understood and that ownership and accountability for managing risks is clearly assigned;
 - Ensure the benefits of risk management are realised through maximising opportunities and minimising threats;
 - Ensure consistency throughout the Council in the management of risk.

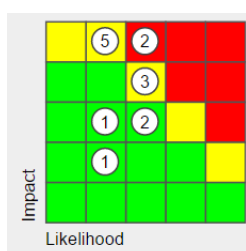
3 Details

3.1 Corporate Risk Register

The Senior Leadership Team has reviewed the Corporate Risk Register and comments have been updated to reflect the current position for each risk (see Appendix 1).

Since the last report four new risks have been added, Transfer of Revenue & Benefits Service (CRR25), cost of exiting the existing Revs & Bens agreement (CRR26), failure to successfully roll out the new bin collection service (CRR24) and transition from current to new CE (CRR27).

The Corporate Risk profile is shown in the following heat map which shows the total number of risks in each segment. The red / amber / green zones are in accordance with the Council's risk appetite.



There are two risks which are currently considered to be high, eight medium risks and four low risks. The high risk area relates to the following:

CRR01b	Funding from Government is less generous than assumed in the Medium Term Financial Strategy (MTFS) from 2020
New Risk CRR26	That the cost of exiting the existing Revs and Bens agreement with MSDC may be high

Please see the risk register in Appendix 1 which provides full details of all risks on the “live” register together with details of the control actions and responsible officers.

Three risks have now been mitigated and the Senior Leadership Team has confirmed that these should be removed. These are:

CRR07	Failure of contract / poor service delivery / failure to achieve value for money
CRR12	A contractor successfully challenges an award (e.g. on inflexible price:quality ratios).
CRR14	Failure to negotiate the optimum outcome. Failure to deliver the infrastructure needs of the District

3.2 Departmental Risk Register

Departmental risk registers have been reviewed and updated.

4 Outcome of Consultations

- 4.1 Officers who are responsible for control actions and the Senior Leadership Team have been consulted in updating the Corporate Risk Register.

5 Other Courses of Action Considered but Rejected

- 5.1 Not applicable.

6 Financial Consequences

- 6.1 There are no financial consequences.

7 Legal Consequences

- 7.1 There are no legal consequences.

8 Staffing Consequences

- 8.1 There are no staffing consequences.

9 Risk Assessment

- 9.1 The report provides an update on the Council's corporate risks and how these are being managed by the Senior Leadership Team. See Appendix 1 for the latest version of the Council's Corporate Risk Register.

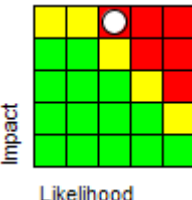
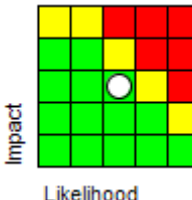
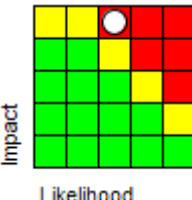
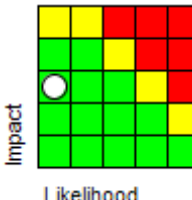
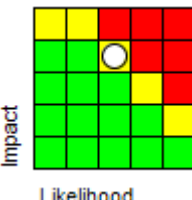
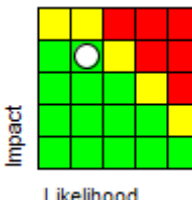
10 Other Considerations

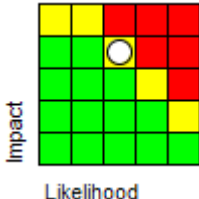
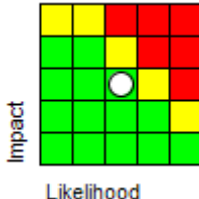
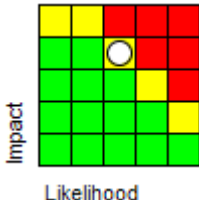
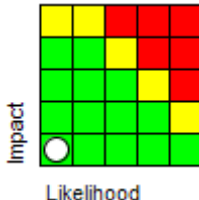
- 10.1 Risk management encompasses all risks within the organisation, including strategic, operational, and project/change risks. This includes consideration of Crime & Disorder; Human Rights; Equality & Diversity; and Sustainability as appropriate.

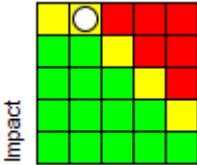


Appendix 1 Corporate Risk Report February 2018

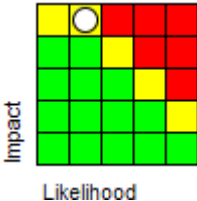



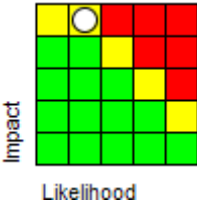
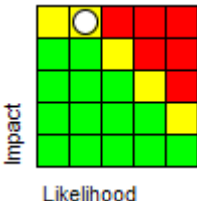



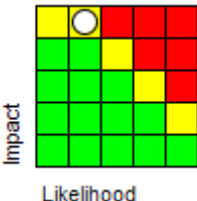
Risks ordered by RAG not numerically

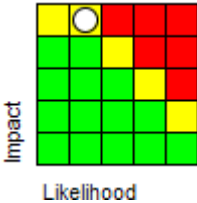
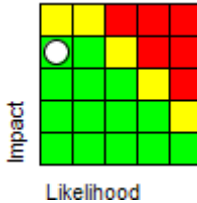
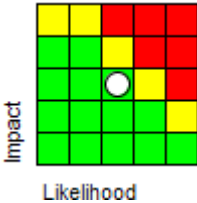
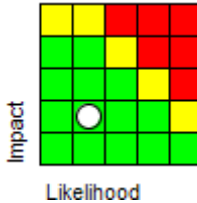
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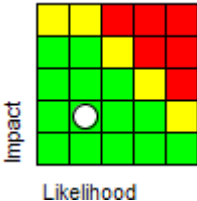
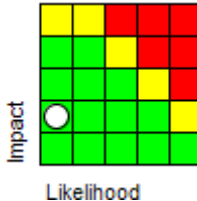
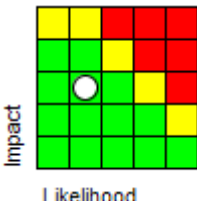
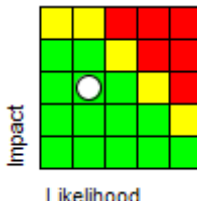
Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
<p>CRR01b Financial <u>Cause:</u> The Council is reliant on Central Controlled Government funding (e.g. Business Rates).</p> <p><u>Risk:</u> (ii) Funding from Government is less generous than assumed in the MTFS from 2020</p>	<p>Reductions in funding</p> <p>Adverse effect on morale</p> <p>Financial</p> <p>Failure to achieve agreed objectives</p>	Jane Eaton		CRR.01b.1 Continue to keep a watching brief	Dominic Bradley	▶		<p><u>February 2018 update:</u></p> <p>Uncertainty beyond 2019/20, especially with regards to the localisation (75%) retention of business rates remains a significant area of concern. This will be reviewed as information and guidance on how the scheme will work is released. The February 2018 MTFS forecasts deficits in the region of £1.6m in 2020/21 and £2.3m in 2021/22.</p> <p>An updated MTFS will be brought back to Members as soon as more is known.</p>
<p>CRR26 <u>Cause:</u> Due to the dissolving of the Census partnership with Adur Worthing, Mid Sussex and Horsham.</p> <p><u>Risk:</u> That the cost of exiting the existing Revs and Bens agreement may be high.</p>	Financial Reputation	Jane Eaton		<p>CRR.26.1 Continue to work with MSDC to reduce costs</p> <p>CRR.26.2 LGSS are prepared to speak with any current staff who want to work for them</p>	<p>Jane Eaton</p> <p>Jane Eaton</p>	<p>▶</p> <p>▶</p>		<p><u>New Risk</u></p> <p><u>February 2018 Update:</u></p> <p>Ongoing discussions with all parties with the aim of keeping costs to a minimum</p>
<p>CRR02 Managerial / Professional <u>Cause:</u> The Council has a legal obligation to protect personal data. The Information Commissioners powers are much more far reaching when they change in May 2018.</p>	<p>People and businesses come to harm and suffer loss that might not otherwise have occurred</p>	Jane Eaton		<p>CRR.02.1 Develop appropriate processes & procedures which underpin the IT Security Policy</p> <p>CRR.02.2 Develop Strategy for implementation of General Data Protection Regulations (GDPR) (to</p>	<p>Andrea Curson</p> <p>Jane Eaton</p>	<p>▶</p> <p>▶</p>		<p><u>February 2018 Update:</u></p> <p>CRR02.2 GDPR project progressing well.</p> <p>CRR02.3 GDPR on line training rolled out to staff in February and briefing for Councillors arranged for</p>

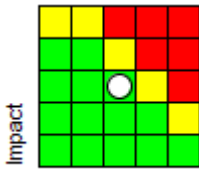
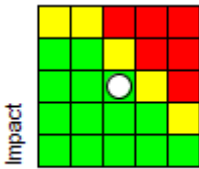
Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
<p>Risk 1: Major data breach or leak of sensitive information to a third party.</p> <p>Risk 2: Risk of significant ICO fine for non-compliance with new General Data Protection Regulations (GDPR).</p>	<p>Complaints / claims / litigation Resources consumed in defending claims Financial losses Fines from regulators Adverse publicity Reputation damage</p>			follow)				<p>March.</p> <p>CRR02.4 PSN accredited for 2017/18, next due Mar/April 18.</p>
				CRR.02.3 Provide a programme of training on Information Security to all staff.	Robert Laban	▶		
				CRR.02.4 Annual PSN Accreditation	Andrea Curson	▶		
<p>CRR19</p> <p><u>Cause:</u> Uncertainty in the UK and World economy. The Government has spoken about an additional 5% reduction in local government funding, and further cuts in years to come.</p> <p><u>Risk:</u> The impact on the financial markets and the pound could bring forward the next recession and cause a slowdown in the housing market. This may result in a reduction in planning fees; reduced car parking income; increased homelessness; and increased housing benefit claims.</p>	<p>Financial Service Delivery Compliance with Regulations</p>	<p>Jane Eaton</p>		CRR19.2 Monitor the external environment	Dominic Bradley	▶		<p><u>February 2018 update:</u></p> <p>The uncertain economic environment is being continually monitored and changes will be reported in any MTFS update and regular quarterly budget and performance monitoring to Overview and Scrutiny Committee.</p>
				CRR19.3 Monitor internal indicators, particularly income generation	Dominic Bradley	▶		
				CRR19.4 Future Horsham focuses on productivity and commercialisation reviews; these will provide recommendations going forward. (Programme of reviews to be completed by 30.09.2018)	Chris Lyons	▶		
<p>CRR25</p> <p><u>Cause:</u> The transition from Mid Sussex DC (who currently host the service for HDC residents) to the new provider (LGSS) is complex, with many inter-related dependencies including HR matters and potential data / and technology issues.</p> <p><u>Risk:</u> That transfer of Revenues and Benefits service cannot be completed and / or does not go smoothly by 1 April 2018.</p>	<p>Service Delivery Reputation</p>	<p>Jane Eaton</p>		CRR.25.1 Effective project delivery teams at HDC and LGSS	Jane Eaton	▶		<p><u>New Risk</u></p> <p><u>February 2018 Update:</u></p> <p>The transition project is now in full swing. The project carries high risk around 3rd party providers and around the mix of service experience of staff remaining working for each Council. Therefore LGSS, HDC and MSDC are agreeing an extended transitional period for working together from April to June 2018.</p>
				CRR.25.2 Continue to work collaboratively with MSDC to ensure each council has effective teams in place for the future delivery of their service	Jane Eaton	▶		
				CRR.25.3 Ensure successful transfer of customer data - HDC has good in-house skills and will benefit from LGSS's experience transferring other LA's data	Jane Eaton	▶		

