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Audit Committee

Wednesday, 29th June, 2022 at 5.30 pm Conference Room, Parkside, Chart Way, Horsham

Councillors:

Agenda

Stuart Ritchie (Chairman) John Blackall (Vice-Chairman) Matthew Allen Martin Boffey Paul Clarke

Richard Landeryou Gordon Lindsay

You are summoned to the meeting to transact the following business

Jane Eaton Chief Executive

		Page No.
1.	Apologies for absence	
2.	Minutes	3 - 8
	To approve as correct the minutes of the meetings held on 30 March and 25 May 2022.	
	(Note: If any Member wishes to propose an amendment to the minutes they should submit this in writing to <u>committeeservices@horsham.gov.uk</u> 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.)	
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.	External Audit - Outline Audit Plan 2021/22	9 - 24
	To receive the Outline Audit Plan from the external auditors	
6.	Risk Management - Quarterly Update	25 - 36
	To receive a report from the Interim Director of Resources	

Horsham District Council, Parkside, Chart Way, Horsham, West Sussex RH12 1RL Telephone: 01403 215100 (calls may be recorded) Horsham.gov.uk Chief Executive – Jane Eaton



7.	Internal Audit - Annual Report and Opinion 2021/22 To receive a report from the Chief Internal Auditor	37 - 60
8.	Internal Audit reviews of Revenues and Benefits 2021/22 To receive a report from the Interim Director of Resources	61 - 64
9.	Annual Governance Statement To receive the Annual Governance Statement for 2021/22	65 - 88
10.	Treasury Management Activity and Prudential Indicators 2021/22 To receive a report from the Interim Director of Resources	89 - 102
11.	Subsidiary Housing Company Accounts To receive a report from the Directors of the Housing Companies	103 - 138

12. 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

Agenda Item 2

Audit Committee 30 MARCH 2022

Present: Councillors: John Blackall (Vice-Chairman), Martin Boffey, Paul Clarke, Ruth Fletcher and Richard Landeryou

Apologies: Councillors: Stuart Ritchie and Gordon Lindsay

AAG/35 MINUTES

The minutes of the meeting held on 1 December 2021 were approved as a correct record and signed by the Vice-Chairman.

AAG/36 DECLARATIONS OF MEMBERS' INTERESTS

There were no declarations of interest.

AAG/37 ANNOUNCEMENTS

There were no announcements.

AAG/38 ANNUAL AUDIT LETTER

The External Auditors presented their Auditor's Annual Report for the year ending 31st March 2021.

The Report summarised the work undertaken in the 2020-21 year and the conclusions raised. External Auditors had completed their audit of the Council's financial statements and issued an unqualified opinion that the financial statements gave a true and fair view of the financial position of the Council as at 31 March 2021 and of its expenditure and income for the year then ended. The financial statements had been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21. The External Auditors had no matters to report by exception on the Council's Value for Money arrangements.

The Associate Partner explained that additional audit procedures undertaken on the audit to address new audit risks such as Covid-19 grants, and work using pension and Real Estate specialists had led to additional fees. The proposed additional fees had been discussed with management and would be submitted to PSAA Ltd for approval.

The Committee noted the contents of the report.

AAG/39 EXTERNAL AUDIT PROGRESS REPORT AND AUDIT PLAN

The External Auditors had not yet brought forward an Audit Plan but stated that it would be presented at the next meeting of the Committee once the planning work had been completed.

AAG/40 **RISK MANAGEMENT - QUARTERLY UPDATE**

The Head of Finance and Performance presented the Risk Management Quarterly Update to the Committee. The report included an update on the Corporate Risk Register for consideration and provided an update on progress with the quarterly departmental risk register reviews.

It was reported that there were five risks considered to be high:

CRR37 - Delay to plan preparation due to the requirement of the plan to demonstrate water neutrality, or as a result as significant / unexpected changes to government guidance.

CRR01b - Funding from Government is less generous than assumed in the Medium-Term Financial Strategy (MTFS) from 2021

CRR01c - Decrease in Rateable Value due to appeals and businesses going under. This may cause the Council to fall below the business rates baseline, resulting in loss of funding.

CRR18 - (i) A malicious attacker exploits a known or unknown security weakness to penetrate the Council's ICT systems. The level of threat has been raised by the Cabinet Office to amber. (ii) IT not working due to environmental problems: fire, flood, power cut.

CRR19 - Ongoing reduction in planning fees; reduced car parking income; increased homelessness; and increased housing benefit claims; leisure centres; property income; investment income.

Departmental risk registers had been reviewed and updated. The rising risks of inflation and cyber security were being closely monitored.

The Committee noted the contents of the report and relevant appendices.

AAG/41 DRAFT ANNUAL GOVERNANCE STATEMENT

The Director of Corporate Resources reported that the annual review of the Council's governance, risk management and internal control arrangements had been undertaken to support the Annual Governance Statement for 2020/21.

The review included information and assurance gathering processes as well as a review of the Council's Governance framework against the best practice framework devised by CIPFA/SOLACE. The aim was to ensure that the Council had effective governance, risk management and internal control processes in place to assist with accountability and the delivery of objectives. The review process had identified any shortfalls in these arrangements to enable them to be addressed. The Annual Governance Statement included an action plan to help improve the effectiveness of the Council's governance arrangements and control environment.

RESOLVED

That the Annual Governance Statement for 2021/2022 be approved.

AAG/42 INTERNAL AUDIT - QUARTERLY UPDATE REPORT

The Chief Internal Auditor provided a progress report of internal audits carried out during Q3 of 2021/22.

Of the five formal audits finalised during the quarter, three received an opinion of 'substantial assurance', one 'reasonable assurance' and one 'partial assurance'.

The audit that received 'partial assurance' was for Surveillance Cameras. A total of seven medium risk priority actions were reported, and actions had been agreed with management to address them. Internal Audit would undertake a follow-up audit in due course and provide other support as appropriate.

Formal follow up reviews would continue to be carried out for all audits where 'minimal assurance' opinions had been given and for higher risk areas receiving 'partial assurance'.

The Committee noted the contents of the report.

AAG/43 INTERNAL AUDIT STRATEGY AND ANNUAL PLAN 2022/23

The Chief Internal Auditor presented the Internal Audit Strategy and Annual Plan for 2022/23.

The strategy proposed an approach based on focusing audit resources in areas with the highest risk to the achievement of the Council's objectives. These areas had been identified and prioritised based on the Council's own risk assessment processes and following consultation with senior officers and Members.

In order to ensure audit and assurance activity would be focussed on supporting the delivery of the Council's priorities, the audit plan had taken into account the key corporate goals of the Council as set out within the Council's Corporate Plan.

RESOLVED

That the Internal Audit Strategy and Annual Plan 2022/23 be approved.

AAG/44 URGENT BUSINESS

There was no urgent business.

The meeting closed at 6.20pm having commenced at 5.30pm

CHAIRMAN

Audit Committee 25 MAY 2022

Present: Councillors: John Blackall, Martin Boffey, Paul Clarke, Ruth Fletcher, Richard Landeryou, Gordon Lindsay and Stuart Ritchie

AAG/1 ELECTION OF CHAIRMAN

RESOLVED

That Councillor Stuart Ritchie be elected Chairman of the Committee for the ensuing Municipal Year.

AAG/2 APPOINTMENT OF VICE CHAIRMAN

RESOLVED

That Councillor John Blackall be appointed Vice-Chairman of the Committee for the ensuing municipal year.

AAG/3 TO APPROVE THE TIME OF MEETINGS OF THE COMMITTEE FOR THE NEXT MUNICIPAL YEAR

RESOLVED

That meetings of the Committee be held at 5.30pm for the ensuing municipal year.

The meeting closed at 6.39 pm having commenced at 6.36 pm

CHAIRMAN

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Horsham District Council Outline Audit Plan Year ended 31 March 2022

29 June 2022

Rage 9





Private and Confidential

Horsham District Council

Parkside Chart Way Horsham West Sussex RH12 1RL 29 June 2022

Dear Committee Members Outline Audit Plan

We are pleased to attach our Outline Audit Plan. Its purpose is to provide the Audit Committee with an overview of our plans and fee for the 2021/22 audit before detailed work has commenced.

This report summarises our initial assessment of the key issues which drive the development of an effective audit for the Horsham District Council. We have not yet completed our detailed planning procedures. We will provide a more detailed and comprehensive audit plan for the Committee at the next meeting, or circulate the plan separately if Members prefer. This report sets out the areas which we consider will be a focus for our 2021/22 plan.

Our audit is undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

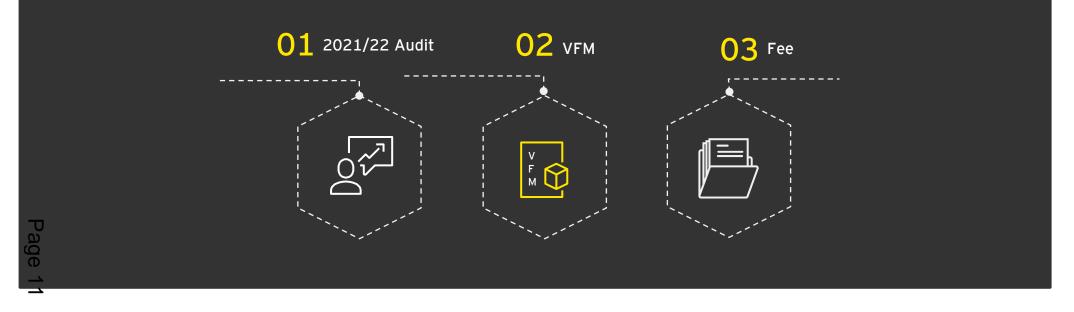
We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

E.Jackson.

Elizabeth Jackson, Associate Partner For and on behalf of Ernst & Young LLP Encl

Contents



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<u>https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/</u>). 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.

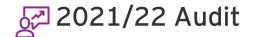
The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of the Horsham District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of the Horsham District Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than to the Audit Committee, and management of the Horsham District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 2021/22 Audit

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Wider public sector audit context

Recognising the increasing pressure on all auditors in the current climate the Department for Levelling Up, Housing and Communities (DLHUC) and CIPFA/LASAAC have both published papers relating to audit firms and timely completion of audits.

The DLHUC paper published in December 2021 sets out a range of measures agreed with key partners to support the timely completion of local government audits and the ongoing stability of the local audit market. It makes the following commitments:

- 1. FRC to publish updated Key Audit Partner (KAP) guidance by spring 2022, including new routes for an experienced Registered Individual to become a KAP;
- 2. Work with CIPFA to further develop the proposal for a new local audit training diploma in local government financial reporting and management aimed at different levels of auditor, and a new technical advisory service that could provide support to firms, and in particular new entrants;
- 3. DLUHC to provide further funding of £45 million over the course of next Spending Review period to support local bodies with the costs of strengthening their financial reporting, new burdens related to appointment of independent members and other Redmond recommendations and increased auditing requirements;
- CIPFA to publish strengthened guidance on audit committees by April 2022. The guidance will emphasise the role that audit committees should have in ensuring accounts are prepared to a high standard, alongside broader changes including appointment of independent members. Following consultation, consider making the guidance, committees and the independent member statutory;
- 5. DLUHC to provide via the Local Government Association sector grant for a number of targeted training events for audit committee chairs;
- 6. NAO rolling over of amendments to 20/21 AGN 03 and 07 to allow for altering the timing of elements on the VfM arrangements work and enable more focus on fully delivering opinions on the financial statements;
- CIPFA/LASAAC is undertaking a project to improve the presentation of local authority accounts to inform the development of the 2022/23 Accounting Code and comply with IFRS and statutory accounting principles HMT to undertake thematic review of financial reporting valuations for non-investment properties to inform development of the Accounting Code from 2022/23 onwards;
- 8. The government has asked CIPFA/LASAAC to consider the merits of a time-limited change to the Accounting Code for 2021/22;
- 9. Delaying implementation of standardised statements and associated audit requirements;
- 10. PSAA to progress their proposed procurement strategy for the next round of local audit contracts from 2023/24;
- 11. Extending the deadline for publishing audited local authority accounts to 30 November 2022 for 2021/22 accounts, then 30 September for 6 years, beginning with the 2022/23 accounts;
- 12. NAO to prepare for a re-laying of the Code of Audit Practice 2020 in parliament, so that it will apply for the whole of the next appointing period; and
- 13. Developing an industry-led workforce strategy, working with the system leader and audit firms, to consider the future pipeline of local audits, and associated questions related to training and qualifications.



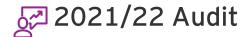
2021/22 financial statements audit

Planning for 2021/22

We have commenced our initial planning work for the 2021/22 audit and have met with the Chief Executive, the Interim Director of Resources and Interim Head of Finance and Performance. We have arranged regular liaison meetings throughout the year to inform our continuous audit planning and have held an initial planning meeting with officers to discuss key points from the prior year, incorporating the learning from the 2020/21 audit.