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
CRR01a Financial <u>Cause:</u> The Council is reliant on Central Controlled Government funding (e.g. Business Rates). <u>Risk:</u> (i) Failure to achieve the required level of savings and income in the MTFS to 2019/20	Reductions in funding	Jane Eaton		CRR.01.1 Review current budgets in preparation for the 2019/20 budget (October Annually)	Dominic Bradley	▶		<u>February 2018 update:</u> A balanced budget with a £0.5m surplus for 2018/19 was approved at Cabinet on 25 January 2018 and Council on 21 February 2018. This incorporated many of the efficiency and additional income plans worked on during the year. The MTFS was also updated which forecasts a small surplus in 2019/20 on the expectation that central funding from the government's four year settlement is delivered and that the proposed plans to deliver further efficiencies and income are implemented. The Council's acceptance of the 2015/16 four year settlement during 2016 has helped to provide a degree of certainty for the next three years, in as much as the Revenue Support Grant and the baseline Business Rates funding reduction from £2.2m in 2017/18 to £1.4m in 2019/20 should not get any worse during this period.
	Adverse effect on morale			CRR.01.2 Develop options to deal with pressure for consideration by Members	Dominic Bradley	▶		
	Financial			CRR.01.3 Implement the Medium Term Plan	Dominic Bradley	▶		
	Failure to achieve agreed objectives			CRR.01.4 Ongoing monitoring under the Service Efficiency Board (Future Horsham)	Dominic Bradley	▶		
				CRR.01.5 Productivity & commercialisation projects reviews being undertaken, each of which will provide recommendations (programme of reviews to be completed by 30/09/18)	Chris Lyons	▶		
CRR03 Legal <u>Cause:</u> The Civil Contingencies Act places a legal obligation upon the Council, with partners, to assess the risk of, plan, and exercise for emergencies, as well as undertaking emergency and business continuity management. The Council is also responsible for warning and informing the public in relation to emergencies, and for advising local businesses. <u>Risk:</u> The Council is found to have failed to fulfil its obligations under the Act in the event of a civil contingency.	People and businesses come to harm and suffer loss that might not otherwise have occurred	Trevor Beadle		CRR.03.1 Update corporate business continuity plan and regular review.	Trevor Beadle	▶		<u>February 2018 Update:</u> CRR.03.1 – Full review currently taking pace (15/02/2018) as per annual plan review programme. CRR.03.2 – All plans audited in December 2018 and updated version requested from departmental managers. CRR.03.04 – John McArthur is investigating the specification and associated price of a backup power supply with a view to SLT making a decision about whether to proceed. CRR.03.05 – Designed and developed and now being rolled out
	Complaints / claims / litigation			CRR.03.2 Update departmental business continuity plans and regular review.	Trevor Beadle	✓		
	Resources consumed in defending claims			CRR.03.4 Build IT disaster recovery procedure into new Hop Oast development (warm site). Further plan revision will be made to reflect changes.	Trevor Beadle	▶		
	Financial losses			CRR.03.5 Bitesize workshops in 2017 and 2018 to address new procedures and processes and all SLT and heads of	Trevor Beadle	▶		

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
	Censure by regulators Reputation damaged			service will be invited to attend. CRR.03.6 Pick up Emergency Planning changes due to changes to Heads of Service				across HDC. All SLT have attended and heads of service are booked on to future courses. CRR.03.06 – changes have been accounted for and will be included in future plan reviews.
CRR06 Physical Cause: The Council is responsible for the health & safety of its clients, staff and other stakeholders, owns and maintains significant assets, and also has responsibility for H&S in some partner organisations where it does not have operational control. Risk: A health & safety failure occurs.	People come to harm Complaints/claims/ litigation Financial losses Censure by audit / inspection Reputation damage Adverse effect on morale Stress and absenteeism	Jane Eaton		CRR.06.2 Develop and implement a corporate inspection strategy (By 30/06/16). CRR.06.3 Clarity of responsibilities and implementation of a training programme CRR.06.4 Implement a central repository for risk assessments	Robert Laban / Health & Safety Officer Robert Laban Robert Laban / Health & Safety Officer	  		<u>February 2018 Update:</u> CRR.06.2: Corporate H&S Adviser continues to inspect HDC premises. A self-inspections approach is being developed throughout 2018/19. CRR.06.3 - H&S responsibilities are set out in the Corporate H&S Policy and H&S subject policies. Directorate H&S Working Groups are responsible for implementing these policies. Team self-audits to commence from 2018/19. H&S Training matrix has been published as part of the corporate competencies framework. E-learning courses for H&S key topics are accessible via Horsham LAB. CRR.06.04: The introduction of a central repository for risk assessments remains deferred until the roll-out of Office 365 is completed or Technology One can be configured in this respect - this is not likely before Dec 2018.
CRR 18 Technological Cause: Council services are increasingly reliant on IT systems at a time when there are greater opportunities for malicious attackers to exploit security weaknesses. Risk 1: A malicious attacker exploits a known or unknown	Loss of key systems resulting in disruption to Council services. Cost of investigation and recovery of systems.	Jane Eaton		CRR.18.1 Staff Training CRR.18.2 Awareness of current threats CRR.18.3 An effective ICT Service delivery team	Claire Oliver / Robert Laban Andrea Curson Andrea Curson	  		<u>February 2018 Update:</u> PSN submission due in May 2018 we are working towards getting the IT Health Checks done and any identified remediation work. Remediation ongoing Patching of devices ongoing. All work is ongoing.

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
security weakness to penetrate the Council's ICT systems. <u>Risk 2:</u> IT not working due to environmental problems: fire, flood, power cut	Fraud/theft. Loss of the integrity of Council Records. Exposure of sensitive/personal data resulting in penalties from the ICO. Reputational or political damage from adverse media coverage.			CRR.18.4 Effective patching and updates to mitigate known vulnerabilities	Andrea Curson	▶		
				CRR.18.5 Compliance with expected security standards. (PSN, PCI-DSS)	Andrea Curson	▶		
				CRR.18.6 Effective policies in place which outline security requirements for users of ICT	Andrea Curson	▶		
				CRR.18.7 Effective back-up and recovery processes in place for Council ICT systems.	Andrea Curson	▶		
				CRR.18.8 The CenSus Cloud will transfer the risks to the cloud provider	Andrea Curson	▶		
<p>CRR24</p> <p><u>Cause:</u> The implementation of the new bin collection service is a major change of service delivery with a high level of complexity that affects all residents</p> <p><u>Risk:</u> Failure to successfully roll out the new bin collection service. There are multiple risks around late delivery; cost impact and reputation</p>	Failure of business objectives Financial Service Delivery Reputation Environmental	Adam Chalmers		CRR.24.1 Control actions identified in project risk register	Adam Chalmers	▶		<p><u>New Risk</u></p> <p><u>February 2018 Update:</u></p> <p>New bin collection service commenced on 5 February. The roll out to isolated properties, zone 1 and zone 2 has commenced and worked well to date. The roll out continues throughout March.</p> <p>The Council's website has seen significant traffic and the contact centre has experienced lower call centre volumes than anticipated.</p>
<p>CRR20</p> <p><u>Technological</u></p> <p><u>Cause:</u> There is an inherent risk when significant financial systems change. New Financial Management System (FMS) went live in September 2017</p> <p><u>Risk:</u> FMS system runs without</p>	Incorrect data migration Data inaccuracies Inaccurate reporting and decision-making Failure to	Jane Eaton		<p>CRR.20.3 Training and implementation for all Council users to enable access and self-service usage of new system.</p> <p>CRR.20.4 Sufficient time and testing incorporated into plans to constantly develop usage of the new FMS.</p>	<p>Dominic Bradley</p> <p>Dominic Bradley</p>	<p>▶</p> <p>▶</p>		<p><u>February 2018 update:</u></p> <p>The new FMS went live on 5 September 2017.</p> <p>The basic transactional processes are working ok, although progress is a little slow as users get to grips with new processes and ways of working. Learning is ongoing. Small</p>

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
the right level of functionality in all areas. Lack of integration with other systems that requires significant systems re-processing. Some functions are not used.	achieve agree objectives and deliver statutory services Poor VfM			CRR.20.5 Ensure procedure notes for new system and skills are maintained.	Dominic Bradley	▶		improvements to the system are also being made as issues are identified. The full functionality of budgeting and reporting has been delayed as a consequence of focussing on the transactional side and garden waste income collection. The Council has extended access to the asset module in the old system for a further year before this is transferred across.
CRR27 Cause: Current CE leaving, new CE appointed Risk: Transition from current to new CE takes longer than expected; changes in corporate strategy.	Reputation	Jane Eaton		CRR.27.1 Support from current CE in period up to start date CRR.27.2 Support from SLT and other senior officers to provide context, priorities etc.	Tom Crowley Jane Eaton	▶ ▶		<u>New Risk</u> <u>February 2018 Update:</u> CRR.27.1 Current CE has met the new CE several times, prepared a list of all key projects and issues, and updates him on these regularly. The new CE is currently a highly experienced CE CRR.27.2 – The new CE has had one to ones with Directors, met Heads of Service and attended meetings with the Leader, Cabinet and full Council.
CRR05 Governance Cause: Managers are responsible for ensuring that controls to mitigate risks are consistently applied. Risk: Officers are either unaware of expected controls or do not comply with control procedures.	Failure of business objectives Health & Safety Financial Service Delivery Compliance with Regulations Personal Privacy Infringement Reputation damage	Jane Eaton		CRR.05.1 Officer training CRR.05.2 Raise the profile of risk and control by incorporating them into the performance management framework (e.g. integrate into appraisal process). CRR.05.3 All Service Managers required to sign an Assurance Statement. (By 30th June Annually) (Cyclical)	Jane Eaton Jane Eaton Jane Eaton	✓ ✓ ✓		<u>February 2018 Update:</u> Risk complete, retained on register to keep in view

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
<p>CRR17 Cause: The External Auditors audit the HDC Benefits Grant Subsidy return to the Department for Work and Pensions (DWP) on an annual basis to identify errors. Targeted sample testing is undertaken to ensure that housing benefit claims have been correctly administered, and extended sample testing is carried out should errors be identified. The amount of the error is then extrapolated across the entire population (for that particular cell) to produce an estimate of the total error amount. Our Subsidy Claim was qualified in 2015/16 and financial penalties occurred.</p> <p>Risk: Errors may be made which are not identified by quality control checking. This may result in the Benefit Subsidy claim being qualified and/or financial losses.</p> <p>Refer to new risk CRR25</p>	Financial Service Delivery Compliance with regulations Reputation	Jane Eaton		<p>CRR.17.1 Increase / improve the level of quality control checking.</p> <p>CRR.17.2 Continued implementation of the Census Quality Plan which came out of the 2013/14 audit.</p> <p>CRR.17.3 A reassessment of all "Working Age In Work" cases will be undertaken by the end of May 2017.</p> <p>CRR.17.4 Explore options for future service provision</p> <p>CRR.17.6 Complete successful transfer to new provider</p>	<p>Peter Stuart</p> <p>Peter Stuart</p> <p>Peter Stuart</p> <p>Jane Eaton</p> <p>Jane Eaton</p>	<p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>▶</p>		<p>February 2018 Update:</p> <p>Risk complete, retained on register to keep in view</p>

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Report to Audit Committee

11th April 2018

By the Horsham Chief Internal Auditor



INFORMATION REPORT

Not Exempt

Internal Audit Progress Report

Executive Summary

This report summarises the work completed by the Internal Audit Section since December 2017.

Recommendations

The Committee is recommended to:

- i) Note the summary of audit and project work undertaken since December 2017.

Reasons for Recommendations

- i) To comply with the requirements set out in the Public Sector Internal Audit Standards 2013 (amended April 2017).
- ii) The Audit Committee is responsible for reviewing the effectiveness of the Council's systems of internal control.

Background Papers

Internal Audit Reports and Correspondence

Wards affected: All.

Contact: Paul Miller, Chief Internal Auditor, 01403-215319

Background Information

1 Introduction and Background

- 1.1 The purpose of this report is to provide a summary of work undertaken by the Internal Audit team since December 2017.
- 1.2 The Accounts and Audit (England) Regulations 2015 state that “A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.” This responsibility is discharged through the Council’s Internal Audit Section.

2 Relevant Policy / Professional Standards

- 2.1 Internal Audit follows the mandatory standards set out in the Public Sector Internal Audit Standards (PSIAS) published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors.
- 2.2 Internal Audit is conducted in accordance with the Council’s Constitution. Financial Procedure Rule 4e 32 states that: “the Chief Finance Officer, as determined by the Council, will ensure that the Council has appropriate arrangements in place to maintain an adequate and effective internal audit”. The terms of reference for Internal Audit are detailed in the Council’s Internal Audit Charter which is approved and reviewed by the Audit Committee.