For 2021/22, the timetable as published in the draft Accounts and Audit (Amendment) regulations 2021 extends the publication date for audited local authority accounts from 31 July to 30 November 2022.

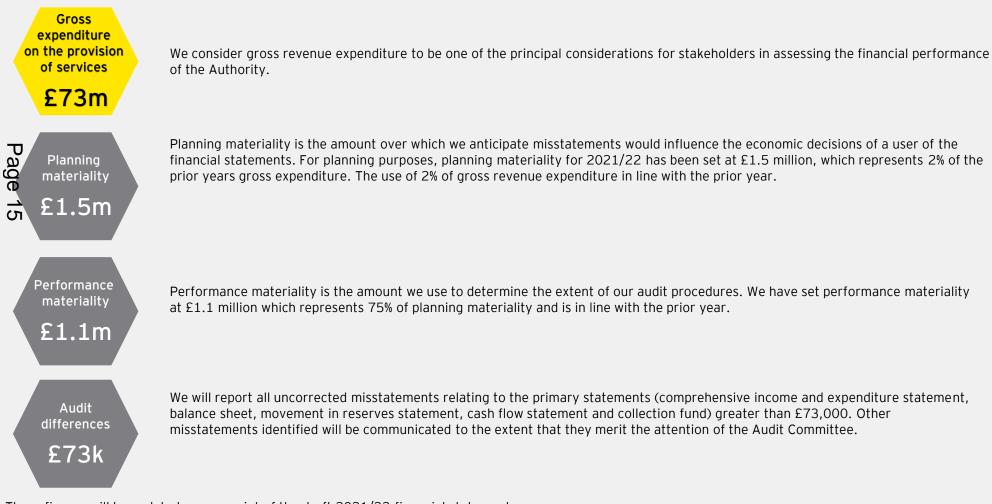
Due to the ongoing impact of later deadlines and completion of audits from 2020/21, we have yet to start our planning for the 2021/22 audit. We set out in this report our initial considerations of the risks for the audit - these are broadly similar to those identified in 2020/21. We will update these risks as our planning progresses and take into account the risks suggested by the NAO in the Auditor Guidance Note 06 - Local Government Audit Planning, which has not yet been released for 2021/22.



Materiality

Our application of materiality

When establishing our overall audit strategy, we determine the magnitude of uncorrected misstatements that we judge would be material for the financial statements as a whole.



These figures will be updated upon receipt of the draft 2021/22 financial statements.



The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committeewith an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Risk of fraud in revenue recognition - sales, fees and charges income, and grant income	Fraud risk	Change in risk or focus	Under ISA 240, there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. Change in risk or focus: We have identified the accounting for Covid-19 related grant income as a specific area where revenue may be inappropriately recognised and included this within the scope of the risk for 21/22.
b Misstatements due to fraud or error	to fraud or error Fraud risk No change in r focus		As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively. In addition to our overall response, we consider where these risks may manifest themselves and identify separate fraud risks as necessary below.
Inappropriate capitalisation of revenue expenditure	Fraud risk	No change in risk or focus	As noted above, under ISA 240, management is in a unique position to perpetrate fraud through the override of controls. We have identified the inappropriate capitalisation of revenue expenditure on property, plant and equipment as an area of risk.

Overview of 2021/22 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committeewith an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Valuation of land and buildings and investment property	Significant risk	No change in risk or focus	Land and Buildings (L&B) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end L&B and IP balances held in the balance sheet. As the Council's asset base is significant, and the outputs from the valuers are subject to estimation, there is a higher risk that L&B and IP may be under/overstated or the associated accounting entries incorrectly posted. We are required to undertake procedures on the use of experts and assumptions underlying fair value estimates.
► Pension asset Valuation	Inherent risk	No change in risk or focus	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by West Sussex County Council. The Council's pension fund asset is a material estimated balance and the Code requires that this asset be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.



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O2 Value for Money





Value for money

Authority responsibilities for value for money

The Authority is required to maintain an effective system of internal control that supports the achievement of their policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

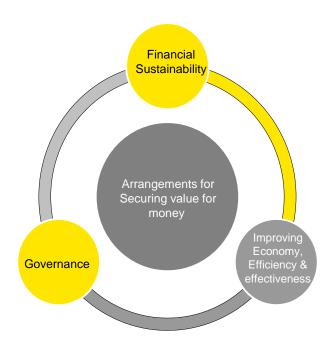
As part of the material published with its financial statements, the Authority is required to bring together commentary on its governance framework and how this has operated during the period in an annual governance statement. In preparing its annual governance statement, the Authority tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Auditor responsibilities under the new Code

Under the 2020 Code we are still required to consider whether the Authority has put in place 'proper arangements' to secure economy, efficiency and effectiveness on its use of resources. The Code requires the additor to design their work to provide them with sufficient assurance to enable them to report to the Authority commentary against specified reporting criteria (see below) on the arrangements the Authority has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- **Financial sustainability** How the Authority plans and manages its resources to ensure they can continue to deliver its services;
- Governance How the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness How the Authority uses information about its costs and performance to improve the way it manages and delivers its services.





🛃 Value for money risks

Planning and identifying VFM risks

The NAO's guidance notes require us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Authority's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations. This is a change to 2015 Code guidance notes, where the NAO required auditors, as part of planning, to consider the risk of reaching an incorrect conclusion in relation to the overall criterion.

In considering the Authority's arrangements, we are required to consider:

- The Annual Governance Statement
- Evidence that the Authority's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates (such as Ofsted and CQC) and other bodies: and
- Any other evidence source that we regard as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what Distitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a Gatter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

Exposes - or could reasonably be expected to expose - the Authority to significant financial loss or risk;

- Leads to or could reasonably be expected to lead to significant impact on the quality or effectiveness of service or on the Authority's reputation;
- Leads to or could reasonably be expected to lead to unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the Authority;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves (where applicable), or impact on budgets or cashflow forecasts:
- The impact of the weakness on the Authority's reported performance;
- Whether the issue has been identified by the Authority's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Authority has had to respond to the issue.



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🛃 Value for money risks

Responding to identified risks

Where our planning work has identified a risk of significant weakness, the NAO's guidance reguires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the Audit Committee.

Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources we are required to refer to this by exception in the audit report on the financial statements.

We are also required to include the commentary on arrangements in our Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Authority's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

where we have sufficient evidence to determine that there is a significant weakness on VFM related arrangements we are able to report that weakness, and an associated recommendation for improvement, at that time and not wait until we issue our Audit Results Report on the audit of the statement of accounts. Φ

Status of our 2021/22 VFM planning

We have yet to commence our detailed VFM planning.

We will update the Committee on the outcome of our VFM planning and our planned response to any identified risks of significant weaknesses in arrangements.





Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

The table sets out the fees we reported to the Committee as part of the Annual Audit Report. The additional fee for 2020/21 has been discussed with management and remains subject to approval by PSAA Ltd.

	Planned fee 2021/22	Proposed fee 2020/21	Final fee 2019/20
	£	£	£
Scale Fee - Code work	£38,572	£38,572	£38,572
Spale fee Rebasing: changes in the work required to address professional and regulatory	TBC	£25,000	
Additional fee determined by PSAA Ltd (2)	TBC		£17,636
Revised Proposed Scale Fee	твс	£63,572	£56,208
Risked based fee variations & Code of Audit Practice 2020 and updated auditing and accounting standards 2020/21 (3)	TBC	£4,700	-
Total Fees	твс	76,772	£56,208

All fees exclude VAT

Note 1 - The scale fee has been re-assessed to take into account a number of risk factors which includes procedures performed to address the risk profile of the Council and additional work to address increase in Regulatory standards. The scale fee rebasing has been discussed with management and remains subject to approval by PSAA Ltd.

Note 2 - As detailed in our 2019/20 annual audit letter we submitted a proposed rebasing of the scale fee (on the basis set out above). PSAA concluded the review and the additional fee agreed for 2019/20 is £17,636.

Note 3 - As noted in the 2020/21 Annual Audit Report we identified new risks for 20/21, as well as a change in ISA 540 and the requirements on VFM reporting. Theses changes have impacted on the cost of delivering the 20/21 audit and we will submit an additional fee for this work to PSAA for approval.

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Agenda Item 6

Report to Audit Committee

Wednesday 29 June 2022 By the Interim Director of Resources **INFORMATION REPORT**



Partially Exempt under Paragraph 5 of Part 1 of Schedule 12A to the Local Government Act 1972

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 Members understand the key risks facing the Council.

Background Papers

Corporate Risk Register

Wards affected: All.

Contact: Dominic Bradley, Interim Director of Resources, 01403 215300.

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 Section 3 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 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 and exempt Appendix 2).
- 3.2 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.

CRR02 CRR03 CRR06 CRR34 CRR35a	CRR01c CRR18 CRR19		CRR37
CRR33	CRR05 CRR17	CRR01b	

3.3 There are five risks which are currently considered to be high, seven medium and one low risk. The high-risk areas relate to the following:

CRR37	Delay to the local plan preparation due to the requirement of the plan to demonstrate water neutrality, or as a result of significant / unexpected changes to government guidance.
CRR01b	Funding from Government is less generous than assumed in the Medium-Term Financial Strategy (MTFS) from 2023.
CRR01c	Decrease in Rateable Values due to appeals and businesses going under. This may cause the Council to fall below the business rates baseline, resulting in loss of funding.
CRR18	A malicious attacker exploits a known or unknown security weakness to penetrate the Council's ICT systems. IT not working due to environmental problems: fire, flood, power cut.
CRR19	Ongoing reduction in planning fees; reduced car parking income; increased homelessness; and increased housing benefit claims; leisure centres; property income; investment income.

- 3.4 The risk register in Appendix 1 provides full details of all risks on the "live" register together with details of the control actions and responsible officers. Risk CRR33 is shown in the exempt Appendix 2.
- 3.5 All 19 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 **Resource consequences**

6.1 There are no financial or staffing consequences as this report is for noting.

7 Legal considerations and implications

7.1 There are no legal consequences as this report is for noting.

8 Risk assessment

8.1 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.

9 **Procurement implications**

9.1 There are no procurement implications arising from this report as this report is for noting.

10. Equalities and human rights implications / public sector equality duty

10.1 There are no implications under equalities and human rights nor the public sector equality duty as this report is for noting.

11 Environmental implications

11.1 There are no environmental implications as this report is for noting.

12 Other considerations

12.1 There are no consequences arising from GDPR / Data Protection or crime and disorder as this report is for noting.

Appendix 1 Corporate Risk Report June 2022 Risks ordered by RAG not numerically



Generated on: 07 June 2022

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
CRR37 Source: Requirement to adopt an up-to-date Local Plan in by end 2023 in accordance with government requirements Risk: Delay to plan preparation due to the requirement of the plan to demonstrate water neutrality, or as a result significant / unexpected cuanges to government guidance.	Economic damage to district as a result of limits to development which can take place	Barbara Childs	tikelihood	CRR.37.1 Joint working with partners to develop water neutrality mitigation strategy CRR.37.2 Keep watching brief on government messaging on planning reforms	Catherine Howe Catherine Howe	Likelihood	Level of increased water demand requiring water neutrality measures now provisionally agreed. Governance arrangements drafted and awaiting final sign off. Detailed work on overall mitigation strategy now able to commence. Requires continued input from all affected local authorities, Natural England, and Southern Water. Successful LEP for funding for additional resources to help deliver the strategic solution co-ordinated by WSCC.
29				CRR.01b.1 Continue to keep a watching brief CRR.01b.2 Revisit the MTFS and if necessary 2022/23 budget in year.	Samantha Wilson Samantha Wilson		Government has withdrawn the changes to business rates and revenue funding through the Fair Funding Review for the time being. This has removed this part of the risk temporarily, although Government has only given a one-
CRR01b Financial <u>Cause:</u> The Council is reliant on Central Controlled Government funding (e.g., Business Rates). <u>Risk</u> : (ii) Funding from Government is less generous than assumed in the MTFS from 2023	Reductions in funding Adverse effect on morale Financial Failure to achieve agreed objectives	Dominic Bradley	Likelihood	CRR.01b.3 Evaluate and discuss with Members possible future actions to mitigate loss of income. e.g., Corporate Restructure, investment and infrastructure projects that generate income.	Dominic Bradley	Likelihood	year settlement in 2022/23, giving little insight into the medium term. Implementation of any business rates reform is now delayed to April 2023 or later, with April 2024 looking increasingly likely. With income not recovering to previous levels, even with some estimated Council tax rises factored in, £1.7m budget deficits are currently forecast across later years of the MTFS unless significant action is taken over the next couple of years to mitigate inflation and the costs of food waste when implemented.

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update									
				CRR.01c.1 Continue to keep a watching brief	Samantha Wilson		With business rates reform postponed and the impact of COVID-19 on the high street,									
CRR01c Financial <u>Cause:</u> The Council is reliant on Central Controlled Government funding (e.g., Business Rates). <u>Risk:</u> Decrease in Rateable Value due to appeals and businesses going under. This may cause the Council to fall below the business rates baseline, resulting in loss of funding.	Reductions in funding Financial	Dominic Bradley	Likelihood	CRR.01c.2 Evaluate and discuss with Members possible actions to mitigate loss of income. e.g., Corporate Restructure, investment and infrastructure projects that generate income	Samantha Wilson	Likelihood	further reductions in business rates seem inevitable, although Government reliefs have mitigated this in the short term and the total RV is stable at present. A one-year settlement for 2022/23 means the uncertainty is deferred to what happens in 2023/24, although the likelihood that changes won't be until 2024/25 is increasing. Appeals to the Valuation Office remain high, which could trigger backdated refunds. The appeals provision is approximately £5m, albeit the Council's share is only 40% of this.									
Page 30				CRR.18.1 Staff and Member Training	Claire Ward / Robert Laban											
CRR18	Loss of key			CRR.18.2 Awareness of current threats	Andrea Curson	-										
Technological <u>Cause</u> : Council services are increasingly reliant on IT systems at a	systems- disruption to Council			CRR.18.3 An effective ICT Service delivery team	Andrea Curson		CRR.18.1 Ongoing, as part of									
time when there are greater opportunities for malicious attackers to exploit security weaknesses.	services. Cost of investigation and recovery of systems.	f											CRR.18.4 Effective patching and updates to mitigate known vulnerabilities	Andrea Curson		induction for new staff/ Members, and as required. This included cyber security training for Members in February 2022.
Risk 1: A malicious attacker exploits a known or unknown security weakness to penetrate the Council's ICT		Dominic Bradley	limbact	CRR.18.5 Compliance with expected security standards. (PSN, PCI-DSS)	Andrea Curson	값 요 Likelihood	CRR18.2 We are following government advice re heightened Cyber Security Threats.									
systems. <u>Risk 2:</u> IT not working due to environmental problems: fire, flood,		ity of cil ds. ties from CO. se media	Likelihood	CRR.18.6 Effective policies in place which outline security requirements for users of ICT	Andrea Curson		CRR.18.5 PSN Accreditation has been awarded for another year.									
power cut	the ICO. Adverse media coverage.				CRR.18.7 Effective back-up and recovery processes in place for Council ICT systems.	Andrea Curson										
				CRR.18.8 Transferring the risks to the cloud provider	Andrea Curson											
				CRR.18.9 Plan developed,	Andrea											

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update									
				approved internally and being carried out.	Curson											
				CRR.19.2 Monitor the external environment	Samantha Wilson		Covid-19 has had a significant impact on the economy and the Council's income.									
CRR19 Cause: 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. The impact on the financial markets and the pound following Covid-19 and then the energy crisis has brought forward the likelihood of a deeper depression and caused a slowdown in the property and financial markets. Inflation rising fast. Pick: Ongoing reduction in planning fors; reduced car parking income; Freased homelessness; and Freased housing benefit claims, leisure centres, property income; investment income. Rapidly rising costs from inflation.	Financial Service Delivery Compliance with Regulations	Dominic Bradley	Likelihood	CRR.19.3 Monitor internal indicators, particularly income generation and respond appropriately to adverse trends	Samantha Wilson	torod Likelihood	A small surplus budget was set for 2022/23 as a result of a restructure in November 2020 and a better than expected one-year settlement. Net expenditure in 2022/23 has been set £1m lower than 2021/22 but remains £1m higher than in 2020/21 (pre-pandemic). Budget shortfalls approaching £1.7m a year are still forecast by the end of the medium-term financial period. This is mostly driven by the estimated £1.3m costs of food collection, as well as income levels not fully recovering to previous levels. Rising costs from inflation will put further pressure on the budget gaps. The future funding of local government also remains very uncertain. Pressure is building on homelessness and benefits cases. Cumulative pressure on businesses since 2020 may also increase the risk on their ability to pay all rents.									
	Failure of business			CRR.05.1 Officer training	Dominic Bradley		The Annual Governance Statement action plan for 2021/22 completed.									
CRR05 Governance <u>Cause</u> : Managers are responsible for ensuring that controls to mitigate	objectives Health & Safety		tikelihood	CRR.05.3 All Service Managers required to sign an Assurance Statement. (By 30th June Annually) (Cyclical)	Dominic Bradley		This included delivering training for management and staff in this area. Heads of Service, all managers, depot-based managers, Capitol and									
<u>Risk</u> : Officers are either unaware of expected controls or do not comply with control procedures.	Financial Service Delivery Compliance			Likelihood			Impact	Likelihood	Likelihood	Likelihood	Impact		Likelihood	CRR.05.4 "Cultural compliance" Internal Audits identify service-based issues and help managers to resolve these.	Dominic Bradley	Likelihood
	with Regulations			CRR.05.5 Programme of training and information to	Dominic Bradley	1	museum was completed.									

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
	Personal Privacy Infringement Reputation damage			ensure all managers understand their roles. CRR.05.6 Governance review of the Horsham Museum	Dominic Bradley	-	The annual e-learning refresher programme for 2022/23 has started, with the following three courses being mandatory: • Corporate Governance • Safeguarding adults • Safeguarding children and
				CRR.17.1 Continuously monitor the level of quality control checking.	Beccy Salmon		young people. The service continues to maintain a robust QC process to mitigate financial loss via a qualified subsidy
CRR17 Cause: The External Auditors audit the HDC Defits Grant Subsidy return to the Department for Work and Pensions WP) on an annual basis to identify Tors. Risk: Ne Benefit Subsidy claim may be qualified and/or financial losses. HDC has a case load with a particularly high number of working people with many changes of circumstances.	Financial Service Delivery Compliance with regulations Reputation	Dominic Bradley; Beccy Salmon	Likelihood	CRR.17.2 An earmarked reserve for subsidy provision is now in place that would cover the loss of subsidy in the event that the upper threshold in the subsidy claim is breached.	Beccy Salmon	Likelihood	loss. However, in February 2021 colleagues found a long-standing error relating to a claim assessed under the CenSus regime leading to an overpayment of £35,000. This, combined with a small decline in 2020/21 quality due to workload pressure puts the Council closer than it has ever been to the lower threshold for 2020/21 since leaving the CenSus partnership. A further £8,000 historic error was found in April 2021. This will affect the 2021/22 claim but being a lower amount is less likely to lead to a subsidy loss. The LA Error rate decreases slightly as HB expenditure continues without further error but remains a risk due to the low headroom for future LA Error to be found.
when they change in May 2018. <u>Risk 1</u> : Major data breach or leak of sensitive information to a third party.	occurred Complaints / claims /	Dominic Bradley	Likelihood	CRR.02.1 Develop appropriate processes & procedures which underpin the IT Security Policy CRR.02.3 Provide a programme of Induction and at least annual training on Information Security to all staff.	Andrea Curson / Sharon Evans Robert Laban	Likelihood	CRR02.3 An induction programme is established, and new staff are completing IS training as part of probation, where relevant. There will be regular updates as and when topical issues emerge, in a fast- moving environment that poses IS threats. CRR02.4 PSN Accreditation 2021 awarded
<u>Risk 2</u> : Risk of significant ICO fine for non-compliance with new General	litigation Resources			CRR.02.4 Annual PSN Accreditation	Andrea Curson		awarded.

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update							
Data Protection Regulations (GDPR).	consumed in defending claims Financial losses Fines from regulators Adverse publicity Reputation damage			CRR.02.5 Representatives from each department meet every other month to maintain compliance, updates and training	Sharon Evans		CRR.02.05 Due to recent data breaches, a new training presentation has been written and will be delivered through service team meetings. Should be completed before mid-July 2022.							
	People and businesses come to harm and suffer loss			CRR.03.1 Update corporate business continuity plan and regular review.	Robert Laban		CRR.03.1 Plan is updated. Several Neighbourhood Wardens have been							
CRR03 Legal <u>Cause</u> : The Civil Contingencies Act places a legal obligation upon the	that might not otherwise have occurred			CRR.03.2 Update departmental business continuity plans and regular review.	Robert Laban		trained as Rest Centre Managers. Consideration is given to establish a process/ rota for senior managers to manage emergencies.							
Council, with partners, to assess the risk of, plan, and exercise for emergencies, as well as undertaking encergency and business continuity	Complaints / claims / litigation	Dominic		CRR.03.5 Bitesize workshops to address new procedures and processes.	Robert Laban		CRR.03.2 All BC plans have been updated in 2021, Q3; a sample was tested in Q4 with the service heads.							
Anagement. The Council is also ponsible for warning and informing	Resources consumed in defending claims	Bradley											Likelihood	CRR.03.5 Hybrid bitesize workshops are starting again from April for: Response, BC, Recovery, Rest Centre ops.
<u>Risk</u> : The Council is found to have failed to fulfil its obligations under the Act in the event of a civil emergency.	Financial losses Censure by regulators Reputation			CRR.03.6 Fortnightly BC meetings during Covid-19	Robert Laban		CRR.03.6 In line with lifting of all Covid restrictions, regular Covid focussed BC meetings have stopped (but can be reinstated quickly if needed).							
CRR06 Physical <u>Cause</u> : The Council is responsible for the health & safety of its clients, staff	damaged People come to harm Complaints/clai ms/ litigation Financial losses Censure by			CRR.06.2 H&S Management Forum reviews corporate inspection strategy quarterly.	Robert Laban / Health & Safety Officer		CRR.06.2 Regular meetings of all stakeholders are established and ongoing.							
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. <u>Risk</u> : A health & safety failure occurs.	significant assets, and also nsibility for H&S in some ganisations where it does operational control.	Jane Eaton	Likelihood	CRR.06.3 Training programme includes annual refreshers on a rolling programme. All mandatory training must be completed as part of probation	Robert Laban	Likelihood	CRR.06.3 Probation processes are well established. Recent refreshers on Office Safety and Homeworking completed. First Aider programme ongoing. Plans for Fire Marshal refresher being developed.							

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
CRR34 <u>Cause</u> : Uncertainty in the UK and World economy. Instability and high-profile failures. <u>Risk</u> : Key contractor failure	Financial	Dominic Bradley	To a construction of the second secon	CRR.34.1 Regularly check accounts of key suppliers	Heads of Service	ਹਿੰਦ ਹੋਏ ਦੁੰਦ Likelihood	The impact on the loss of key suppliers is lessening and we no longer have the Head of Procurement on the business continuity group. The impact of the world shortage of building supplies is lessening but remains uncertain. Risk of inflation, interest rate rise and recession being monitored.
				CRR.34.2 Check public liability insurance of key suppliers	Heads of Service		
				CRR.34.3 Ask for key suppliers' business continuity plans	Heads of Service		
				CRR.34.4 Consider whether the failure of a key supplier needs to go in service business continuity plan	Heads of Service		
Page CR35a Gause: Covid-19 infection <u>Risk:</u> Serious risk to the health and safety of workers	Failure of Health and safety, Service Delivery, Compliance with regulations, Reputational loss.	Dominic Bradley	to the likelihood	CRR.35a.1 Corporate Health and Safety group oversees H&S measures (staff H&S representative observes)	Dominic Bradley	Likelihood	CRR.35a.3 In line with diminishing Covid-19 infection risks, the Business Continuity Group has been stayed. Monitoring is ongoing by the Corporate H&S Adviser and Emergency Planning Adviser, reviewing relevant HSE, NHS/ Government guidance. Any necessary updates will be through the Comms service by the Head of HR&OD. Risk assessments are reviewed and updated as needed.
				CRR.35a.3 Regular updates on government advice on keeping safe	Robert Laban		
					Robert Laban		
							CRR.35a.7 The Council's trial to move to 50/50 working was extended and will be reviewed in the summer, considering emerging practice, staff/ manager feedback and LGA guidance.
							CRR.35a.7 Despite the lifting of all Covid-19 restrictions, managers are advised to conduct risk assessments for staff who identify themselves as high risk. Staff working from home must have completed a risk assessment, signed off by their manager.

By virtue of paragraph(s) 5 of Part 1 of Schedule 12A of the Local Government Act 1972.

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Agenda Item 7

Report to Audit Committee

29th June 2022 By the Chief Internal Auditor

INFORMATION REPORT

Not Exempt



Internal Audit – Annual Report and Opinion 2021/22

Executive Summary

This report has been compiled to:

- Provide an overall annual opinion on the adequacy of the Council's governance arrangements, risk management systems and control environment.
- Summarise performance against key indicators.