3 Summary of Audit Findings

3.1 Council Tax

OVERALL AUDIT OPINION: **SUBSTANTIAL ASSURANCE** (↔)¹

There are sound systems of control in place for the collection of council tax, and there were no significant key control issues reported.

3.2 NNDR (Business Rates)

OVERALL AUDIT OPINION: **REASONABLE ASSURANCE** (↔)

There are good systems of control in place for the collection of NNDR. Whilst there were no significant key control issues reported, the auditor raised concerns about the ‘ad hoc’ frequency of empty property inspections and the reduction in the number of visiting officers. The regular inspection of empty properties is important to confirm their status, ensuring that no changes have taken place. The Revenues

¹ The symbols in brackets indicate the movement in the level of assurance when the area was last audited.

↑ = Improved.

(↔) = No change.

↓ = Reduced.

If blank ~ No previous opinion

and Benefits service will shortly be transferred to LGSS, and an action has been agreed to review current processes and assess the level of visits to be undertaken.

3.3 Casual Workers

OVERALL AUDIT OPINION: REASONABLE ASSURANCE (↑)

The audit opinion has improved, compared to the previous occasion when this area was audited. Procedural guidance, instructions, and forms have now been written which are available on the Council's Intranet. The Human Resources (HR) staff provide one-to-one coaching and advice, as required, on the steps to be taken when engaging casual workers. HR staff will not set up a new casual worker on the Payroll system until the documentation required by employment regulations and by the Council's procedures has been provided.

The auditor has identified a few areas for improvement, and it has been agreed that the following controls will be improved:

- Signing of casual worker timesheets (there were a few lapses).
- Updating of the authorised signatory list.
- Formalised induction process for casual workers.

3.4 Bulky Waste (Follow up)

OVERALL AUDIT OPINION: REASONABLE ASSURANCE (↑)

We have been able to change our opinion from "No Assurance" to "Reasonable Assurance". A new electronic booking system has been developed for the service and the process has been fully documented. The electronic system provides a full audit trail to support transactions, and all staff are aware of their responsibilities.

At the time of the audit follow up, the implementation of the new Finance Management System (Technology One) had caused some initial 'teething problems' causing delays in invoicing and chasing outstanding trade customer accounts. We have been informed that these issues have now been resolved, and the area will be further reviewed by Internal Audit as part of future debtor audits.

4. Other Audit Work

4.1 Internal Audit has been involved in a number of activities since the last report to the Committee:

- Consultancy work on the ANPR (Automatic Number Plate Recognition) system using data analytics.
- The Principal Internal Auditor has taken the corporate lead role in developing a disposal and retention schedule for the Council.
- Active participation in GDPR Project Board meetings.
- Active participation in Corporate Governance Group meetings.

4.2 Orbis Internal Audit

The audit team will be employed by East Sussex County Council from 1st April 2018 which is one of three councils that comprise the Orbis Internal Audit Partnership². The Orbis processes and systems have been gradually adopted during 2017/18 and these will be fully adopted during the first quarter of 2018/19. This will include a new Audit Committee reporting template.

A Report and Report Escalation Policy has recently been developed for Orbis which is attached as Appendix 3. This includes a specific section for reporting to the Audit Committee (see Section 8 of the policy).

5 Audit Plan ~ Progress Update

5.1 The audit plan for 2017/18 is nearing completion (see Appendix 2 for the current status). 16/24 pieces of work have been completed (67%) and 5 other audits are currently in progress. The following audits will not be completed:

- Rural Car Park Charging (as previously reported)
- Cloud Computing (as previously reported)
- Contract Management (carried forward to 2018/19)

5.2 As previously reported, it is important that there is an element of flexibility built into the audit plan to respond to emerging risks and changing priorities.

The following amendments were reported to the Committee in the July report:

- (i) The Parking Enforcement audit has been replaced by the “consultancy” review of the ANPR system.
- (ii) The audit of mobile devices has been replaced by an audit of cyber controls (following the recent well-publicised ransomware attacks).

The team remains on track to deliver 88% of the audit plan and will therefore achieve the 85% target that was set at the beginning of the financial year.

6 Next Steps

6.1 The Committee will be kept informed about progress in terms of the audit plan.

7 Outcome of Consultations

7.1 Heads of Service / Service managers are consulted during each audit. At the end of each review, audit findings are discussed with the Heads of Service at a final meeting, and actions are agreed. An action plan is incorporated into the final report including details of responsible officers and agreed implementation dates. There are occasions when a director may also be consulted, particularly for audits which span a number of departments.

² The Orbis Partnership comprises East Sussex County Council, Surrey County Council and Brighton & Hove City Council.

8 Other Courses of Action Considered but Rejected

8.1 Not applicable.

9 Resource Consequences

9.1 This report summarises information about the work undertaken by Internal Audit, and therefore there are no direct financial or HR consequences.

10 Legal Consequences

10.1 There are no legal consequences. Where compliance issues are identified during audit fieldwork, the Head of Legal & Democratic Services (or relevant legal specialist) will be consulted.

11 Risk Assessment

11.1 All Internal Audit work is undertaken using a risk based approach and as part of this process, audit findings are risk assessed prior to being reported. The risk assessment then determines the order in which control weaknesses are reported and informs the overall audit assurance opinion. See Appendix 1 for the Orbis audit report assurance definitions which have now been adopted.

12 Other Considerations

12.1 Internal Audit is a reporting function and there are no consequences in respect of Crime & Disorder; Human Rights; Equality & Diversity; or Sustainability. However these areas are considered where appropriate during audit fieldwork.

Appendix 1

Opinion	Definition
Substantial Assurance	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Reasonable Assurance	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Partial Assurance	There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.
Minimal Assurance	Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.

APPENDIX 2
ANNUAL AUDIT PLAN 2017/18 ~ PROGRESS UPDATE
Key:

Current Status
Deferred

Annual Audits ~ Key Financial Systems

	Planning	Fieldwork	Draft Report	Report Issued
1 Ernst & Young Key Financial Controls (ISA)				
2 Cash & Bank				
3 Council Tax (CenSus Partnership)				
4 Creditors				
5 Debtors				
Housing Benefits (to be undertaken by the Crawley Internal Audit Team)				
6 N.N.D.R. (CenSus Partnership)				
7 Payroll				
8 Treasury Management				

Annual Audits ~ Other

	Planning	Fieldwork	Draft Report	Report Issued
9 Contract Management				
10 Computer Audit ~ Cyber Controls				
11 Governance ~ Council's Forward Plan				
12 Ethics, Culture & Behaviours (B/F from 2016/17)				

4 Year Cycle

	Planning	Fieldwork	Draft Report	Report Issued
13 Use of Consultants (B/F from 2016/17)				
14 Casual Workers (including the new IR35 Regulations)				
15 Parking ~ ANPR System ~ Consultancy assignment				
16 Commercial Rents				
17 Community Link / Alarm				
18 Taxi Licenses				
19 Specific follow up (Special Collections - Bulky Waste)				

Other Work

	Planning	Fieldwork	Draft Report	Report Issued
20 Annual Governance Statement ~ Audit Input				
21 Rural Car Parks ~ Annual Charging (New Process)				
22 General Data Protection Regulations ~ Project Assurance Work				
23 FIS Replacement ~ Project Assurance Work				
24 Cloud Computing				

Unscheduled Work

	Planning	Fieldwork	Draft Report	Report Issued
Special Investigation ~ Printing				
Duplicate Payments Testing				
Bulky Waste follow up				
Development of a Corporate Document Retention Policy				

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Internal Audit

Reporting and Escalation Policy

February 2018

1. Introduction

- 1.1. The Public Sector Internal Audit Standards (PSIAS) require that internal audit activity must be free from interference in determining the scope of internal audit, performing work and communicating results. Timely and appropriate management responses to internal audit reports enable the Authority to demonstrate that it maintains high standards of internal control and governance in line with control objectives.
- 1.2. This policy will apply to the THREE Orbis Partner Authorities (Surrey County Council, East Sussex County Council and Brighton & Hove City Council). For ease of reference we have used the generic term “Audit Committee” throughout the document, which at the current time refers to the following committee:

Authority	Audit Committee
Surrey County Council	Audit & Governance Committee
East Sussex County Council	Audit, Best Value and Community Services Scrutiny Committee
Brighton & Hove City Council	Audit & Standards Committee

- 1.3. Each Audit Committee will be asked to approve this policy in order to ensure that any concerns are remedied in an appropriate and timely manner.
- 1.4. The policy is designed to provide clarity to all relevant parties over the respective responsibilities and expectations of internal audit.

2. Reporting

- 2.1. With the exception of investigations into alleged irregularities (which are subject to separate arrangements not covered in this policy), the following reporting and escalation arrangements apply to all audit reviews undertaken by internal audit.

3. Draft Report

- 3.1. Following completion of an internal audit, the auditor will produce a draft report, which is issued to the responsible manager (the client). The client will be asked to comment on the factual accuracy of the report.
- 3.2. Where audits are cross-cutting, the Auditor will ensure that the draft report is issued to all relevant officers with an interest in the outcome of the audit.

- 3.3. Where the audit opinion provides Partial or Minimal assurance the Auditor will ensure the relevant Assistant Directors (or on occasions Directors (or equivalent)) are provided with a copy of the draft audit report.
- 3.4. In this context 'factually accurate' means that the auditor's report (findings and risks) are based on a correct interpretation of the systems or circumstances pertaining to the review.
- 3.5. Where appropriate, an exit meeting is held with the client and other officers. It is during this meeting that key points arising from the audit and factual amendments are discussed and actions agreed. Where possible service actions addressing findings should be captured for inclusion in the report.
- 3.6. The agreement of actions and the accuracy of the report are, in many instances, agreed by email.

4. Escalation Process

- 4.1. Upon receipt of the comments on the draft report, the auditor will consider if the actions therein are appropriate. If the auditor is satisfied that all factual points have been addressed; that the service has no outstanding concerns with the report, and that the agreed actions sufficiently addresses all the findings raised in the audit report, then the final report can be issued.
- 4.2. If a response to the draft report is not returned in a timely manner, or in the auditor's opinion does not adequately address the issues raised, the Chief Internal Auditor or Audit Manager will discuss their concerns with the Head of Service. If that discussion does not result in agreed actions acceptable to internal audit, the issue will be referred to the relevant Director for a decision.
- 4.3. The Director's decision will be either to agree acceptable action on behalf of the Head of Service, which must then be implemented within the agreed timescale, or to accept the position and acknowledge that the Director accepts the risk. Risks tolerated in this manner should be considered for inclusion on the service risk register.
- 4.4. If in the opinion of the Chief Internal Auditor the Director's decision exposes the Council to an unacceptable level of risk, the matter will be referred first to the Section 151 Office and/or Chief Executive and then to the relevant Audit Committee.
- 4.5. Depending upon the time taken to agree a final report, the Chief Internal Auditor reserves the right to issue the final report without formal agreement and to report the findings and position to the relevant Audit Committee.

5. Escalation to the Chief Internal Auditor

- 5.1. All auditors will ensure the Chief Internal Auditor is provided with a copy of the final report for any audit with an opinion of Partial or Minimal Assurance. Any reports that are considered to be contentious should also be provided to the Chief Internal Auditor.

6. Report Distribution List

- 6.1. The final report should list the officers for whom the report has been prepared. This includes the client, the Head of Service and other key officers as set out in the agreed Terms of Reference.
- 6.2. The audit report is written for the officers named in the distribution list. The Chief Internal Auditor should be consulted before sharing the report any further.

7. Ownership of the Management Action Plan

- 7.1. Whilst agreed actions within the audit report may rest with one or more officers, the Head of Service has overall accountability for responding to the draft report in a timely manner and is required to inform internal audit if timescales are likely to be missed. In assigning their name to the report, Heads of Service are confirming that they accept responsibility for completion of the actions therein.

8. Reporting to Audit Committee

- 8.1. The Chief Internal Auditor will report on all audits completed since the previous meeting to the authority's Audit Committee, summarising the reason for the audit, the key findings, the risks resulting from those findings and the agreed actions.
- 8.2. The Audit Committee then considers whether further information or assurance is required.
- 8.3. Should the Audit Committee require an update on completion of actions for a particular audit, the relevant Head of Service is responsible for informing the Chief Internal Auditor of what actions have been completed or provide an explanation for any delay in, or change to, the action being taken.
- 8.4. A Head of Service may be required to attend the Audit Committee to provide further information or assurance in relation to completed audit activity and to answer any questions on the reasons for the non-completion of agreed action or delays in implementation.