No assurance can ever be absolute; however, based on the internal audit work completed, the Chief Internal Auditor is able to provide 'reasonable' assurance that Horsham District Council has in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2021 to 31 March 2022.

Recommendations

- i) To note the annual opinion of the Chief Internal Auditor on the overall adequacy and effectiveness of the Council's internal control environment, governance and risk management systems (Annexe A).
- ii) To note the performance of Orbis Internal Audit against performance targets.

Reasons for Recommendations

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

Background Papers:	Internal Audit Reports and Quality Assurance Self-Assessment.
Consultation:	N/A
Wards affected:	All
Contact:	Paul Miller, Chief Internal Auditor, 07885-381446

Background Information

1. Introduction and Background

1.1 Annual Report and Opinion

The 2021/22 internal audit plan was approved by this committee in April 2021. All reviews have been completed, and our Annual Report and Opinion for the year is attached as Annexe A.

1.2 Quarter 4 Update

The Audit Committee receives periodic reports on the work carried out by the Internal Audit service as part of the Council's governance arrangements. Please see Annexe B for the summary of work undertaken by Internal Audit during Quarter 4 (1st January to 31st March 2022).

1.3 Staffing

The Horsham internal audit plan has been delivered by the Orbis Internal Audit Partnership in accordance with professional standards (see below). All auditors have the requisite skills and experience to effectively fulfil their responsibilities, and all auditors who have managed work for Horsham D.C during 2021/22 are professionally qualified. All work is overseen by the Chief Internal Auditor who is CMIIA qualified.

2 Relevant Policy / Professional Standards

2.1 Statutory Background

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 Orbis Internal Audit team.

2.2 Relevant Professional Standards

Internal Audit follows the standards set out in the Public Sector Internal Audit Standards (last revised in 2017).

The Chief Internal Auditor is required to report on an annual basis to provide an opinion on the overall adequacy and effectiveness of the Council's governance arrangements, risk management systems and internal control environment.

2.3 Relevant Council Policy

The Council's Constitution supports the statutory requirements outlined above. Financial Procedure Rule 4e 27 states that: "The Chief Finance Officer ensures 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 annually by the Audit Committee".

3. Service Quality and Performance

- 3.1 As explained above, the Council's Internal Audit service is operated in accordance with the Public Sector Internal Audit Standards (PSIAS) which came into effect on 1st April 2013 (amended in 2017). The standards require that an external quality assessment is undertaken every five years by a qualified, independent assessor or assessment team from outside the organisation. The Internal Audit service at Horsham, which is provided by the Orbis Internal Audit Partnership, was externally reviewed by the South-West Audit Partnership in 2018. The overall conclusion was that the service had achieved the highest level of conformance. As well as self-assessing against the standards every year, performance of the service is also monitored through a range of performance indicators, the results of which are contained within Appendix A of the annual report.
- 3.2 The Internal Audit service has maintained its independence throughout 2021/22 in accordance with the Audit Charter.

4. Next Steps

Not applicable.

5. Outcome of Consultations

Heads of Service / Service managers are consulted during each audit. At the end of each review, audit findings and draft reports 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.

6. Other Courses of Action Considered but Rejected

Not applicable.

7. Resource Consequences

This report includes a summary of information about the work undertaken by Orbis Internal Audit on behalf of Horsham District Council, and therefore there are no direct financial or HR consequences.

8. Legal Considerations and implications

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.

9. Risk Assessment

All internal audit work is undertaken using a risk-based approach.

10. Procurement implications

There are no procurement implications arising from this report as this report is for noting.

11. Equalities and human rights implications / public sector equality Duty

There are no implications under equalities and human rights nor the public sector equality duty as this report is for noting.

12. Environmental implications

There are no environmental implications as this report is for noting.

13. Other Considerations

There are no consequences arising from GDPR / Data Protection or crime and disorder as this report is for noting.



INTERNAL AUDIT ANNUAL REPORT & OPINION 2021/2022



Horsham District Council

1. Internal Control and the Role of Internal Audit

1.1 All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2015. The full role and scope of the Council's Internal Audit Service is set out within our Internal Audit Charter.

1.2 It is a management responsibility to establish and maintain internal control systems and to ensure that resources are properly applied, risks appropriately managed, and outcomes achieved.

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

2. Delivery of the Internal Audit Plan

2.1 The Council's Internal Audit Strategy and Plan is updated each year based on a combination of management's assessment of risk (including that set out within the corporate and departmental risk registers) and our own risk assessment of the Council's major systems and other auditable areas. The process of producing the plan involves extensive consultation with a range of stakeholders to ensure that their views on risks and current issues, within individual departments and corporately, are identified and considered.

2.2 Covid 19 has continued to have an impact on the Council in 2021/22. This has meant that we have needed to continue to adopt flexible working practices.

2.3 Notwithstanding the above, we have still been able to deliver sufficient audit and assurance activity within the year to enable us to form an overall annual audit opinion for the Council in the normal way.

2.4 All adjustments to the audit plan were agreed with the relevant departments and reported throughout the year to the Audit Committee as part of our periodic internal audit progress reports. It should be noted that whilst there were a number of audit reports still in draft at the year-end, the outcomes from this work have been taken into account in forming our annual opinion. Full details of these audits will be reported once each of the reports have been finalised with management.

3. Audit Opinion

3.1 No assurance can ever be absolute; however, based on the internal audit work completed, the Chief Internal Auditor can provide **reasonable¹ assurance** that Horsham District Council has in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2021 to 31 March 2022.

3.2 Further information on the basis of this opinion is provided below. Overall, whilst the majority of audit opinions issued in the year were generally positive, internal audit activities

¹ This opinion is based on the activities set out in paragraph 4 below. It is therefore important to emphasise that it is not possible or practicable to audit all activities of the Council within a single year.

have identified a number of areas where the operation of internal controls has not been fully effective, as reflected by the five partial opinion assurances issued in the year.

3.3 Where improvements in controls are required as a result of our work, we have agreed appropriate remedial action with management.

3.4 There is clear evidence that the organisation is continuing to tackle governance and control issues at the most senior level. During 2021/22, the Director of Corporate Resources (now Chief Executive) provided specific governance training to a number of departments. Actions recorded in the Annual Governance Statement 2021/22 include the development of a new bespoke Governance e-learning training programme which will be made available to officers during 2022/23. The requirement for officers to complete this e-learning module will be mandatory.

4. Basis of Opinion

4.1 The opinion and the level of assurance given takes into account:

- All audit work completed during 2021/22, planned and unplanned;
- Follow up of actions from previous audits;
- Management responses to audit findings;
- Ongoing advice and liaison with management, including regular attendance by the Chief Internal Auditor at organisational meetings relating to risk, governance and internal control;
- Effects of significant changes in the Council's systems;
- The extent of resources available to deliver the audit plan;
- Quality of the internal audit service's performance.

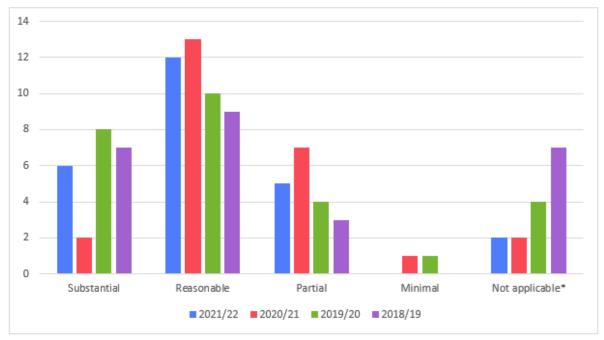
4.2 No limitations have been placed on the scope of Internal Audit during 2021/22, although three audit reviews were postponed until 2022/23 for various reasons. These changes have been reported to the Senior Leadership Team and Audit Committee as part of our quarterly progress reports. All three audits have been included in the audit plan for 2022/23.

5. Key Internal Audit Issues for 2021/22

5.1 The overall audit opinion should be read in conjunction with the key issues set out in the following paragraphs. These issues, and the overall opinion, have been taken into account when preparing and approving the Council's Annual Governance Statement.

5.2 The internal audit plan is delivered each year through a combination of formal reviews with standard audit opinions; direct support for projects and new system initiatives; investigations; and ad hoc advice. The following graph provides a summary of the outcomes from all audits finalised over the past four years:

Audit Opinions



^{*}Not applicable: Includes grant certifications and audit reports where we did not give a specific audit opinion.

5.3 A full listing of all completed audits and opinions for the year is included in Appendix B, along with an explanation of each of the assurance levels.

5.4 A total of five audits received partial assurance opinions within the year, as follows:

- Business Waste
- Surveillance Cameras
- Private Sector Housing Assistance Grants
- Corporate Compliance (Community & Wellbeing)
- Corporate Compliance (Environmental Health and Licensing)

5.5 Whilst actions arising from these reviews will be followed up by Internal Audit, either through specific reviews or via established action tracking arrangements, it is important that management continue to take prompt action to secure the necessary improvements in internal control.

5.6 At the time of writing this report, there was one audit report that was still at draft report stage and had therefore not been formally issued. This has been included in Appendix B, but has not been summarised in Annexe B. This will be reported to the Audit Committee at the next meeting in September.

Key Financial Systems

5.7 Given the substantial values involved, each year a significant proportion of our time is spent reviewing the Council's key financial systems. Of those completed during 2021/22, all have resulted in either substantial or reasonable assurance being provided over the control environment.

Other Internal Audit Activity

5.8 During the year, internal audit has continued to provide advice, support and independent challenge to the organisation on risk, governance and internal control matters across a range of areas. This includes participation in the following groups:

- Officer Corporate Governance Group
- Officer Risk Management Group
- Officer Project Review Group

5.9 As well as actively contributing to, and advising these groups, we utilise the intelligence gained from the discussions to inform our own current and future work programmes to help ensure our work continues to focus on the most important risk areas.

Anti-Fraud and Corruption – Summary of Activity

5.10 Horsham DC has in place a Counter Fraud Strategy that sets out its commitment to preventing, detecting and deterring fraud.

5.11 Internal Audit coordinated the submission of Council datasets for the biennial NFI exercise. The results from the data matching were provided to the Council on 31 January 2021 and Internal Audit has liaised with the relevant departments to ensure that flagged matches are investigated and actioned appropriately.

5.12 Fraud risk assessments are regularly reviewed to ensure that the current fraud threat to the Council has been considered and appropriate mitigating actions identified.

5.13 During 2021/22, the Internal Audit Counter Fraud Team continued to deliver both reactive and proactive fraud services across the Orbis Partnership.

5.14 Any internal control weaknesses identified during our investigation work are reported to management, and actions for improvement are agreed. This work is also used to inform future Internal Audit activity.

5.15 There was one investigation undertaken during the year which was supported by the Orbis Internal Audit Counter-Fraud team following receipt of a 'Common Point of Purchase alert' from Global Pay on behalf of UK card issuers. An external forensic investigator was engaged, as required by the Payment Card Industry Security Standard Council, and their report indicated that alleged fraudulent activities were not related to the activities of Horsham District Council.

5.16 Whilst it is our opinion that the control environment in relation to fraud and corruption is satisfactory, and the incidence of fraud is considered low for an organisation of this size and diversity, we continue to be alert to the risk of fraud. This includes working with local fraud hubs, the aim of which is to deliver a strong and co-ordinated approach to preventing, detecting and responding to fraud. Internal Audit continues to be proactive in the identification and prevention of potential fraud and corruption activity across the Authority and in raising awareness amongst staff.

Amendments to the Audit Plan

5.17 In accordance with proper professional practice, the Internal Audit plan for the year was kept under regular review to ensure that the service continued to focus its resources in the highest priority areas based on an assessment of risk. Through discussions with management, the following review was added to the original audit plan during the year:

• Corporate Compliance (Environmental Health & Licensing)

Also, although a follow up of Cultural Compliance (Hop Oast Depot) was due to be undertaken during 2021/22, it was decided, instead, that internal audit would provide ongoing proactive advice and support to help management to incrementally improve the control environment at the depot.

5.18 In order to allow this additional work to take place, the following audits have been deferred until 2022/23. These changes have been made as a result of developments within the respective service areas concerned, requiring a rescheduling of these audits:

- Cultural Compliance (Hop Oast) follow-up audit.
- Corporate Compliance (Strategic Planning) audit.
- ANPR System Application Controls audit.

6. Internal Audit Performance

6.1 The Public Sector Internal Audit Standards (PSIAS) require the internal audit service to be reviewed annually against the Standards, supplemented with a full and independent external assessment at least every five years. The following paragraphs provide a summary of our performance during 2021/22, including the results of our first independent PSIAS assessment; an update on our Quality Assurance and Improvement Programme; and the year end results against our agreed targets.

PSIAS

6.2 The Standards cover the following aspects of internal audit, all of which were independently assessed during 2018 by the South West Audit Partnership (SWAP) and subject to a refreshed self-assessment in 2021/22:

- Purpose, authority and responsibility;
- Independence and objectivity;
- Proficiency and due professional care;
- Quality assurance and improvement programme;
- Managing the internal audit activity;
- Nature of work;
- Engagement planning;
- Performing the engagement;
- Communicating results;
- Monitoring progress;
- Communicating the acceptance of risks.

6.3 The results of the SWAP review and our latest self-assessment found a high level of conformance with the Standards with only a small number of minor areas for improvement. Work has taken place to address these issues, none of which were considered significant, and these are subject to ongoing monitoring as part of our Quality Assurance and Improvement Plan.

Key Service Targets

6.4 Performance against our previously agreed service targets is set out in Appendix A. Overall, client satisfaction levels remain high, demonstrated through the results of our post audit questionnaires, discussions with key stakeholders throughout the year, and annual consultation meetings with senior officers.

6.5 As reported, a small number of outstanding reviews were nearing completion at year end, and there were a small number of reports still in draft at the year end.

6.6 Significantly, we have completed 94.6% of the 2021/22 audit plan, exceeding our target of 90%.

6.7 Internal audit will continue to liaise with the Council's external auditors (Ernst & Young) to ensure that the Council obtains maximum value from the combined audit resources available.

6.8 In addition to this annual summary, the Senior Leadership Team (SLT) and the Audit Committee will continue to receive performance information on internal audit throughout the year as part of our quarterly progress reports.

Appendix A

Internal Audit Performance Indicators 2020/21

Aspect of	Orbis IA	Target	RAG	Actual
Service	Performance	raiget	Score	Performance
	Indicator			
Quality	Annual Audit Plan agreed by Audit Committee	By end April	G	2021/22 Internal Audit Strategy and Annual Audit Plan formally approved by Audit Committee 14th April 2021.
	Annual Audit Report and Opinion	By end July	G	2020/21 Annual Report and Opinion presented to Audit Committee 20th July 2021.
	Customer Satisfaction Levels	90% satisfied	G	100%
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	90%	G	94.6%
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	G	January 2018 – External assessment by the South West Audit Partnership gave an opinion of 'Generally Conforms' – the highest of three possible rankings. June 2021 - Internal Quality Review completed, no major areas of non-compliance with our own processes identified. July 2021 - Internal Self- Assessment completed, no major areas of non- compliance with PSIAS identified. January 2022 - Internal Quality Review completed, no major areas of non-compliance with our own processes identified.

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
	Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act	Conforms	G	No evidence of non- compliance identified.
Outcome and degree of influence	Implementation of management actions agreed in response to audit findings	95% for high priority agreed actions	G	100%
Our staff	Professionally Qualified/Accredited	80%	G	91%

Appendix B

Summary of Opinions for Internal Audit Reports issued during 2021/22

Substantial Assurance:

(Explanation of assurance levels provided at the bottom of this document)

Audit Title	Department
Treasury Management	Finance & Performance
Payroll	Finance & Performance
TechnologyOne (T1) Access Rights	Finance & Performance
Planning Fees	Development & Building Control
Building Control (Cultural Compliance) Follow-up	Development & Building Control
Community Lottery Follow up	Housing & Community Services

Reasonable Assurance:

Audit Title	Department
Accounts Payable	Finance & Performance
Accounts Receivable	Finance & Performance
Capital Programme	Finance & Performance
Council Tax	LGSS
Business Rates	LGSS
Housing Benefits	LGSS
Cyber Security (Organisational Response)	Customer & Digital Services
Network Access Management	Customer & Digital Services
Economic Development - Strategy & Grants	Economic Development
Repairs & Maintenance Contract Management	Property & Facilities
Horsham District Homes - Operations & Transactions	Cross-Cutting
Bulky Waste Collections Service	Parking & Waste

Partial Assurance:

Audit Title	Department
Business Waste	Parking & Waste
Surveillance Cameras	Cross-Cutting
Private Sector Housing Assistance Grants	Environmental Health & Licensing
Corporate Compliance (Community & Wellbeing)	Housing & Community Services
Corporate Compliance (Environmental Health)	Environmental Health & Licensing

Minimal Assurance:

Audit Title	Department
None	

Other Audit Activity undertaken during 2021/22 (including direct support for projects and new system initiatives):

Audit Title	Department
PRS Replacement Project	Environmental Health & Licensing
Carbon Reduction Project	Cross-Cutting
New Ways of Working Project	HR & OD
Compliance & Enforcement Grant Certification	Environmental Health & Licensing
Enhancement of Officer Declaration of Interests Process	Corporate Resources

Audit Opinions and Definitions

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.

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Summary of Key Audit Findings for Quarter 4 2021/22

Private Sector Housing Assistance Grants

- 1.1. The Council's Private Sector Housing Assistance (PHSA) Grant programme is provided to financially assist vulnerable homeowners with repairs and home improvements, especially where this benefits health or allows people to remain in their own homes. A total of £1.19m was awarded, across the range of available grants, to eligible participants during 2020/21.
- 1.2. The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
 - An effective and robust control process, including policies and procedures, is in place for awarding PSHA grants to eligible residents.
 - The process ensures that grant requirements are complied with.
 - Arrangements for selecting contractors and monitoring of quotes are transparent and there is a robust process in place.
 - Accurate and detailed grant information is held and reported on to ensure grants have been correctly categorised, charges are registered on the property (where applicable) following an award, and that repayments are correctly recorded.
- 1.3. Whilst there is an effective process in place for awarding and verifying the eligibility of PSHA grants and ensuring grant conditions are complied with, our work identified several areas where improvement was required and, as a result, we were only able to provide an opinion of **partial assurance**.
- 1.4. In response to this audit, an action plan was agreed with management that included measures to:
 - Work with the Legal Department and Procurement Team to ensure that all paperwork issued for Disabled Facilities Grants (DFG) clearly defines the roles and responsibilities of the Council, the applicant and the contractor.
 - Determine options available to enable applicants to make an independent and informed decision on their choice of contractor. This action will be kept under review to confirm its effectiveness and efficiency, whilst also ensuring compliance with the Council's internal procurement rules and procedures.
 - Analyse repaid grant awards, from Land Charge receipts, to determine historical DFG repayments and pay these to the DFG Capital budget. In addition, a process is being developed between Finance and the Environmental Health and Licensing Team to ensure DFG repaid grants are processed in accordance with the West Sussex County Council (WSCC) policy.
- 1.5. A follow up audit will take place in 2022/23 to ensure that the agreed actions have been implemented.

Corporate Compliance (Environmental Health and Licensing)

- 1.6. The Environmental Health and Licensing Service fulfils a number of distinct roles. Functions which fall under the remit of Environmental Health and Licensing include areas such as: business food hygiene inspections; environmental protection and pollution; taxi/private hire licensing; and premises and alcohol licences.
- 1.7. The purpose of the audit was to ensure that the service is delivered effectively, in compliance with all appropriate Council policies and procedures, and to provide assurance that controls are in place to meet the following objectives:
 - To ensure management has put in place appropriate arrangements for monitoring delivery of the service and assessing its performance and effectiveness.
 - All key activities undertaken by the team are conducted in accordance with the Council's policies and procedures and comply with basic internal controls.
 - To ensure that expenditure is only incurred for legitimate Council business and is in line with the relevant procurement process.
 - Robust management arrangements are in place and all members of staff are subject to appropriate management and supervision.
- 1.8. Our work identified several areas where improvement was required and, as a result, we were only able to provide an opinion of **partial assurance**. In response to this audit, the following actions were agreed with management, these included:
 - A register for departmental risk assessments will be created and will be reviewed and approved by the Head of Service.
 - An Information Asset Register will be completed, approved and regularly reviewed.
 - Team Leaders will be reminded to complete and record all 1-2-1's on the HR system TechnologyOne (T1), and this will be included as one of their performance objectives.
 - All staff will complete their declaration of interest submissions, these will be approved by the appropriate manager, and the submissions will be reviewed by the Head of Service to ensure they are complete.
 - Officers will be reminded to complete and submit the appropriate driver documentation to ensure they are eligible to undertake business travel.
 - Further low risk actions were also agreed relating to sickness absence recording, purchase card receipts and budget monitoring.
- 1.9. A follow up audit will take place in 2022/23 to ensure that the agreed actions have been implemented.

Capital Programme

1.10. The Council operates a Medium-Term Financial Plan (MTFP) which outlines the fiscal strategy and expectations for a four-year period. The Capital Programme requires approval by the Full Council, in conjunction with both the Annual Revenue and Capital Budgets. The

Capital Programme Budget details anticipated financing requirements, and outlines the phasing of expenditure and the sources of financing over this period. The Council's MTFP Capital Programme for 2021/22 to 2024/25 forecasts a total of £26.8m capital investment, with £10m planned for 2022/23.

- 1.11. The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
 - The Capital Programme, Strategy, Plan and Budget have been formally documented, and approved by Members.
 - The Capital Programme is based on realistic costs, timescales and/or realisable benefits.
 - Effective governance arrangements ensure that the Capital Programme delivers the required outcomes.
 - The Council critically assess its capital borrowing requirements.
 - The Council understands and meet the conditions of external funding providers.
 - Capital receipts are received in a timely manner.
 - The Capital Programme monitoring arrangements are effective and timely.
 - Capital activity is accurately reflected in the financial accounts.
- 1.12. Based on the audit work undertaken we were able to provide **reasonable assurance** over the controls in place. The governance arrangements are robust; the Capital Programme is approved by Members; and roles and responsibilities have been appropriately assigned and are known. The Council's plant, property and equipment is accurately documented in the asset register, and the Capital Programme is accurately reflected in the Council's financial system. However, the process could be strengthened further, as agreed with management and included:
 - Finance Officers actively addressing overruns by liaising with project managers, on an individual basis, and encouraging them to spread their forecasts over a longer period where appropriate.

Accounts Payable

- 1.13. Accounts Payable (AP) is an account within the General Ledger (GL) that represents the Council's obligation to pay off a short-term debt to its creditors or suppliers. The Finance Team is responsible for the processing of payments to suppliers using the Council's financial system, TechnologyOne (T1). Between 1 April 2021 and 15 December 2021, 7,453 invoices with a total value of approximately £106m had been paid, for goods received or services rendered.
- 1.14. The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
 - Orders are raised for goods, works and services for bona fide services in accordance with standard financial procedures and the needs of the Council.

- All payments (including non-order invoices, cheque requisitions and urgent payments where appropriate) are subject to review and approval to ensure payments are valid and goods, works or services have been received and are correctly processed.
- Payment runs are subject to appropriate review and authorisation.
- Only creditors that meet the needs of the Council and that do not already exist in the Accounts Payable system are set up. All creditors' details are maintained accurately in the Accounts Payable system.
- Transactions in the Accounts Payable system are completely and accurately transferred to (or reflected in) the General Ledger (GL).
- 1.15. Based on the audit work undertaken, we were able to provide an opinion of **reasonable assurance**. The AP system is well controlled, and the service operates to a high level of accuracy with no material processing errors identified. Urgent payments are processed in a timely manner and are appropriately authorised. Approver authorisation limits are subject to regular review, and regular reconciliations between the GL and AP system are undertaken with variances being investigated. Areas were identified in order to improve the overall controls in place and management agreed the following actions:
 - Training will be provided to staff to ensure purchase orders are not split in order to circumvent authorisation limits.
 - Regular reminders will continue to be sent to staff to ensure all undisputed invoices are processed and approved within agreed payment terms.
 - A third-party supplier will be engaged to undertake a one-off check for duplicate payments during 2022/23.
- 1.16. In addition, we identified that there is no enforced separation of duties operating within the payment and BACs release process which increases the opportunity for fraud. This risk has previously been, and continues to be, accepted by the Senior Leadership Team and management due to the limitations arising through having a small Finance Team and being unable to appropriately enforce separation of duties. However, weaker compensatory controls have been put in place to reduce the risk.
- 1.17. As reported previously, the planned roll-out of purchase order training was significantly delayed due to Covid and the requirement to work from home. Now that staff are returning to the office, this training will resume in the current year.

Accounts Receivable

- 1.18. The Accounts Receivable function is responsible for ensuring that all income due to the Council is collected effectively and efficiently, banked promptly, and is correctly accounted for. Between 1 April 2020 and 31 March 2021, 32,093 invoices were raised to a value of £22.998m, offset by 952 credit notes, with a total value of £1.225m.
- 1.19. The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
 - All income generating activities are identified and accurately raised to customers.