9. Follow up reviews

- 9.1. A formal follow-up review of the progress made in implementing actions agreed within the report may be programmed into the annual Internal Audit Plan at a time the Chief Internal Auditor considers appropriate. A formal follow-up review is typically carried out for audits that have attracted an audit opinion of “Minimal Assurance” and in some instances where a “Partial Assurance” opinion is provided.
- 9.2. Upon completion of the follow-up review the auditor will report to the responsible officer drawing attention to any actions that have not been completed by the agreed date. A copy of the follow-up report will be sent to the full distribution list.
- 9.3. In addition, the Chief Internal Auditor will provide a regular report to the Audit Committee on progress in implementing actions agreed for audits completed.

10. Audit Opinions and Definitions

- 10.1. The internal audit reports provide the following audit opinions:

Opinion	Definition
Substantial Assurance	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Reasonable Assurance	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Partial Assurance	There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.
Minimal Assurance	Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.

11. Limitations and Management Responsibilities

- 11.1. The internal audit report explains the limitations placed upon our work and outline the responsibilities of Management:

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

This report, and our work, should not be taken as a substitute for management's responsibilities for the application of sound business practices. We emphasise that it is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

Report to Audit Committee

11th April 2018

By the Horsham Chief Internal Auditor



INFORMATION REPORT

Not Exempt

Internal Audit Strategy 2018/19 and Annual Plan

Executive Summary

The purpose of this report is to present the Council's Internal Audit Strategy 2018/19 and Annual Plan.

Recommendations

The Committee is recommended to:

- i) To approve the Council's Internal Audit Strategy 2018/19 and Annual Plan, along with the updated Internal Audit Charter.

Reasons for Recommendations

- i) To comply with the requirements set out in the Public Sector Internal Audit Standards 2013 (amended April 2017).
- ii) The Audit Committee is responsible for reviewing the effectiveness of the Council's system of internal control.

Background Papers

Corporate Plan; Risk Registers; Horizon Scanning documents; and supporting audit working papers.

Wards affected: All.

Contact: Paul Miller, Horsham Chief Internal Auditor, 01403-215319

Background Information

1 Introduction and Background

- 1.1 The Council's Internal Audit Strategy 2018/19 and Annual Plan (Appendix 1) sets out how the Council will meet its statutory requirements for internal audit, as defined within the Accounts and Audit Regulations 2015. The Strategy proposes an approach based on focussing audit resources in those areas where the highest risk to the achievement of the Council's objectives lies. These areas have been identified and prioritised based on the Council's own risk assessment processes (including corporate and departmental risk registers) and following consultation with senior officers and Members.

2 Relevant Policy / Professional Standards

- 2.1 Internal Audit follows the mandatory standards set out in the Public Sector Internal Audit Standards (PSIAS) published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors.
- 2.2 Internal Audit is conducted in accordance with the Council's Constitution. Financial Procedure Rule 4e 32 states that: "the Chief Finance Officer, as determined by the Council, will ensure that the Council has appropriate arrangements in place to maintain an adequate and effective internal audit". The terms of reference for Internal Audit are detailed in the Council's Internal Audit Charter which is reviewed and approved by the Audit Committee.

3 Next Steps

- 3.1 The Committee will be kept informed about progress in terms of the audit plan.

4 Outcome of Consultations

- 4.1 As with the previous year, we have sought to focus our audit and assurance activity on supporting the delivery of the Council's four overarching priority outcomes, namely:
- Support our Communities;
 - Improve and Support the Local Economy;
 - Great Value Services; and
 - Manage our Natural and Built Environment.

5 Other Courses of Action Considered but Rejected

- 5.1 Not applicable.

6 Resource Consequences

- 6.1 This report summarises information about the work that will be undertaken by Internal Audit, and therefore there are no direct financial or HR consequences.

7 Legal Consequences

- 7.1 There are no legal consequences.

8 Risk Assessment

- 8.1 The audit plan is a risk-based plan.

9 Other Considerations

- 9.1 Internal Audit is a reporting function and there are no consequences in respect of Crime & Disorder; Human Rights; Equality & Diversity; or Sustainability. However these areas are considered where appropriate during audit fieldwork.

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Internal Audit Strategy and Annual Audit Plan 2018-2019 for Horsham District Council



**Horsham
District
Council**

1. Role of Internal Audit

1.1 The full role and scope of the Council's Internal Audit Service is set out within the Internal Audit Charter and Terms of Reference, the latest version of which is attached to this Strategy as Appendix B.

1.2 The mission of Internal Audit, as defined by the Chartered Institute of Internal Auditors (CIIA), is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight. Internal Audit is defined as *"an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."*

2. Risk Assessment and Audit Planning

2.1 The Horsham District Council's Internal Audit Strategy and Annual Audit Plan is updated annually and is based on a number of factors, especially management's assessment of risk (including that set out within the departmental and corporate risk registers) and our own risk assessment of the Council's major systems and other auditable areas. This allows us to prioritise those areas to be included within the audit plan on the basis of risk.

2.2 The update of the annual plan for 2018/19 has involved extensive consultation with a range of stakeholders, to ensure that their views on risks and current issues, within individual directorates and corporately, are identified and considered. In order to ensure that the most effective use is made of available resources, to avoid duplication and to minimise service disruption, every effort has been made to identify, and where possible, rely upon, other sources of assurance available. The following diagram sets out the various sources of information used to inform our 2018/19 audit planning process:



2.3 In order to ensure audit and assurance activity is properly focussed on supporting the delivery of the Council's priorities, the format of the audit plan has been aligned to the Council's three directorates.

2.4 In producing the audit plan (which is set out in Appendix A to this report) the following key principles continue to be applied:

- All key financial systems are subject to a cyclical programme of audits covering, as a minimum, compliance against key controls;
- Previous reviews which resulted in either 'no assurance' audit opinions will be subject to a specific follow-up review to assess the effective implementation by management of agreed recommendations. This will also include a number of previous reviews with a 'partial assurance' opinion where deemed necessary or where the area under review is considered to be of a higher risk nature.

2.5 In addition, formal action tracking arrangements are in place to monitor the implementation by management of all individual high risk agreed actions, with the results of this work reported to the Audit Committee on a quarterly basis.

2.6 During the last two years, Surrey County Council, East Sussex County Council and Brighton and Hove City Council have been working together to develop and form the Orbis Partnership, covering a range of business services, including internal audit. This work has resulted in the formation of a single, integrated internal audit service from April 2018, involving three locality based teams supported by two specialist teams in the areas of ICT audit and counter fraud. With effect from April 2018, Orbis will take over delivery of internal audit services to Horsham District Council and it is our ambition that this will provide greater resilience and capacity whilst also building on existing high quality services.

3. Key Issues

3.1 In times of significant transformation, organisations must both manage change effectively and ensure that core controls remain in place. In order to respond to the continued reduction in financial resources and the increased demand for services, the Council needs to consider some radical changes to its service offer in many areas.

3.2 Internal Audit must therefore be in a position to give an opinion and assurance that covers the control environment in relation to both existing systems and these new developments. It is also essential that this work is undertaken in a flexible and supportive manner, in conjunction with management, to ensure that both risks and opportunities are properly considered. During 2018/19, major organisational initiatives are featured within the audit plan, with the intention that Internal Audit is able to provide proactive advice, support and assurance as these programmes progress. These include:

- The Broadbridge Heath Leisure Centre Project
- Implementation of a new HR System
- Alternate Weekly Collections

3.3 In recognition that in some cases, sufficient information regarding the full extent of future changes and associated risks may not yet be known, the 2018/19 audit plan includes a proportion of time classified as 'Emerging Risks'. This approach has been adopted to enable Internal Audit to react appropriately throughout the year as new risks materialise and to ensure that expertise in governance, risk and internal control can be utilised early in the change process.

3.4 In view of the above, Internal Audit will continue to work closely with senior management and Members throughout the year to identify any new risks and to agree how and where audit resources can be utilised to best effect.

3.5 Other priority areas identified for inclusion within the audit plan include:

- Incident Management
- Cyber Security
- General Data Protection Regulations
- Fire Safety
- Community Infrastructure Levy

3.6 The results of all audit work undertaken will be summarised within quarterly update reports along with any common themes and findings arising from our work.

4. Counter Fraud

4.1 Managing the risk of fraud and corruption is the responsibility of management. Internal Audit will, however, be alert in all its work to risks and exposures that could allow fraud or corruption and will investigate allegations of fraud and corruption in line with the Council's Anti-Fraud and Corruption Strategy.

4.2 The Chief Internal Auditor should be informed of all suspected or detected fraud, corruption or irregularity in order to consider the adequacy of the relevant controls and evaluate the implication for their opinion on the control environment.

4.3 In addition, Internal Audit will promote an anti-fraud and corruption culture within the Council to aid the prevention and detection of fraud. Through the work of the Counter Fraud Team, Internal Audit will maintain a fraud risk assessment and deliver a programme of proactive and reactive counter fraud services to help ensure that the Council continues to protect its services from fraud loss.

5. Matching Audit Needs to Resources

5.1 The overall aim of the Internal Audit Strategy is to allocate available internal audit resources so as to focus on the highest risk areas and to enable an annual opinion to be given on the adequacy and effectiveness of the Council's framework of governance, risk management and control.

5.2 In addition to this, resources have been allocated to the external bodies for whom Orbis Internal Audit also provide internal audit services, at an appropriate charge. These include Horsham District Council, Elmbridge District Council, East Sussex Fire Authority and South Downs National Park.

5.3 Internal audit activities will be delivered by a range of staff from across the Orbis Internal Audit Service, maximising the value from a wide range of skills and experience available. In the small number of instances where sufficient expertise is not available from within the team, mainly in highly technical areas, externally provided specialist resources will continue to be utilised.

5.4 The following table summarises the level of audit resources expected to be available for Horsham District Council in 2018/19 (expressed in days), compared to the equivalent number of planned days in previous years. Whilst the overall level of resource has reduced for 2018/19, as part of the Internal Audit contribution towards planned organisational savings, it is still considered to be sufficient to allow Internal Audit to deliver its risk based plan in accordance with professional¹ standards and to enable the Chief Internal Auditor to provide his annual audit opinion. Any impacts of such a reduction have been mitigated as far as possible through resilience offered from the Orbis partnership as explained above.

Table 1: Annual Internal Audit Plan

	2015/16	2016/17	2017/18	2018/19
Plan Days	598	600	492	400

6. Audit Approach

6.1 The approach of Internal Audit is to use risk based reviews, supplemented in some areas by the use of compliance audits and themed reviews. All audits have regard to management's arrangements for:

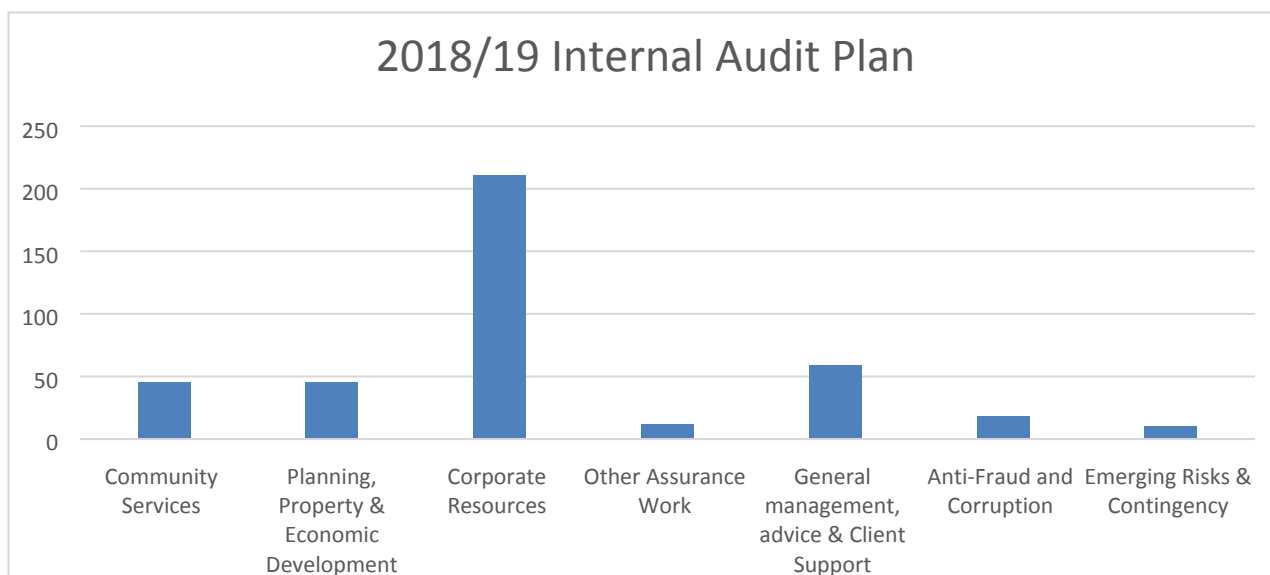
- Achievement of the organisation's objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programmes;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts.