- A customer account maintenance process is in place and operating effectively.
- Amendments to invoices are correct and authorised.
- Collection and debt recovery is managed efficiently and effectively, and resources are focused on areas of priority debt.
- Write-offs are processed accurately and correctly authorised.
- Payments are received and recorded against the correct debtor account in a timely manner.
- Reconciliations between the Accounts Receivable system and the General Ledger are undertaken on a regular basis.
- 1.20. As a result of our work, we were able to provide **reasonable assurance** over the controls in place. We found that most controls were operating as expected and we did not identify any high-risk issues. However, our testing did highlight that there were opportunities to strengthen the process further:
 - Officers will be reminded that invoices should not be raised below a defined value as stated in the Council's Sundry Debt Policy.
 - Reminders will be sent to encourage officers to promptly and accurately invoice and retain evidence supporting the debt.
- 1.21. An action plan was agreed with management to address our findings and make the necessary improvements. In addition, a number of low-risk findings were discussed with the Head of Finance and Performance, who was aware of these and confirmed that a yearly reminder will be issued to officers to ensure the correct practices are undertaken in relation to the accounts receivable process.

Horsham District Homes (Operations and Transactions)

- 1.22. Horsham District Homes (HDH), and its subsidiary company Horsham District Homes (Holdings) (HDHH), is an affordable housing company. HDH is separate from Horsham District Council (the Council), however, the Council wholly own it and it is led by Council officers who have been appointed as Directors. HDH was developed to buy, manage and maintain affordable housing across the district, in order to meet the Council's strategic objectives to: increase delivery of affordable housing; make the best use of Section 106 Commuted sums; and provide a financial return to the Council for reinvestment in the District.
- 1.23. The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
 - HDH policies and procedures are appropriate in order to ensure that all requirements outlined in the Shareholder Agreement are adhered to and met.
 - Financial expenditure and income are accurately recorded, monitored, and reported.
- 1.24. At the time of our review, HDH was in the early stages of operations, and activities had been postponed due to the COVID-19 pandemic. Therefore, where some elements had not

progressed, we were unable to test these. Our coverage for these elements was therefore limited to discussions with management.

- 1.25. Based on the work performed, we were able to provide an opinion of **reasonable assurance** over the control environment for the operations and transactions of HDH. The approved Shareholder Agreement between the Company and the Council is in place and defines the requirements of the Company's operation; decision making goes through appropriate channels; and financial expenditure and income are accurately recorded and reported.
- 1.26. However, one action from the 2019/20 governance review of HDH was outstanding regarding the introduction and approval of the Conflict of Interest Policy, which was raised with and agreed by the Company Directors. In addition, opportunities to strengthen controls further were identified, including the need to ensure:
 - The Resource Contract between HDH and the Council is finalised and agreed by all parties.
 - HDH and HDHH have a full set of procedure documents for it's unique operations where those procedures adopted from the Council do not completely fulfil HDH requirements, for example, a Debt Recovery Policy.
 - Appropriate segregation of duties are in place within the HDH and HDHH processes.
- 1.27. An action plan has been agreed with management to address the finding raised.

Economic Development - Strategy & Grants

- 1.28. The Council's economic vision is set out in the Horsham District Economic Strategy 2017-2027. Since the approval of the strategy, the economy has been impacted by the COVID-19 pandemic. In November 2020, the Department for Business, Energy, and Industrial Strategy (BIES) introduced the Additional Restrictions Grant (ARG) to support the local economy during the pandemic. In addition, ARG money that is not required for the Discretionary Business Grant Scheme is eligible to be used to fund other projects that encourage the restart of businesses and support the objective of returning to a thriving local economy following the pandemic.
- 1.29. The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
 - There are appropriate mechanisms and key performance indicators in place to assist the department in measuring progress against the Economic Strategy.
 - The Council's Economic Strategy 2017-2027 is periodically reviewed to consider the impact of the COVID-19 pandemic and the recovery of the local economy.
 - The use of grant funding and external funding is monitored to ensure that monies are used as intended.
 - An effective and robust control process is in place for awarding grants and utilising external funding.
 - Accurate and sufficiently detailed information is held to evidence that grants and external funding have been correctly awarded/allocated.

- Business cases for ARG funding are reviewed and approved by the Director of Corporate Resources.
- ARG spend on additional projects is regularly monitored and over or underspends are reported as appropriate.
- 1.30. In providing an opinion of **reasonable assurance**, we found that guidance, procedures and processes are in place regarding all grants that stipulate conditions and how these are being met. In response to this audit, the following actions were agreed with management, these include the need to:
 - Review, update and approve all performance indicators.
 - Obtain written confirmation of the approval of the updated Economic Development Strategy, which contains amendments following the COVID-19 pandemic.
 - Create a panel sheet template, that will be used by the Independent Appraisal Panel, that captures all relevant information in relation to LEAP grant payments, including the decision made and approval of this by the Panel.

Bulky Waste Collections

- 1.31. Bulky waste is a chargeable, statutory service administered by the Council. Residents can book kerbside collections of large household items they wish to dispose of. Although, this is a statutory service the Council is able to charge for the transportation costs incurred. This service was contracted to and administered by Horsham Matters, however, the service was taken back in-house by the Council in April 2020.
- 1.32. The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
 - There are effective and comprehensive policies and procedures in place that reflect relevant legislation and are robust to meet the objectives of the service.
 - There are appropriate financial controls in place to ensure monies due for large item collection services are received.
 - Items collected are disposed of safely and in accordance with the scheme requirements.
- 1.33. Based on the audit work undertaken, we were able to provide an opinion of **reasonable assurance** over the controls in place. We found that most controls were operating as expected as the disposal of bulky waste items are undertaken in compliance with regulations. In addition, the setting, reviewing and approval of fees is clearly defined; each collection booked has a unique reference number; and the scheduled collection of bulky waste items utilises resources efficiently. There were some areas identified where improvements could be made in order to strengthen the control environment, these included:
 - Documenting policies and procedures for the bulky waste collection process.
 - Developing performance indicators for the service to measure their performance against meeting their objectives.

- Reconciliations between the system for paying for collection and the Council's financial system, to ensure monies expected are received.
- 1.34. An action plan was agreed with management to address our findings and make the necessary improvements.

Planning Fees

- 1.35. The Development Department is responsible for the administration that underpins and supports the Council, residents, and businesses with building/planning developments in the district. For the financial period 2020/21, the budgeted income for the Development Team was anticipated to be £1.85m, and the actual income was £1.55m. The variance of £300k was attributed to the impact of COVID-19 on the construction industry and delays to the Local Plan, reducing the number of planning applications.
- 1.36. The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
 - Procedures, processes, documentation and systems accurately capture, record and ensure payment or invoicing, where applicable, are received for the delivery of chargeable services.
 - A sound system is in place for the correct and consistent payment of charges due and receipting of all income.
 - Refunds and write offs are correctly applied and authorised.
 - Charges are applied correctly and consistently.
 - Income is recorded in the relevant systems and that it is reconciled and approved appropriately.
 - Input, output and processing controls for the system and access rights are appropriate and operating as expected.
- 1.37. As a result of our work, we found robust controls to be in place and were able to provide an opinion of **substantial assurance**. A small number of findings were raised, including one assessed as medium risk, relating to the need to introduce a formal reconciliation process. Appropriate actions were agreed with management to address these findings.

Agenda Item 8

Report to Audit Committee

29 June 2022 By the Interim Director of Resources INFORMATION REPORT



Not Exempt

Internal Audit reviews of Revenues and Benefits 2021/22

Executive Summary

This report tells Councillors the outcome of the internal audit reports of Revenues and Benefits completed by Milton Keynes' internal audit as part of the agreement in which Milton Keynes Council provides Horsham District Council's Revenues and Benefits service. All three audits, completed at the end of 2021/22, achieved good assurance for compliance. The Benefits audit showed satisfactory assurance for the control environment and the two Revenues audits good assurance for the control environment.

Recommendations

The Committee is recommended to:

• Note the report and consider any further action required in response to the issues raised.

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: None

Wards affected: All

Contact: Dominic Bradley, Interim Director of Resources, 01403 213500

Background Information

1 Introduction and background

- 1.1 Milton Keynes, through the local authority partnership, now provides Horsham District Council's Revenues and Benefits service. This service includes the internal audit of these services.
- 1.2 Milton Keynes internal audit completed the audits of Council Tax, Housing Benefits and Business Rates during the fourth quarter of 2021/22.
- 1.3 Milton Keynes' internal audit gave their opinion of the adequacy of the system and the compliance of the service with the system.

2 Relevant Council policy

2.1 Strong internal control supports Corporate Plan key success criteria 5.3 "The Council continues to provide the quality, value for money services that people need throughout the 2020s."

3 Details

3.1 Milton Keynes' internal audit finalised all three of the Revenues and Benefit audits at the end of 2021/22.

Audited area	Control environment	Compliance
Council Tax	Good	Good
Business Rates	Good	Good
Benefits	Satisfactory	Good

3.2 Key audit findings from the final reports are summarised in Appendix A.

4 Next steps

4.1 The Council's operational manager for Revenues and Benefits will implement the agreed actions arising from the audits within the timescale set.

5 Views of the Policy Development Advisory Group and outcome of consultations

5.1 Milton Keynes' Internal Audit consulted Horsham District Council's Head of Revenues and Benefits, the Operations Manager and specialist officers at the start and throughout the review, including discussion and agreement of recommendations. The Interim Director of Resources agreed the outline, draft and final reports.

6 Other courses of action considered but rejected

6.1 Not applicable

7 Resource consequences

7.1 Horsham District Council pays for these audits as part of its fee to Milton Keynes for the Revenues and Benefits service. There are no resource consequences arising from this report.

8 Legal considerations and implications

8.1 There are no legal consequences arising from this report because it is for information.

9 Risk assessment

9.1 Milton Keynes' internal audit use a risk based approach when carrying out their audit and in evaluating the importance of their findings and recommendations.

10 Procurement implications

10.1 There are no procurement implications arising from this report because it is for information.

11. Equalities and human rights implications / public sector equality duty

11.1 There are no human rights or equality implications arising from this report because it is for information.

12 Environmental Implications

12.1 There are no environmental implications arising from this audit because it is for information.

13 Other Considerations

13.1 There are no other implications arising from this audit because it is for information.

Summary of the main findings from the audits completed by Milton Keynes' internal audit

Council Tax audit

Based on the completion of their fieldwork, Milton Keynes' internal audit gave good assurance for the control environment covering Council Tax and good assurance for compliance.

The auditor recommended that further work could be undertaken checking discounts and exemptions to reduce the risk of discounts and exemptions being awarded in error.

Business Rates audit

Based on the completion of their fieldwork, Milton Keynes' internal audit gave good assurance for the control environment covering business rates and good assurance for compliance.

The auditors recommended some more work on quality assurance in a similar way to that undertaken in Council Tax.

Benefits audit

Based on the completion of their fieldwork, Milton Keynes' internal audit gave a satisfactory assurance opinion for the control environment covering the management of Benefits and good assurance for compliance.

The auditors recommended improvements to the quality assurance process. They also identified some overpayments because correspondence had not been dealt with promptly.

Agenda Item 9

Report to Audit Committee

29 June 2022 By the Director of Resources

INFORMATION REPORT

Not exempt



Annual Governance Statement 2021/2022

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 2021/2022. 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 approve the Annual Governance Statement for 2021/2022.

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 Housing and Community Services, Head of Leisure and Culture, Head of Finance & Performance, Head of HR & OD, Head of Technology Services and the Chief Internal Auditor.

Wards affected: All

Contact: Dominic Bradley, Interim Director of Resources.

Attachments: Appendix A: Annual Governance Statement 2021/2022 Appendix B: Local Code of Corporate Governance Appendix C: Governance Assurance Framework Appendix D: AGS Action Plan 2021/2022 Appendix E: AGS Action Plan 2022/2023

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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. A paragraph regarding COVID-19 has been included in section 15 of the Annual Governance Statement.

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 2021/2022 is attached in Appendix A.

4 Next steps

4.1 The Audit Committee is asked to approve the final version of 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 Housing and Community Services; Head of Leisure and Culture; Head of Finance & Performance; 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 Procurement implications

10.1 There are no procurement implications from this report.

11. Equalities and Human Rights implications / Public Sector Equality Duty

11.1 This report has no effect on equalities and Human Rights.

12 Environmental implications

12.1 This report has no effect on the environment.

13 Other considerations

13.1 This report has no effect on **GDPR/Data Protection**, or **Crime & Disorder**.

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Horsham District Council Annual Governance Statement 2021 - 2022

1. SCOPE OF RESPONSIBILITY

Horsham District Council conducts its business in accordance with the law, regulations and proper standards and it protects public money from waste, extravagance, or misappropriation. The Council has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way it provides its services, focusing on economy, efficiency, and effectiveness.

Horsham District Council approved and adopted a Local Code of Corporate Governance on 22 March 2017. This 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. Residents and businesses can find a copy of the Local Code on our website. This statement explains how Horsham District Council complied with the Code during 2021/22 and how it meets the requirements of regulation 6(1)(b), the Accounts and Audit (England) regulations 2015 that require all relevant bodies to prepare an Annual Governance Statement.

2. THE GOVERNANCE ASSURANCE FRAMEWORK

Horsham District Council has a Governance Assurance Framework in place for the year ended 31 March 2022 and up to the date of the approval of the Annual Report and Statement of Accounts for the 2021/22 financial year.

The Council's Governance Framework explains how the Council controls and manages its services and strategies to deliver the Council's aims and objectives.

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

A: Integrity; Ethical Values; the Rule of Law.

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

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

D: Determining and planning interventions; to ensure delivery of intended outcomes.

E: Developing the capacity through leadership and other individuals.

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

G: Delivering accountability through good practice in transparency, reporting and audit.

3. CORPORATE GOVERNANCE, VISION AND OBJECTIVES

The Council's Corporate Plan outlines the Council's vision, aims and objectives and aligns these with its Governance Assurance Framework. The Council approved its Corporate Plan on 12 February 2020 and covers the period 2019 - 2023.

• 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.

- 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 Leads and to the Overview and Scrutiny Committee.
- Every report submitted to the Cabinet or regulatory committees outlines 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. The Governance Committee leads on changes to the Constitution including the scheme of delegation.

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 Governance Committee completed a further review of the Constitution during 2018/19 with a particular focus on the effectiveness of planning and decision making. This was reported to Council in April 2019. During 2020/21 the Governance Committee completed a review of the role of the Policy Development Advisory Groups. In addition, the operation of the Constitution is under constant review by the Monitoring Officer in consultation with the Governance Committee to ensure that its aims and principles are given full effect.

During 2021/22 the Overview and Scrutiny Committee carried out its work through the whole Committee with up to three Task and Finish Groups and no standing sub-committees.

The Council participates in a number of partnerships with other local authorities. In particular Revenues and Benefits, Building Control, Internal Audit and Procurement. The future of the Revenues and Benefits partnership and the Internal Audit partnership were reviewed during 2020/21. In November 2021 Cabinet agreed to enter into a revised partnership arrangement with Milton Keynes Council for the Revenues and Benefits partnership. In January 2022 Cabinet agreed to extend the Orbis Internal Audit arrangement for another five years from 1 April 2022. Both agreements are a year earlier than the end of the original agreement. For Revenues and Benefits this is due to the disbanding of LGSS. For Internal Audit it was to obtain the benefit of a lower price.

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. All officebased officers are required to submit an annual declaration as well as all officers making declarations when needed. The extension of the officer requirement to all office-based officers was introduced in January 2020 and officers refreshed their declarations in February 2022. Office based officers have now also declared second jobs and family relationships with other officers and Members of the Council.

Members' Registers are available on the Council's website. Members review their registers annually. Members ensure 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 appointed two Independent People in accordance with the Localism Act 2011. The Council has two Parish Representatives 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'. The performance management process for staff changed in March 2020 from an annual appraisal to a minimum of four recorded performance and development discussions each year. A staff survey was completed in December 2021 that will form the basis of updating the organisational development programme during 2022.

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.

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

The Council's IT Security Officer updated the Council's Information Security Policy during 2020/21. In February 2022, the Council obtained a significant Government grant for enhancing its cyber security measures in the light of increased risk levels following COVID-19 and the invasion of the Ukraine.

6. TAKING INFORMED AND TRANSPARENT DECISIONS AND MANAGING RISK

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.

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. Each Directorate Management Team reviews their service risks each quarter and each Project Team their Project Risks no less than once a quarter. An officer-led Risk Management Group reviews the corporate risk register quarterly before it proceeds to the Senior Leadership Team and the Audit Committee for review.

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 their recorded "conversation" with their manager. All new recruits have a series of basic courses in key areas such as health and safety, data protection, IT security and GDPR which they must complete before they pass their induction, and all staff complete an annual refresher in these core subject areas. A new Governance course has been developed for all staff during 2021/22.

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.

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. 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 Community Safety and Health and Wellbeing Partnerships, linking statutory and non-statutory agencies to provide a coordinated 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 consultations.

These groups help the Council to assess the priorities of different sections of the community that have different needs, particularly surrounding grants and funding, Parish Councils and areas that need targeted service delivery. 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. WHOLLY OWNED BODIES

The Council owns 100% of a housing company, Horsham District Homes Limited, which owns 100% shares of a holding company, Horsham District Homes (Holdings) Limited.

The Council's Director of Community Services, Head of Property and Facilities and the Corporate Accountant are directors of Horsham District Homes Ltd. This company builds domestic dwellings.

The Council's Director of Community Services, the Head of Property and Facilities, Head of Housing and Community Services, and the Corporate Accountant are directors of Horsham District Homes (Holdings) Ltd. This company lets and operates owned or leased real estate.

The Cabinet and Full Council make decisions relating to these subsidiaries. Full Council approves funds for the companies to operate. These are loans and equity within the development company. Full Council considers any land disposals to the development company that trigger Secretary of State sign-off requirement. The Cabinet reviews each individual development business case and approves the allocation of S106 commuted sums funding to enable the property holding company to acquire the built units from the development company.

11. 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. The Council operates the Cabinet Executive Model.

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

- The Council comprises 48 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.
- 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 Governance Committee meets quarterly and reviews governance with regard to the reviewing and revising of the Council's Constitution.
- The Audit Committee meets quarterly 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. This post also fulfils the statutory roles of Money Laundering Reporting Officer and Senior Information Risk Owner.

- The Head of Legal and Democratic Services (as Monitoring Officer) has a duty to ensure that operations are carried out lawfully. This post also carries out the statutory Data Protection Officer role.
- An annual internal 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 Orbis Partnership Internal Audit team to respond to changing risks and priorities of the organisation.

12. IMPROVEMENTS DURING THE YEAR

The 2020/21 Annual Governance Statement included an action plan for 2021/22. Progress against the risks identified is reported in Appendix D. The following improvements to the Governance Framework were recognised during 2021/22:

- Enhanced requirements for the Council to meet its Government IT security PSN.
- Councillor training in IT security.
- Obtaining a Government grant of £120,000 to spend on enhancing IT security.
- An independent review of governance at the Horsham Museum and an action plan to address suggested improvements.

13. MINOR GOVERNANCE ISSUES DURING THE YEAR

The minor issues identified during 2021/22 included:

- A range of historic issues with the operations at Horsham Museum leading to a full independent review of how matters had operated there in the past. An action plan is addressing these.
- Some historic issues around the current arboriculture contract that came to light in preparing to let the new contract from 1 April 2022. The new contract has been properly let and replaces the previous arrangements.
- Some minor issues around procurement using the Reopening High Streets Safely Fund where requirements for the fund were stricter than those of the Council's Procurement Code.
- Some mistakes made in the evaluation of the Tyres Contract documentation leading to a restart of the scoring process.
- Pushback from managers in Environmental Health over an internal audit of Disabled Facilities Grant suggesting their understanding of procurement law is limited.
- A short-term lapse in controls allowed six invoices to be authorised in breach of their authorisation limits for a limited period in the year. The control was quickly restored.
- A gap in the staff survey between what employees expect and what they perceive in answer to the question "I believe the Council takes the issues of discrimination, bullying and harassment seriously" identified that the Council does not have a formal anti-bullying and harassment policy.

Once found, Management investigated these issues in the normal way and took remedial action where needed. Further procurement training, in addition to the enhanced governance training agreed in last year's action plan, has taken place.

The number of partial or minimal internal audit assurances has returned to normal. However, the lower compliance for services operating outside the corporate core, and especially outside the Parkside building, remains higher. All audits are reported to the Audit Committee who review the actions proposed to resolve high priority issues.

14. SIGNIFICANT GOVERNANCE ISSUES

This year there were no significant issues that needed immediate reporting to the Audit Committee.

15. IMPACT OF COVID-19 ON OPERATIONS

How the Council will operate in a world after the final COVID-19 lockdown or as the country learns to live with COVID-19 remain not fully developed. The Council is trialling a 50/50 home/office work pattern for office-based staff. The trial ends in June. As many other local government organisations have already committed to more substantial home working, and most employees see working from home as a perk, it is unlikely the Council will be able to return to full office-based operations. These matters will be firmed up during the next year or two.

The Government decided to bring all public meetings back to a physical meeting from May 2021. This has been challenging for the Council when social distancing was required. Policy Development Advisory Groups remained on line during the year. Some Councillors, especially those living further away from Horsham or with caring responsibilities, have welcomed this. Others will see a return to face-to-face meetings. This matter will also be clarified during 2022/23.

The 2021/22 Action Plan in Appendix E includes actions on these pieces of work.

Certification

It is our opinion that Corporate Governance, along with supporting controls and procedures, remains strong for the Council and the level of non-compliance is beginning to return to normal. We have put in place an action plan to increase officer awareness and reduce the frequency of this type of issue.

Signed

S. S. Showen

OFFER

Leader of the Council

..... **Chief Executive**

On behalf of the Members and senior officers of the Council

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Appendix B - HDC Code of Corporate Governance

HORSHAM DISTRICT COUNCIL LOCAL CODE OF CORPORATE GOVERNANCE

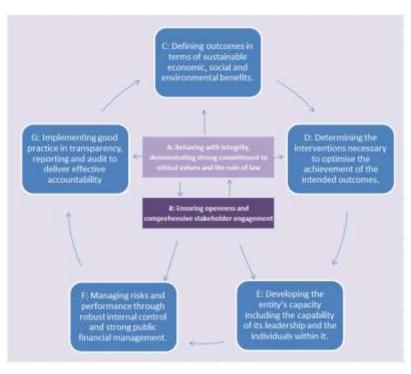
Corporate Governance comprises the systems, processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

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 Counter-Fraud Strategy & Framework is designed to encourage and promote the prevention and detection of aud.
- Hember and Officer Registers of Interests, Gifts and
- Dispitality safeguard both Members and officers against - conflicts of interest.
- Whistleblowing Policy ensures anyone with a concern can have confidence that it will be dealt with appropriately.
- All officers have a regular logged conversation with their manager at which behaviours and matters of integrity can be addressed informally.
- The Council's disciplinary process addresses officer breaches of good conduct.
- 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 and reviews serious Governance breaches.
- The Governance Committee reviews and updates the Council's Constitution.
- 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. The Forward Plan, 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, the Health Service 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 and weekly Leadership Team feedback.
- Consultation takes place with Parish Councils and other Voluntary and Community groups throughout the District to ensure effective provision of community engagement activities.

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

- The Corporate Plan for the period 2019-23 is published on the Council's website identifies key priorities.
- Departmental Service Plans and worklists break down and monitor the objectives of the Corporate Plan with quarterly reports to Overview & Scrutiny Committee.
- 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 through its performance management framework and reported to management and Overview & Scrutiny Committee.
- 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 Audit Committee.
- Value for money is driven through the Council's ъ Corporate Procurement Code.

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• Information relating to Council plans and initiatives is published via its website, email updates, social media 8 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 Heads of Service reconsider their departmental budgets. The Annual Budget and Council Tax rate are approved by full Council before the start of each financial vear.
- Progress against the budget and key performance indicators are reviewed and reported guarterly to Overview & Scrutiny.
- The Council continually investigates 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.
- The Council's Technology Strategy was updated during 2019/20 and the Digital Strategy introduced 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 Horsham Chief Internal Auditor reports to the Audit Committee. Audit 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 four times a year to review the effectiveness of the control environment and risk management framework.
- An officer Corporate Governance Group oversees 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 in the Constitution determines the levels at which decisions are taken.
- Detailed regulations in the Constitution (for example Financial Regulations and Contract Standing Orders) require officer compliance.
- Managers monitor officer performance and development through regular recorded conversations that support workforce planning. The process also identifies an individual's training needs. The Disciplinary and Capability Policies outline the formal processes for managing officer non-compliance.
- The Standards Committee deals with issues relating to Member performance.
- Partnership agreements are in place for each of the Council's strategic partnerships and managers hold meet regular meetings to monitor the agreements.
- An employee assistance programme is available to all employees.
- An induction training programme is in place for both Members and employees.
- Regular Senior Managers' Forums and all 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.