6.2 In addition to these audits, and the advice on controls given on specific development areas which are separately identified within the plan, there are a number of generic areas where demands upon Internal Audit cannot be planned in advance. For this reason, time is built into the plan to cover the following:

- Contingency – an allowance of days to provide capacity for unplanned work, including special audits and management investigations. This contingency also allows for the completion of work in progress from the 2017/18 plan;
- Advice, Management, Liaison and Planning - an allowance to cover provision of ad hoc advice on risk, audit and control issues, audit planning and annual reporting, ongoing liaison with service management and Members, and audit management time in support of the delivery of all audit work, planned and unplanned.

6.3 A summary of the allocation of audit resources (400 days) across the 2018/19 audit plan is set out in the following graph:

¹ Public Sector Internal Audit Standards (PSIAS)



6.4 In delivering this Strategy, liaison will take place with the Council's external auditors, Ernst & Young, to ensure that the use of audit resources is maximised, duplication of work is avoided, and statutory requirements are met.

7. Training and Development

7.1 The effectiveness of the Internal Audit Service depends significantly on the quality, training and experience of its staff. Training needs of individual staff members are identified through a formal performance and development process and are delivered and monitored through on-going management supervision.

7.2 The team is also committed to coaching and mentoring its staff, and to providing opportunities for appropriate professional development. This is reflected in the high proportion of staff holding a professional internal audit or accountancy qualification.

8. Quality and Performance

8.1 With effect from 1 April 2013, all of the relevant internal audit standard setting bodies, including CIPFA, adopted a common set of Public Sector Internal Audit Standards (PSIAS). These are based on the Institute of Internal Auditors International Professional Practices Framework and replace the previous Code of Practice for Internal Audit in Local Government.

8.2 Included within the new Standards is the requirement for the organisation to define the terms 'Board' and 'senior management' in the context of audit activity. This has been set out within the Internal Audit Charter, which confirms the Audit Committee's role as the Board.

8.3 The PSIAS require each internal audit service to maintain an ongoing quality assurance and improvement programme based on an annual self-assessment against the Standards, supplemented at least every five years by a full independent external assessment. The outcomes from these assessments, including any improvement actions arising, will be reported to the Senior Leadership Team and the Audit Committee, usually as part of the annual internal audit report. For clarity, the Standards specify that the following core principles underpin an effective internal audit service:

- Demonstrates integrity;
- Demonstrates competence and due professional care;
- Is objective and free from undue influence (independent);
- Aligns with the strategies, objectives, and risks of the organisation;
- Is appropriately positioned and adequately resourced;
- Demonstrates quality and continuous improvement;
- Communicates effectively;
- Provides risk-based assurance;
- Is insightful, proactive, and future-focused;
- Promotes organisational improvement.

8.4 In addition, the performance of Orbis Internal Audit continues to be measured against key service targets focussing on service quality, productivity and efficiency, compliance with professional standards, influence and our staff. These are all underpinned by appropriate key performance indicators as set out in Table 2 below.

8.5 At a detailed level each audit assignment is monitored and customer feedback sought. There is also ongoing performance appraisals and supervision for all Internal Audit staff during the year to support them in achieving their personal targets.

8.6 In addition to the individual reports to management for each audit assignment, reports on key audit findings and the delivery of the audit plan are made to Senior Leadership Team and the Audit Committee on a quarterly basis. An Annual Internal Audit Opinion is also produced each year.

8.7 Whilst Orbis Internal Audit liaises closely with other internal audit services through the Sussex and Surrey audit and counter fraud groups, the Home Counties Chief Internal Auditors' Group and the County and Unitary Chief Auditors' Network, we are continuing to develop joint working arrangements with other local authority audit teams to help improve resilience and make better use of our collective resources.

Table 2: Performance Indicators

Aspect of Service	Orbis IA Performance Indicators	Target
Quality	<ul style="list-style-type: none"> Annual Audit Plan agreed by Audit Committee Annual Audit Report and Opinion Satisfaction levels 	By end April To inform AGS 90% satisfied
Productivity and Process Efficiency	<ul style="list-style-type: none"> Audit Plan – completion to draft report stage by 31 March 2019 	90%
Compliance with Professional Standards	<ul style="list-style-type: none"> Public Sector Internal Audit Standards Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act 	Conforms Conforms
Outcomes and degree of influence	<ul style="list-style-type: none"> Implementation of management actions agreed in response to audit findings 	95% for high priority
Our Staff	<ul style="list-style-type: none"> Professionally Qualified/Accredited 	80%

Paul Miller
 Horsham Chief Internal Auditor
 March 2018

INTERNAL AUDIT PLAN

2018-19



**Horsham
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Directorate:	Corporate Resources
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Review Name	Type	Outline Objective
Ernst & Young Key Financial Controls (ISA)	Audit	Coordinate results of key financial system testing for external audit to avoid duplication of effort.
Cash & Bank	Audit	The new Technology One system was implemented in September 2017. The main focus of the audit will be to review the bank reconciliation process and sources of income and expenditure.
Accounts Payable	Audit	A full key system audit will be undertaken following the transition to the new Technology One system.
Accounts Receivable	Audit	A full key system audit will be undertaken following the transition to the new Technology One system (with the exception of debt management which will be audited separately).
Debt Management	Audit	A separate review of Debt Recovery has been included in the audit plan following the recent implementation of the new Technology One system.
Payroll	Audit	A review of the key controls will be undertaken with particular focus on separation of duties following the proposed implementation of a new HR system.
Treasury Management	Audit	A routine review will be undertaken to ensure that the Treasury function is operating within the confines of the Treasury Management Strategy and Prudential Code.
Contracts (Procurement)	Audit	The review will focus on compliance with EU Regulations and internal procedure rules, with particular scrutiny of award of contract evaluations.
Computer Audit ~ Incident Management	Audit	The audit will examine the effectiveness of the Council's response process.
Computer Audit ~ Service Desk	Audit	To ensure that service desk calls are appropriately prioritised and managed. The service desk covers two sites (Horsham DC and Mid-Sussex DC). Adur DC has recently withdrawn from the Partnership arrangement.
Computer Audit ~ Cyber Security	Audit	The Head of Technology Services will furnish Internal Audit with a copy of the PSN health check (and remediation actions). The outcomes will be mapped

INTERNAL AUDIT PLAN

2018-19



**Horsham
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		to the NSC (National Security Council) cyber control requirements. Assurance gaps in Cyber security will then be identified and improvement actions agreed with senior management as appropriate.
Information Governance ~ Data Protection (GDPR)	Audit	GDPR is due to be implemented 25/5/18, and is a significant area of risk for the Council. The Information Commissioner has the power to levy considerable fines in the event of (i) a major data breach and (ii) lack of appropriate corporate processes. The objective is to provide assurance that effective controls have been implemented.
Governance / Cultural Compliance	Audit	Culture and ethical behaviour are an important aspect of the Council's control environment. The audit will review two departments which will include a review of roles and responsibilities, standards, awareness, and compliance with corporate responsibilities.
New HR System	Audit	A new HR system (Technology One) will be implemented during the early part of 2018/19. The audit focus will include governance arrangements, risks, data migration, system security, user acceptance testing, system testing, business continuity and disaster recovery.
Health & Safety (HSE Standard)	Audit	The audit will focus on the work undertaken by the Health and Safety Advisor, and provide an independent view on how effectively he is conforming with the HSE Standard.
IR35 (Compliance Audit) / Off-Payroll Engagement)	Audit	This audit will review the controls and compliance with the statutory IR35 regulations.
Performance Management	Audit	A new basket of indicators is being developed to measure strategic performance in key areas. It is important that information is accurate and correctly calculated. The audit will review the performance management framework and will test a sample of key performance indicators for accuracy.

INTERNAL AUDIT PLAN

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**Horsham
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Directorate:

Community Services

Review Name	Type	Outline Objective
Broadbridge Heath Leisure Centre Project	Audit / Advice	The construction of the Broadbridge Heath Leisure Centre is a £12.3m project which has many associated risks. Assurance work will include a review of the governance arrangements for the project, including risk management & financial management. Our work will also include a review of compliance with project management controls and the quality of reporting.
Contract Management (Leisure and Rookwood Contracts)	Audit	The review will focus on how effectively the contracts are being managed, and in particular, ensure that the services are being managed in accordance with the contracts.
Alternative Weekly Collections	Audit	A root and branch review will be undertaken following the implementation of the new alternate weekly collection service.

Directorate:

Planning, Property & Economic Development

Review Name	Type	Outline Objective
Community Infrastructure Levy (CIL)	Audit	A review to ensure that the Community Infrastructure Levy application and bidding process is operating effectively to maximise the Council's ability to secure funding, including assurance that funds received are used appropriately.
Fire Safety Checks (Council Premises)	Audit	This review will focus on responsibilities for fire safety; compliance with statutory requirements; and the timeliness of completion of inspections.
Parking Enforcement	Audit	The primary objective of the review will be to ensure that there are effective systems and controls in place, and that the Council is meeting statutory requirements.

INTERNAL AUDIT PLAN

2018-19



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Other Assurance Work

Review Name	Type	Outline Objective
Annual Report and Opinion, and Annual Governance Statement	Audit	Creation of Annual Report and Opinion / Annual Governance Statement.
Corporate Governance Group	Assurance / Advice	The Director of Corporate Resources, Monitoring Officer, Chief Internal Auditor and Performance Manager meet quarterly to review the Council's governance arrangements.
Project Review Group	Assurance / Advice	The Project Review Group meets on a quarterly basis to review progress of the Council's key projects, and associated risks.

Anti-Fraud and Corruption

Review Name	Type	Outline Objective
National Fraud Initiative (Cabinet Office)	Fraud	A full data matching exercise will be undertaken by the Cabinet Office during 2018/19. Internal Audit will be responsible for ensuring that all relevant data sets are submitted securely and on a timely basis. GDPR requirements will need to be adhered to, and output reports will be examined to identify any incidences of fraud or irregularity. Consideration will also be given to requesting departments to undertake their own reviews (subject to training & quality checks by Internal Audit).
Proactive & Reactive Fraud Work	Fraud	Production of a fraud risk assessment for Horsham & delivery of an associated action plan, including proactive and reactive work (including raising awareness where appropriate & staff training).

INTERNAL AUDIT PLAN

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Emerging Risks & Contingency (including carry forwards)

Review Name	Type	Outline Objective
Contingency for Emerging Risks.	Audit	It is important that there is sufficient flexibility within the audit plan to enable the audit team to respond to emerging risks or special investigations. A small time allocation has therefore been included in the plan for this purpose.

Service Management and Delivery (by Internal Audit)

Review Name	Type	Outline Objective
Action Tracking	Audit	Action tracking of agreed, high risk actions.
Audit Committee and other Member Support	Audit	Quarterly Reports and attending Audit Committee meetings.
Audit Management	Audit	Work allocation, work scheduling, Orbis Audit Manager meetings.
Client Support and Advice	Audit	Ad hoc advice and guidance provided to clients and services.
Organisational Management Support	Audit	Attendance at departmental management meetings (e.g. Departmental Team Meetings; Manager's Forums; Conferences; Chief Executive Talks; Risk Management).
Client Service Liaison	Audit	Liaison with clients and departmental management teams.
External Liaison	Audit	Liaison with external auditors and other external bodies. Attendance at audit groups.
Strategy and Annual Audit Planning	Audit	Development of audit plan.

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INTERNAL AUDIT CHARTER

1. Introduction

This Charter describes for the Council the purpose, authority and responsibilities of the Internal Audit function in accordance with the UK Public Sector Internal Audit Standards (PSIAS).

The PSIAS require that the Charter must be reviewed periodically and presented to “senior management” and “the board” for approval. For the purposes of this charter “senior management” will be the Senior Leadership Team and the board will be the Audit Committee.

The Charter shall be reviewed annually and approved by the Senior Leadership Team and the Audit Committee. The Chief Internal Auditor for Horsham is responsible for applying this Charter and keeping it up to date.

2. Internal Audit Purpose

The mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Internal Audit is defined in the PSIAS as “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

Internal Audit supports the whole Council to deliver economic, efficient and effective services and achieve the Council’s vision, priorities and values.

3. Statutory Requirement

Internal Audit is a statutory service in the context of the Accounts and Audit Regulations 2015, which require every local authority to maintain an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account public sector internal auditing standards or guidance.

These regulations require any officer or Member of the Council to

- make available such documents and records; and

- supply such information and explanations;

as are considered necessary by those conducting the audit.

This statutory role is recognised and endorsed within the Council's Financial Procedure Rules.

In addition, the Council's S151 Officer has a statutory duty under Section 151 of the Local Government Act 1972 to establish a clear framework for the proper administration of the authority's financial affairs. To perform that duty the Section 151 Officer relies, amongst other things, upon the work of Internal Audit in reviewing the operation of systems of internal control and financial management.

4. Internal Audit Responsibilities and Scope

Annually the Chief Internal Auditor is required to provide to the Audit Committee an overall opinion on the Council's internal control environment, risk management arrangements and governance framework to support the Annual Governance Statement.

Internal Audit is not responsible for control systems. Responsibility for effective internal control and risk management rests with the management of the Council.

Internal Audit activity must be free from interference in determining the scope of activity, performing work and communicating results.

The scope of Internal Audit includes the entire control environment and therefore all of the Council's operations, resources, services and responsibilities in relation to other bodies. In order to identify audit coverage, activities are prioritised based on risk, using a combination of Internal Audit and management risk assessment (as set out within Council risk registers). Extensive consultation also takes place with key stakeholders and horizon scanning is undertaken to ensure audit activity is proactive and future focussed.

Internal audit activity will include an evaluation of the effectiveness of the organisation's risk management arrangements and risk exposures relating to:

- Achievement of the organisation's strategic objectives;
- Reliability and integrity of financial and operational information;
- Efficiency and effectiveness of operations and activities;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts

5. Independence

Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgements and recommendations. Internal auditors should have no operational responsibilities.

Internal Audit is involved in the determination of its priorities in consultation with those charged with governance. The Chief Internal Auditor has direct access to, and freedom to report in their own name and without fear of favour to, all officers and Members and particularly those charged with governance.

All Internal Audit staff are required to make an annual declaration of interest to ensure that objectivity is not impaired and that any potential conflicts of interest are appropriately managed.

6. Reporting Lines

Regardless of line management arrangements, the Chief Internal Auditor has free and unfettered access to report to the S151 Officer; the Monitoring Officer; the Chief Executive; the Audit Committee Chairman; the Leader of the Council and the Council's External Auditor.

The Audit Committee will receive reports on a periodic basis – as agreed with the Chairman of the Audit Committee – on the results of audit activity and details of Internal Audit performance including progress on delivering the audit plan.

7. Fraud & Corruption

Managing the risk of fraud and corruption is the responsibility of management. Internal Audit will however be alert in all its work to risks and exposures that could allow fraud or corruption and will investigate allegations of fraud and corruption in line with the Council's Anti Fraud and Corruption Strategy.

The Chief Internal Auditor should be informed of all suspected or detected fraud, corruption or irregularity in order to consider the adequacy of the relevant controls and evaluate the implication for their opinion on the control environment.

Internal Audit will promote an anti-fraud and corruption culture within the Council to aid the prevention and detection of fraud.

8. Consultancy Work

Internal Audit may also provide consultancy services, generally advisory in nature, at the request of the organisation. In such circumstances, appropriate arrangements will be put in place to safeguard

the independence of Internal Audit and, where this work is not already included within the approved audit plan and may affect the level of assurance work undertaken; this will be reported to the Audit Committee.

In order to help services to develop greater understanding of audit work and have a point of contact in relation to any support they may need, Internal Audit has put in place a set of service liaison arrangements that provide a specific named contact for each service; and, regular liaison meetings. The arrangements also enable Internal Audit to keep in touch with key developments within services that may impact on its work.

9. Resources

The work of Internal Audit is driven by the annual Internal Audit Plan, which is approved each year by the Audit Committee. The Chief Internal Auditor is responsible for ensuring that Internal Audit resources are sufficient to meet its responsibilities and achieve its objectives.

Internal Audit must be appropriately staffed in terms of numbers, grades, qualifications and experience, having regard to its objectives and to professional standards. Internal Auditors need to be properly trained to fulfil their responsibilities and should maintain their professional competence through an appropriate ongoing development programme.

The Chief Internal Auditor is responsible for appointing Internal Audit staff and will ensure that appointments are made in order to achieve the appropriate mix of qualifications, experience and audit skills. The Chief Internal Auditor may engage the use of external resources where it is considered appropriate, including the use of specialist providers.

10. Due Professional Care

The work of Internal Audit will be performed with due professional care and in accordance with the UK Public Sector Internal Audit Standards (PSIAS), the Accounts and Audit Regulations (2015) and with any other relevant statutory obligations and regulations.

In carrying out their work, Internal Auditors must exercise due professional care by considering:

- (i) The extent of work needed to achieve the required objectives;
- (ii) The relative complexity, materiality or significance of matters to which assurance procedures should be applied; and
- (iii) The adequacy and effectiveness of governance, risk management and control processes;
- (iv) The probability of significant errors, fraud or non-compliance; and
- (v) The cost of assurance in proportion to the potential benefits.

Internal Auditors will also have due regard to the Seven Principles of Public Life – Selflessness; Integrity, Objectivity; Accountability; Openness; Honesty; and Leadership.

11. Quality Assurance

The Chief Internal Auditor will control the work of Internal Audit at each level of operation to ensure that a continuously effective level of performance – compliant with the PSIAS is maintained.

A Quality Assurance Improvement Programme (QAIP) is in place which is designed to provide reasonable assurance to its key stakeholders that Internal Audit:

- Performs its work in accordance with its charter
- Operates in an effective and efficient manner; and,
- Is adding value and continually improving the service that it provides

The QAIP requires an annual review of the effectiveness of the system of Internal Audit to be conducted. Instances of non-conformance with the PSIAS, including the impact of any such non-conformance, must be disclosed to the Audit Committee. Any significant deviations must be considered for inclusion in the council's Annual Governance Statement.

February 2018

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Report to Audit Committee

11 April 2018

By the Head of Finance

INFORMATION REPORT



**Horsham
District
Council**

Not Exempt

Accounting Policies, critical judgements and assumptions used in 2017/18

Executive Summary

The Statement of Accounts contains accounting policies under which the accounts are produced. The accounts comply with the Code of Practice on Local Authority Accounting, issued by CIPFA.

The purpose of the report is to sight Members of the Audit Committee on the accounting policies and critical judgements and assumptions used in 2017/18 prior to the audit and approval of the Statement of Accounts that will take place on 12 July 2018.

Recommendations

That the Committee reviews and then notes the contents of the report.

Background Papers

Appendix A – draft accounting policies and Notes 2 to 6 which tracks the changes from the audited 2016/17 Statement of Accounts.

Wards affected: n/a

Contact: Dominic Bradley, Head of Finance, 01403 215302

Background Information

1 Introduction and Background

- 1.1 The Statement of Accounts contains accounting policies under which the accounts are produced. The accounts comply with the Code of Practice on Local Authority Accounting, issued by CIPFA.
- 1.2 In applying the accounting policies the Council makes critical judgements that have a significant effect on the accounts. These include assumptions made by the Council about the future or that are otherwise uncertain.

2 Relevant Council policy

- 2.1 The Statement of Accounts is a statutory requirement of the Council.

3 Details

- 3.1 The detailed accounting policies and early notes are included in Appendix A, which tracks the changes made from the audited 2016/17 Statement of Accounts in the following Notes:
 - Note 1 - accounting policies
 - Note 2 - accounting standards that have been issued by have not yet been adopted
 - Note 3 - critical judgements and assumptions
 - Note 4 - material items of income and expense
 - Note 5 - prior period adjustments
 - Note 6 - events after the balance sheet date
- 3.2 The percentage and £ value changes have yet to be fully calculated in the notes and are annotated by xxx. Some of this information is provided by third parties, such as the actuary information. Once calculated or received, this will be completed in time for the draft Statement of Accounts by 31 May 2018.
- 3.3 There are no significant changes to Note 1 accounting policies, Note 4 or Note 5.
- 3.4 Changes have been made to Note 2 accounting standards that have been issued but have not yet been adopted for the adoption of IFRS9 Financial instruments with effect from its introduction on 1 April 2018.
- 3.5 Note 3 critical judgements and assumptions and Note 6 events after the balance sheet date have been updated for the changes to the Census partnership arrangements that have or are taking place.

4 Next Steps

- 4.1 The Committee is asked to provide any comments or feedback on the accounting policies and Notes 2 to 6 used in 2017/18, so that these can be included in the draft accounts that will be audited in June and brought back to the Committee for final approval on 12 July 2018.

5 Views of the Policy Development Advisory Group and Outcome of Consultations

- 5.1 The Audit Committee has delegated responsibility from the Council to approve the Statement of Accounts. The views of the Finance and Assets PDAG have not been consulted.
- 5.2 The Director of Corporate Resources has been consulted on the updated accounting policies and Note 2 to 6.

6 Other Courses of Action Considered but Rejected

- 6.1 None. The accounting policies are required to be updated each year.

7 Resource Consequences

- 7.1 There are no financial or resourcing consequences.

8 Legal Consequences

- 8.1 The accounts comply with the Code of Practice on Local Authority Accounting, issued by CIPFA.

9 Risk Assessment

- 9.1 There are no risks.

10 Other Considerations

- 10.1 There are no consequences of any action proposed in respect of Crime & Disorder; Human Rights; Equality & Diversity and Sustainability.

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1 ACCOUNTING POLICIES

Appendix A

GENERAL PRINCIPLES

The accounts comply with the Code of Practice on Local Authority Accounting (the Code), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). Accounting policies and estimation techniques have been selected and used having regard to the accounting principles and concepts set out in International Financial Reporting Standards *Framework for the Preparation of Financial Statements*, specifically:

- | | |
|----------------------|--|
| ➤ Relevance | ➤ Materiality |
| ➤ Reliability | ➤ Accruals |
| ➤ Comparability | ➤ Going concern |
| ➤ Understand ability | ➤ The qualitative characteristics of financial information |

Where there is specific legislation this will have primacy over any other provision. The accounts have been prepared under the historical cost convention modified by the revaluation of certain categories of non-current assets.

ACCRUALS OF EXPENDITURE AND INCOME

The revenue accounts of the Council are maintained on an accruals basis in accordance with the Code. Any sums due to or payable by the Council at the end of each financial year that exceed £5,000 either individually, or as a class of expenditure are brought into account (irrespective of whether cash has been received or payment has been made). The exception to the £5,000 limit exists where the expenditure or part of it is to be recharged to a third party. Where a service is provided for a full year a full year's costs/income is reflected in the accounts. If any service is only provided for a proportion of the year a relevant proportion is included. If actual costs are not available accruals are made, in accordance with officer guidelines, on a best estimate basis.

At the end of each financial year, an estimate is made of doubtful debts - amounts due to the Council but unlikely to be received. The total value of these amounts is shown as a provision on the Balance Sheet.

Capital expenditure is also accounted for on an accrual basis in accordance with the capital accounting provisions of the Code.

Council tax income is accounted for on an accrual basis with the Horsham District Council share of income included within the debtors and creditors balances on the Balance Sheet, with the preceding authorities' accounting for their relevant share.

CASH AND CASH EQUIVALENTS

Cash equivalents are short-term, highly liquid investments that are repayable within one month of acquisition. They are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash equivalents include shares in constant net asset value money market funds.

EXCEPTIONAL ITEMS

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

PRIOR PERIOD ADJUSTMENTS

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively.

Changes in accounting policies are only made where required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. When a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material error discovered in prior periods figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

CHARGES TO REVENUE RELATED TO NON-CURRENT ASSETS

General Fund service revenue accounts have been charged with depreciation, amortisation and where required any relevant impairment loss. These charges are credited in the Movement in Reserves Statement so that they do not have an impact on the amounts required to be raised from local taxation.

Amounts required to be set aside from revenue for the reduction of its overall borrowing requirement to finance capital expenditure, or as transfers to other earmarked reserves, are disclosed separately in the Movement in Reserves Statement.

MINIMUM REVENUE PROVISION

The Council is not required to raise Council tax to fund depreciation, revaluation and impairment losses or amortisation of non-current assets. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to either an amount calculated on a prudent basis or as determined by the Council in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance (MRP or loans fund principal), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

EMPLOYEE BENEFITS

Officers Emoluments and Senior Officer Remuneration

In line with the Accounts and Audit Regulations 2015, a note disclosing officers' emoluments is required which includes all amounts paid to or receivable by an employee, including sums due by way of expenses allowances and the estimated money value of any other benefits received by an employee other than in cash.

There is also a requirement that local authorities include remuneration information of senior employees in the note accompanying their statement of accounts with previous year comparatives. This information can be found in note xx.

Benefits payable during employment are those that are due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and sick leave and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is charged to the provision of services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Exit Packages and Termination Costs

The Code requires disclosure of the details of exit packages agreed and the costs within bandings for the financial year with prior year comparatives. Information on termination costs together with prior year comparatives are provided in notes xx and xx.

Post- Employment Benefits - Pensions

Horsham District Council employees have the right to membership of the Local Government Pension Scheme, administered by West Sussex County Council. This scheme is accounted for as a defined benefits scheme. Pension costs have been accounted for in accordance with IAS19 Retirement Benefits. The basic principle being that the Council accounts for retirement benefits when it is committed to give them, even if the actual payment is in the future. The estimated economic current costs are based on valuations provided by the Fund's actuaries.

Liabilities are measured on an actuarial basis discounted to present value, using the projected unit method. The discount rate to be used is determined in reference to market yields at balance sheet date of high quality corporate bonds

The assets of the scheme are included in the Balance Sheet at their fair value:

- Quoted securities - current bid price
- Unquoted securities - professional estimate
- Unitised securities - current bid price
- Property - market value

Any change in the net pension liability is analysed into six components:

- Current service cost – the increase in liabilities as a result of years of service earned this year are allocated in the Comprehensive Income and Expenditure Account to the revenue accounts of services for which the employees worked.
- Past service cost – the increase or decrease in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years. These are debited/credited to the Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- Net interest on the net defined benefit liability (asset), i.e. net interest expense for the council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- Re-measurement of the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions- recognised in Other Comprehensive Income and Expenditure.
- Contributions paid to the West Sussex County Council Pension Fund – cash paid as employer contributions to the pension fund.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end.

Discretionary Benefits

The Council provides post-employment benefits which arise from additional service awarded on a discretionary basis. These benefits are unfunded with costs met directly from the Council's revenue account.

West Sussex County Council's Annual Report on the Pension Fund is available from County Hall, Chichester.

EVENTS AFTER THE BALANCE SHEET DATE

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts would be adjusted to reflect such events
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts are not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

FINANCIAL INSTRUMENTS

The accounting for financial instruments includes disclosures concerning the values of, and the risks related to financial assets and liabilities. The financial assets are investments, debtors and the financial liabilities are creditors, long term borrowing and other balances shown under current liabilities. The Council recognises a financial asset or liability in the Balance Sheet when it becomes a party to the contractual provisions of the instrument.

Financial Liabilities

Financial Liabilities are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For the borrowings that the Council has, the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement. The fair value of the borrowing is shown in a note to the accounts and represents what would be paid to transfer the borrowing to another market participant.

Financial Assets

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- Available for sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and receivables

Loans and receivables are initially measured at fair value. They are subsequently measured at their amortised cost. The income recognised is calculated on the same basis as the charge from a financial liability as described above.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge

made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Available-for-Sale Assets

Available-for-sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (eg dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following techniques:

- Instruments with quoted market prices – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis
- Equity shares with no quoted market prices – independent appraisal of company valuations.

The inputs to the fair value measurement techniques are categorised in accordance with the following three levels:

Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the council can access at the measurement date.

Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.

Level 3 inputs – unobservable inputs for the asset.

Changes in fair value are recognised in the Available-for-Sale Reserve and the gain or loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due will not be made (in the case of fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

GRANTS AND CONTRIBUTIONS

Whether paid on account, by instalments or in arrears, Government grants and third party Contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- The Council will comply with the conditions attached to the payments, and
- The grants or contributions will be received.

Grants and contributions for capital purposes are recognised as income on receipt as long as there is no condition for their use that has not been satisfied. Where there is a condition the amount will be held as a receipt in advance until the condition is satisfied at which point the amount is recognised as income. Where capital grants are recognised as income they are reversed out of the General Fund in the Movement in Reserves Statement and held as unapplied reserve until used to finance capital expenditure.

COLLECTION FUND

The Collection Fund Statement is an agent's statement which reflects the statutory obligation in accordance with section 89 of the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992) for billing authorities to maintain a separate Collection Fund. The Collection Fund shows the transactions of the billing authority in relation to the collection from taxpayers and the distribution to local authorities and the Government of council tax and non-domestic rates. There is no requirement for a separate Collection Fund Balance Sheet since the assets and liabilities arising from collecting non-domestic rates and council tax belong to the bodies (i.e. major preceptors, the billing authority and the Government).

COUNCIL TAX INCOME

Council tax income included in the Comprehensive Income and Expenditure Statement for the year shall be the accrued income for that year. Each major preceptor's share of the accrued council tax income is available from the information required to be produced in order to prepare the Collection Fund Statement.

Since the collection of council tax is in substance an agency arrangement, the cash collected by the billing authority from council tax debtors belongs proportionately to the billing authority and the major preceptors. There will therefore be a debtor/creditor position between the billing authority and each major preceptor to be recognised since the net cash paid to each major preceptor in the year will not be its share of cash collected from Council taxpayers. If the net cash paid to a major preceptor in the year is more than its proportionate share of net cash collected from council tax debtors/creditors in the year, there is a debit adjustment. If the cash paid to a major preceptor is less than its proportionate share of net cash collected in the year from council tax debtors/creditors, the billing authority shall recognise a credit adjustment for the amount underpaid to the major preceptor in the year.

The Cash Flow Statement of the billing authority shall include within operating activities only its own share of council tax net cash collected from council tax debtors in the year; and the amount included for precepts paid shall exclude amounts paid to major preceptors. The difference between the major preceptors' share of the net cash collected from council tax debtors and net cash paid to major preceptors as precepts and settlement of the previous year's surplus or deficit on the Collection Fund shall be included within financing activities in the Cash Flow Statement.

NATIONAL NON-DOMESTIC RATES (NNDR)

Following the introduction of business rate localisation, ~~with effect from 1 April 2013, local authorities are responsible for collecting and distributing income from the business rates they collect, rather than simply acting in an agency capacity for the Government NNDR Pool as they had done until 31 March 2013.~~

The Council is responsible for any refunds relating to backdated appeals although a significant element of refunds will relate to 2014/15 or prior years, ~~and but~~ in accordance with CIPFA Guidance (LAAP Bulletin 96) such liabilities ~~will only be~~ formally recognised in the ~~2016/17~~ accounts.

Safety net arrangements are in place to protect the Council from the impact of any reductions below 7.5% of its baseline funding level.

HERITAGE ASSETS

~~Heritage assets are assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historic associations.~~

A tangible heritage asset is a tangible asset intended to be preserved in trust for future generations with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

Operational heritage assets (i.e. those that, in addition to being held for their heritage characteristics, are also used by the Council for other activities or to provide other services) shall be accounted for as operational assets rather than heritage assets, and shall be valued in the same way as other assets of that general type.

Heritage assets shall normally be measured at valuation in accordance with Financial Reporting Standard 102 but the Standard states that valuations may be made by any method that is appropriate and relevant. Where it is not practicable to obtain a valuation at a cost which is commensurate with the benefits to users of the financial statements, heritage assets can be measured at historical cost (less any accumulated depreciation, amortisation and impairment losses). The museum collections have not been valued as the cost of valuation is not seen as commensurate with benefits to users; historic cost information is not available for collection. The artworks are valued using historic costs where records are available while the war memorial, due to its special nature, is valued at its depreciated replacement cost.

Depreciation will be charged where the asset does not have an indefinite life. If there is evidence of impairment the carrying amount of the asset shall be reviewed. The holdings of the Council currently have indefinite lives and hence are not charged depreciation.

Where heritage assets are revalued the treatment would be the same as for normal properties using the Revaluation Reserve where appropriate and reporting impairments if necessary.

The Council does not recognise any intangible heritage assets.

INTANGIBLE ASSETS

Intangible assets such as software and licences give an economic benefit over more than one year. They are initially recognised at cost and then amortised over their useful lives. The gain or loss on disposal of intangible assets is recognised in the Comprehensive Income and Expenditure Account. To comply with statute the gain or loss is reversed out in the Movement in Reserves Statement (MiRS).

INVENTORIES & WORK IN PROGRESS

Stocks are valued at the lower of actual cost or net realisable value.

INVESTMENT PROPERTY

Investment properties are held to earn return rather than to provide services. The Council holds a number of commercial properties that it categorises as Investment Properties on the basis that the properties are rented to commercial entities using standard commercial terms of the rental rather than concessionary terms to specific classes of commercial tenants.

Investment properties are valued initially at cost and then at fair value which is defined as the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. The valuation is based on highest and best use of any asset and so should take into account the highest price in the most advantageous market for that asset.

Investment properties are not depreciated but valued annually. When a value is changed any gain or loss is recognised in the Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement but is reversed out of the General Fund in

the Movement in Reserves Statement as required by statutory regulation. Gains and losses on disposal are treated similarly.

JOINTLY CONTROLLED OPERATIONS AND JOINTLY CONTROLLED ASSETS

Jointly controlled operations are activities undertaken by the Council in conjunction with other ventures that involve the use of the assets and resources of the joint ventures rather than the establishment of a separate entity. The Council recognises on its Balance Sheet only its share of the jointly controlled assets and related liabilities; whilst on its Comprehensive Income and Expenditure Statement it recognises those expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

LEASES

Leases are classified as finance or operating leases based on the extent that the risks and rewards associated with a leased asset lie with the lessor or lessee. If substantially all the risks and rewards of the lease transfer to the lessee it is a finance lease, otherwise an operating lease. For purpose of classification land and buildings are considered separately. The Council has no material investment in finance leases as lessee or lessor.

The Council as a Lessee

Operating Leases

Rentals paid are recognised in Comprehensive Income and Expenditure Statement as an expense. Charges should be made on a straight line basis over life of lease if actual pattern of payments are significantly different from a straight line basis.

The Council as a Lessor

Operating Leases

Rental income is recognised in Comprehensive Income and Expenditure Statement. Charges should be made on a straight line basis over life of lease if actual pattern of income diverges significantly from a straight line basis.

OVERHEADS AND SUPPORT SERVICES

Central support services are allocated to revenue and capital accounts. The Council has adopted the general principle of allocating the costs of central administrative departments based on operational data or where this is not present on the estimated time spent by officers on the various services. The cost of corporate management is charged to the Corporate and Democratic Core.

PROPERTY, PLANT AND EQUIPMENT

Expenditure on the acquisition, creation or enhancement of property, plant and equipment (PPE) is capitalised on an accrual basis in the accounts. Expenditure on PPE over the de Minimis limit of £20,000 is capitalised, provided that the PPE yields benefits to the Council and the services it provides, for a period of more than one year. This excludes expenditure on routine repairs and maintenance of PPE assets which is charged direct to service revenue accounts.

Property, plant and equipment are valued on the basis recommended by CIPFA and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors (RICS). Assets are valued on the following basis:

- Initially at cost including any costs attributable to bringing the asset into use and subsequently at market value for the existing use except for assets which are rarely subject to an open market where depreciated replacement cost is used.
- Assets under construction and community assets are held at depreciated historic cost.
- Surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective

Where the value of an asset is to be recovered by sale it is classified as an asset held for sale. It is held at its value before reclassification or the fair value less costs to sell, whichever is the lower. Any consequential loss is posted to the Comprehensive Income and Expenditure Statement. Gains in fair value would be recognised up to the amount of any previously recognised losses.

In order to account properly for valuation changes the Revaluation Reserve was set up with a zero balance at 1 April 2007. Any revaluation upward results in a credit to the reserve. A downward revaluation can be set against the Revaluation Reserve if there is a balance referring to the devalued asset. As the reserve was set at zero many downwards revaluation of assets could appear as an impairment in the Comprehensive Income and Expenditure Statement (CIES). Revaluation of property, plant and equipment is planned at five-yearly intervals, although material changes to asset valuations will be adjusted in the interim period, as an assessment is made at the end of each year for any indication that assets may be impaired in addition to cyclical revaluations. Any impairment would be written off against any revaluation gain for that asset in the Revaluation Reserve or otherwise recognised in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed the reversal is credited back in the CIES up to the amount of the original loss adjusted for the depreciation that would have been charged if the loss had not been recognised.

Income from the disposal of property, plant and equipment is accounted for on an accruals basis and is credited to the CIES as a part of the gains and losses on disposal. Such income that has not been used to finance capital expenditure is included in the balance sheet as usable capital receipts.

The carrying amount of an asset shall be derecognised on disposal or when no future economic benefits or service potential is expected and written off to CIES in the gains and losses on disposal.

Where a significant component part of an asset has a different useful life to other parts it will be depreciated separately. Where a component is replaced or restored the carrying amount of the old component shall be derecognised.

DEPRECIATION

Depreciation is provided for on all property, plant and equipment with a finite useful life (which can be determined at the time of acquisition or revaluation) according to the following policy:

- No assets are depreciated in the year of acquisition, but they are depreciated in the year of disposal. Assets in the course of construction are not depreciated until the year following the one in which they are first brought into use. In the exceptional case of part year depreciation being material a charge may be made.
- Operational assets are depreciated using a straight line method over the useful life of the asset, taking into account any residual value.

The expected useful life of assets is not necessarily revised at each revaluation but is reviewed annually. In line with the value's judgment we reduce the useful life of most of our assets by one year; the remaining assets' lives are reviewed by the value for reasonableness. Investment properties are not depreciated.

PROVISIONS & RESERVES

The Council establishes provisions for specific expenses that are certain to be incurred but the amount of which cannot yet be determined accurately.

Provisions are charged to the appropriate service revenue account in the year that the council becomes aware of the obligation, based on the estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes more likely than not that a transfer of economic benefits will not now be required or a lower settlement is made, the provision is reversed and credited back to the relevant service revenue account.

The Council maintains earmarked reserves to meet future spending programmes. Reserves are created by appropriating amounts in the Movement in Reserves Statement. When expenditure to be financed from the reserve is incurred, it is charged to the appropriate service revenue account in that year to go against the Cost of Services in the Comprehensive Income and Expenditure Statement (CIES). The reserve is then appropriated back to the General Fund Balance so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for property, plant and equipment and retirement benefits and do not represent usable resources for the council.

CONTINGENT LIABILITIES

IAS 37 *Provisions, Contingent Liabilities and Contingent assets* requires the Council to disclose contingent liabilities. These arise from past events and their existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control that may result in an obligation on the Council.

Material contingent liabilities are not recognised as an item of expenditure within the accounts but are disclosed within the notes to the accounts unless the possibility of a transfer of economic benefits in settlement is remote.

CONTINGENT ASSETS

IAS 37 *Provisions, Contingent Liabilities and Contingent assets* requires the Council to disclose contingent assets. These arise from past events and their existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control that may result in an asset to the Council.

Contingent assets are not accrued in the accounting statements, in conformity with the concept of prudence. Material contingent assets are disclosed within the notes to the accounts if the inflow of a receipt or economic benefit is probable.

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of property, plant or equipment has been charged as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged in the Movement in Reserves Statement so there is no impact on the level of Council Tax.

VALUE ADDED TAX

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from it.

2 ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

The Code of Practice on Local Council Accounting in the United Kingdom 2017/18 (the Code) requires the Council to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued, but not yet adopted by the Code for the relevant financial year. For the 2017/18 Statement of Accounts there are a number of accounting changes that need to be reported. These relate to:

- Amendments to IAS 19 Employee Benefits (Defined Benefit Plans: Employee Contributions).
- Annual Improvements to IFRSs 2010-2012 cycle and 2012-2014 cycle.
- Amendment to IFRS 11 Joint Arrangements (accounting for Acquisitions of Interests in Joint Operations).
- Amendment to IAS 16 Property, Plant and Equipment and IAS38 Intangible Assets (clarifications of acceptable methods of depreciation and amortisation).
- Amendment to IAS 1 Presentation of Financial Statements (Disclosure Initiative).

Additional disclosures required in the 2016/17 and 2017/18 financial statements in respect of accounting changes that are introduced in the 2018/19 Code are:

- [IFRS9 Financial Instruments](#)
- [IFRS15 Revenue from contracts with customers](#)
- [Amendment to IAS 7 Statement of Cash Flows \(Disclosure Initiative\)](#)
 - ~~Amendment to the reporting of pension fund scheme transaction costs~~
 - ~~Amendment to the reporting of investment concentration~~

~~Except for IFRS9~~ These amendments are minor, and they are not expected to have a material impact on the Statement of Accounts.

The Council will adopt IFRS 9 Financial Instruments with effect from 1st April 2018. The main changes include the reclassification of financial assets and the earlier recognition of the impairment of financial assets.

The Council does not expect the reclassification changes to have a material impact upon the financial statements because the majority of its financial assets will retain the same measurement basis. To this end, on 1st April 2018 the Council irrevocably elected to present changes in the fair value of the following equity investments in other comprehensive income as permitted by the IFRS:

- [CCLA – LAMIT Property Fund](#)
- [Investec Diversified Income Fund](#)
- [M&G Global Dividend Fund](#)
- [M&G Optimal Income Fund](#)
- [Threadneedle Strategic Bond Fund](#)
- [Threadneedle Global Equity Income Fund](#)
- [UBS Multi Asset Income Fund](#)
- [CCLA - Diversified Income Fund](#)

The Council does not expect the impairment changes to have a material impact upon the financial statements because the impairment charge will be immaterial for its treasury management assets (e.g. bank deposits and bonds) and it already makes a provision for doubtful debts on its service assets (e.g. trade receivables). The estimated additional provision to be made as at 1st April 2018 is £xxx.

3 CRITICAL JUDGEMENTS AND ASSUMPTIONS

Critical Judgements

In applying the accounting policies the Council has made the following critical judgements that have a significant effect on the statements:

- Future levels of local authority funding are uncertain, however based on its medium term planning using prudent assumptions on funding and based on announcements made by central government the Council judges that its assets will not be impaired as a result of a need to close facilities, reduce service provision or ongoing maintenance.
- The Council holds a significant portfolio of investment property and although general economic growth is still fragile, the Council judges that its portfolio in the context of the local economy is robust and healthy enough that its assets will not be impaired as a result of a decrease in economic activity.
- The Council judges that, on balance, the banking system will not be subject to major disruption to the extent that historic estimates of defaults are no longer tenable.
- ~~The Council does not expect the introduction of the new~~ tax gathering mechanisms for Council Tax and Business Rates to fundamentally alter the Council's financial stability. The risk within the rates retention scheme is assumed to be the safety net which has been set by the government at 7.5% of the Council spending baseline which equates to £xxxk.
- IFRS 12 requires that the accounts disclose the judgements made to assess the type of Joint Arrangement to determine the Council's correct accounting treatment. At the start of 2017/18, the Council was is currently contracted into a shared arrangement for its ICT and Revenues and Benefits functions, called CenSus Shared Services Partnership.
 - On 1 June 2017, staff from Census ICT were transferred under TUPE arrangements back to their originating Council ending the ICT Census joint partnership. The IAS19

report covering the period 1 April 2017 to 31 May 2017 was calculated on a 'no liability' basis, with all assets and liabilities transferring to the respective Councils.

- During 2017/18, Adur District Council left the Census Revenues and Benefits Service, hosted by Mid Sussex, on 31 September 2017. The IAS19 report covering the period 1 April 2017 to 30 September 2017 was calculated on a 'no liability' basis, with all assets and liabilities transferring to Adur and the remaining partners in Census respectively. Each of the three partners shows its share of the Census Revs and Bens pension assets and liabilities in the account for the first six months of 2017/18.
- From 1 October 2017, Census Revs and Bens remained hosted by Mid-Sussex District Council. The IAS19 report covering the period 1 October 2017 to 31 March 2018 was calculated on a 'no liability' basis, with all assets and liabilities transferring to the respective Councils. Each partner shows its share of the pension assets and liabilities in the accounts.
- On 31 March 2018, all employees from Census Revs and Bens transferred to Mid-Sussex District Council as the partnership finished on 31 March 2018 and the Joint Committee ceased.

CenSus Shared Services Partnership meets the definition of a Joint Operation as these functions were discharged to the Census Joint Committee, comprising of Members of each of the ~~three~~ participating authorities, each with joint control. It is not structured through a separate vehicle. As such we recognise our proportional share of assets, liabilities, revenues and expenses of the arrangement in our accounts.

Assumptions

The Statement of Accounts contains estimated figures that are based on assumption made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the Council's Balance Sheet at 31 March 201~~8~~⁷ for which there is a significant risk of material adjustments in the forthcoming financial year are as follows;

Pension Liability

Estimation of the liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. However the interaction of these assumptions is complex.

During 201~~7~~⁶/18~~7~~⁷ the actuaries advised that the pension liability had been affected as follows:

<u>Change in assumptions year ended 31 March</u> <u>2018⁷</u>	Horsham	
	Approximate % increase to Employer	Approximate monetary amount £000
0.5% decrease in Real Discount Rate	x%	xx,xxx
1 year increase in member life expectancy	x% to x%	x,xxx
0.5% increase in Salary Increase Rate	x%	x,xxx
0.5% increase in the Pension Increase Rate	x%	xx,xxx

Provisions

The provision for doubtful debt is based on estimates of default. The estimated default rates used which range from 3% to 100% may be sensitive to economic circumstances. An increase of 10% in default rates would have the effect of increasing the required provision by £~~xxxk~~.

Property, plant and equipment

The depreciation of buildings is based on estimated useful life and residual value which is based on the present use and level of maintenance which in turn depends on the continued level of funding.

For every year that the remaining lives of buildings were to decrease the extra depreciation would be £xxk.

Business Rates

The Business Rates Retention Scheme became effective from 1 April 2013 and as a result local authorities are liable for any successful appeals against business rates by businesses in 2012/13 and earlier financial years in their proportional share. The Council has a total provision of £x.xm as an estimate of potential successful appeals up to 31 March 2018, the Council's proportion (40%) reflected in the Balance Sheet is £x.xxxm. This estimate is calculated using Valuation Office ratings list of appeals and an analysis of successful appeals to date.

Heritage Assets

~~The Balance Sheet has recognised heritage assets where a relevant cost can be identified. The artefacts held within the Horsham Museum have not been recognised on the Balance Sheet because we do not hold a relevant value for them and the cost of obtaining a value is not considered commensurate with the benefit of the information. It is agreed that the articles are of local historical value but it is assumed that there would not be significant demand in the wider market for the majority of the items.~~

4 MATERIAL ITEMS OF INCOME AND EXPENSE

Material items in terms of the Council's overall net expenditure, which are derived from events or transactions that are not expected regularly, that fall within the ordinary activities of the Council. They are required to be disclosed separately by virtue of their size or incidence to give a fair presentation of the accounts. There were no material items of income or expenditure in 2015/16 or 2017/18 other than disclosed on the face of the Comprehensive Income and Expenditure Statement.

5 PRIOR PERIOD ADJUSTMENTS

None.

6 EVENTS AFTER THE BALANCE SHEET DATE

From 1 April 2018, the Council's Revenues and Benefits service is provided by LGSS. LGSS operates under a joint committee governance structure led by representatives from their three partner councils: Milton Keynes Council, Northampton Borough Council and Cambridgeshire County Council. The Council does not expect there to be a material impact from the post balance sheet event and therefore no adjustment has been made in the statement of accounts for this.

The statement of Accounts were authorised for issue by the Director of Corporate Resources for Horsham District Council on xx July 2018. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2018, the figures in the financial statements and note have been adjusted in all material respects to reflect the impact of this information.

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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