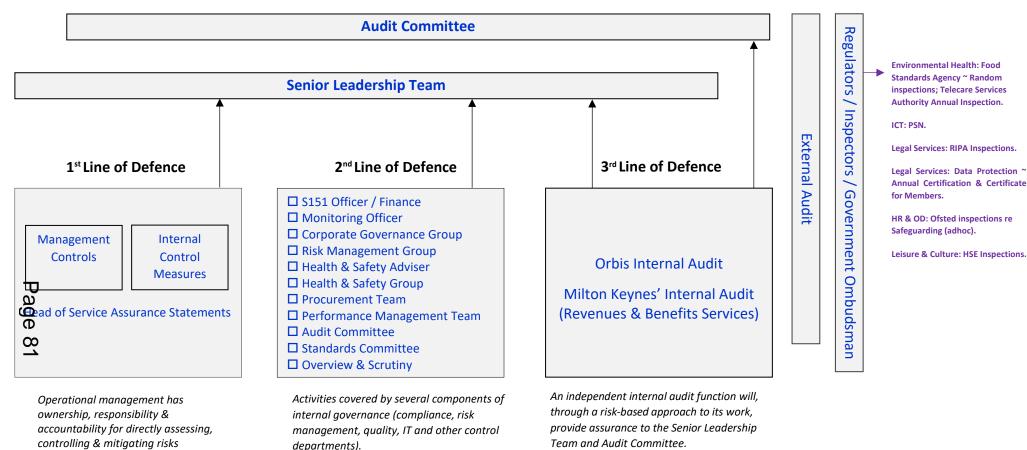
- All committee agendas, papers and minutes are available to the public on the Council's website.
- The Council publishes its Audited Annual Accounts and Annual Governance Statement including an action plan for improvement for any areas of concern.
- All external audit reports are published and corrective action is taken to address any issues highlighted as necessary.
- The Council has an effective Internal Audit service which reports to the Audit Committee. Progress to implement agreed actions for improvement in control processes is monitored and reported to Members.
- Delegated partnership arrangements are effectively monitored by senior managers through monthly meetings and Partnership Boards where the Council is a full partner.

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GOVERNANCE ASSURANCE FRAMEWORK





Assurance Framework Documentation

Constitution Code of Conduct Complaints Procedure Equalities Scheme Head of Service Assurance Statements Communications Strategy Financial Policies & Procedures Risk Management Strategy & Toolkit Risk Registers Performance Framework	Employee P Pay Policy Counter-Fra Whistleblow Annual Inter Statement c Annual Audi Annual Com Report of Lc Results of Ex

Employee Policies Pay Policy Counter-Fraud Strategy & Framework Whistleblowing Policy Annual Internal Audit Report & Opinion Statement of Accounts Annual Audit Letter from external audit Annual Complaints Report Report of Local Government Ombudsman Results of External Inspections

Corporate Plan & Service Plans MTFS & Budget Money Laundering Policy Partnership Agreements / SLAs Treasury Management & Investment Strategy Procurement Code Values & Behaviours Information Security Policy

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APPENDIX D: ANNUAL GOVERNANCE STATEMENT ~ ACTION PLAN 2021/22

No.	Area for Improvement	Actions	Responsible Officer	Target Date
1	General officer compliance with good governance	Develop remote learning governance course for all office-based staff as part of the suite of annual courses. To include Heads of Service Assurance Statements.	Learning and Development Officer	31/12/2021 Due to no "off the shelf" course being available preparation took longer than expected. The course went live in May 2022.
2	Lack of understanding of good governance in local government by all manager and office-based staff in Parking & Waste, Health and Wellbeing, the Capitol and Parks & Countryside	Briefing for Heads of Service Briefing for all managers Visits to these services to by the Monitoring Officer and s151 Officer to explain the Council's processes and the importance of complying with them.	Monitoring Officer & S151 Officer	31/12/2021 Complete
3	Non-compliance with HR process and procedure by managers	Rewrite of HR processes and procedures as come out of lockdown and training for all managers in the new processes.	Head of HR and OD	Within 6 months of the end of lockdown

		Update November 2021: The council's Return to Parkside Guide was updated, including generic risk assessments, in time for a more structured return of staff from September. The Homeworking Policy and the DSE guidance have been re-written, to take account of a hybrid working trial from October 2021 to March 2022. Staff were consulted on the trial proposals. This is supported by a Homeworking self-assessment checklist and a revised e-learning suite on homeworking. An authorisation process and sign off has been implemented and is recorded on the T1HR system; a user guide is available for managers. In addition, extensive guidance has been given on remote working, remote managing and on health and wellbeing. A new system for staff parking and pro-rated fees has been introduced.		Implemented.
4	Some performance indicators and key performance indicators are out of date for the current situation	Redraft of our performance indicators and key performance indicators for 2021/22. Update: Revised key performance indicators were reported at Q1 to Overview and Scrutiny Committee on 20 September 2021.	Head of Finance & Performance	31/5/2021 Implemented.
5	Not yet clear how Councillor meetings and Councillor/officer meetings can be held after 7 May 2021.	New proposal for future of Councillor and Councillor/Officer meetings once new law received	Head of Legal & Democratic Services	31/5/2021 Implemented.
6	S151 and Monitoring Officer sign off for Cabinet decision reports on	Roll out of tracking and sign off through Modern.gov	Head of Legal & Democratic Services	31/3/2022

Modern.gov (carried forward from 2020/21)	System set-up underway. Training will then be needed. Implementation go live in 2022/23.	

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APPENDIX E: ANNUAL GOVERNANCE STATEMENT ~ ACTION PLAN 2022/23

No.	Area for Improvement	Actions	Responsible Officer	Target Date
1	Officer governance understanding	Roll out of the e-learning course to all staff with regular access to a computer.	All Heads of Service	30/9/2022
2	S151 and Monitoring Officer sign off for Cabinet decision reports on Modern.gov (carried forward from 2021/22).	Roll out of tracking and sign off through Modern.gov operates effectively.	Head of Legal & Democratic Services	30/6/2022
3	Governance arrangements at Horsham Museum	Implementation of the action in the review of the Museum report.	Head of Culture and Leisure	31/3/2023
4	The Council's management of bullying and harassment	Development of an anti-bullying and harassment policy. Working group to lead the implementation of this, led by the Director of Community Services.	Head of Human Resources and Organisational Development Director of Communities.	30/9/2022
5	Procurement understanding in Environmental Health and Licensing	Coaching support from the Procurement Manager.	Procurement Manager	30/9/2022

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Agenda Item 10

Report to Audit Committee

29 June 2022 By the Interim Director of Resources INFORMATION REPORT



Not exempt

Treasury Management Activity and Prudential Indicators 2021/22

Executive Summary

This report covers treasury activity and prudential indicators for 2021/22. At 31 March 2022, the Council's investments totalled £83.3m (£59.0m 2021) with no external debt.

During 2021/22, the Council's cash balances were invested in accordance with the Council's treasury management strategy and its associated indicators apart from one indicator where the actual interest rate sensitivity exceeded the estimate. This was a result of cash balances being much higher than estimated due to a combination of slower outflows in capital spend and developer contributions, higher revenue reserves, residual Covid-19 grants and the £150 energy bill rebate being held by the Council at year-end.

Interest of £0.942m (£0.858m in 2020/21) was earned on investments, an average return of 1.2% (1.5% in 2020/21). This was £0.150m over the budget of £0.792m. Investment property income was £3.47m (£3.56m 2020/21), which was £0.13m below the £3.6m estimate.

Investment income from treasury operations has recovered after the pandemic helped by the upturn in interest rates in the latter part of the year. Income from investment properties is recovering but there is still an overhang from the pandemic with some income subject to discussions with tenants.

Recommendations

The Committee is recommended to:

- i) Note the Treasury Management stewardship report for 2021/22.
- ii) Note the actual prudential indicators for 2021/22.

Reasons for Recommendations

- i) The annual treasury report is a requirement of the Council's reporting procedures.
- ii) This report also covers the actual Prudential Indicators for 2021/22 in accordance with the requirements of the relevant CIPFA Codes of Practice.

Background Papers

"Capital Strategy 2021/22 incorporating Investment and Treasury Management Strategy" -Audit Committee 16 December 2020 "Budget for 2021/22" - Cabinet 28 January 2021; Council 10 February 2021

Consultation: Arlingclose Ltd – the Council's Treasury Management advisers **Wards affected:** All

Contact: Julian Olszowka, Group Accountant (Technical), 01403 215310

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Background Information

1 Introduction

- 1.1 This report covers treasury management activity and prudential indicators for 2021/22. It meets the requirements of the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003.
- 1.2 In line with the CIPFA Codes, the Council adopts prudential indicators for each financial year and reports on performance relative to those indicators. This requirement is designed to demonstrate that capital spending is prudent, affordable and sustainable and that treasury management decisions are taken in accordance with good professional practices. This report compares the approved indicators with the outturn position for 2021/22. Actual figures have been taken from or prepared on a basis consistent with the Council's Statement of Accounts. It should be noted that those statements are not yet signed off by the auditor.
- 1.3 The original prudential indicators for 2021/22, together with a Capital Strategy and Treasury Management Strategy 2021/22, were agreed by Council on 10 February 2021 having been approved by this Committee on 16 December 2020.
- 1.4 CIPFA published a revision to Prudential Code for Capital Finance and Treasury Management Code on 20th December 2021. Although this is only fully implemented in the 2023/24 Appendix A gives a foretaste of the changes.

2 The Council's Capital Expenditure and Financing 2021/22

2.1 This is one of the required prudential indicators and shows total capital expenditure for the year and how this was financed. The estimates include revisions to the original indicators approved by the Council on 9 February 2022 as a part of the budget report.

2021/22 £m	Actual £000	Estimate £000	Variance £000
Total capital expenditure*	4.7	5.5	(0.8)
Resourced by:			
External resources	3.3	2.3	1
Internal Resources	1.4	3.2	(1.8)
Debt (unfinanced capital spend)	0.0	0.0	0.0
Total financing	4.7	5.5	(0.8)

*Capital expenditure here differs from capital outturn report by capitalised salaries

2.2 The capital spend in 2021/22 was under the budget as revised in the 2022/23 budget report. The underspend resulted in a reduced need for financing from internal resources such as revenue reserves and capital receipts with a larger amount being financed by external sources such as government grants and developer contributions.

3 The Council's Overall Borrowing Need

- 3.1 The Council's underlying need to borrow is termed the Capital Financing Requirement (CFR). It represents the accumulated net capital expenditure which has not been financed by revenue or other resources. Part of the Council's treasury activities is to address this borrowing need, either through borrowing from external bodies, or utilising temporary cash resources.
- 3.2 The Council is required to make an annual revenue charge, the Minimum Revenue Provision (MRP), to reduce the CFR effectively a repayment of the borrowing need. The Council's 2021/22 MRP Policy, as required by the Department for Levelling Up, Housing and Communities (DLUHC) Guidance, was approved on 10 February 2021 as a part of the 2021/22 Budget report.
- 3.3 The Council's CFR for the year is shown below, and represents a key prudential indicator because it is a measure of the Council's underlying indebtedness. As there was no additional unfinanced expenditure the only movement in the CFR is its reduction by the Minimum Revenue Provision.

Capital Financing Requirement	Actual £m	Estimate £m	Variance £m
Opening balance 1 April 2021	34.6	34.6	0.0
Debt/unfinanced capital expenditure	0.0	0.0	0.0
less Minimum Revenue Provision	(0.9)	(0.9)	0.0
Closing balance 31 March 2022	33.7	33.7	0.0

4 Treasury Position at 31 March 2022

- 4.1 Whilst the Council's gauge of its underlying need to borrow is the CFR, the Interim Director of Resources can manage the Council's actual borrowing position by either borrowing to the level of the CFR or choosing to utilise other available funds instead, sometimes termed under-borrowing. The Council is under-borrowed as it has no external debt.
- 4.2 Although the Council is under-borrowed relative to its CFR, it also holds investments and the summary treasury position on the 31 March 2022 compared with the previous year is shown below. This is a snapshot of investments on the date and the rates will not necessarily be equal to the whole year average figures.

Treasury position	31 Marc	h 2022	31 Marc	<u>h 2021</u>	
	Principal £m	Average Rate	Principal £m	Average Rate	
Fixed Interest Rate Debt	-	-	-	-	
Investments	83.3	1.5%	59.0	1.7%	

- 4.3 Returns for shorter term cash which were at historically low levels at the beginning of 2021/22 started to recover at the end of the year as inflation mounted and central banks changed tack. This was just beginning to feed into the Council's returns and should benefit the 2022/23 budget position.
- 4.4 The Council cash levels increased in the year due to a combinations of factors. Capital spend was subdued as was the dispensing of developers contributions that the Council was holding. The revenue position of the Council improved more quickly than expected from the pandemic feeding into higher reserves. There was also the overhang of various Covid-19 related grants. Added to that the Council was passed

the funds for the energy bill rebate scheme of £5.6m on the penultimate day of the year. It is likely the funds have passed the high-water mark as the flow of grants from central government seems to have ended.

- 4.5 For most of 2021/22 the abundance of cash in the overall finance system also meant there was a limited pool of good quality counterparties offering positive rates. In the early part of the year the Council had to invest with central government at close to zero rates. This meant that the excess cash did not translate to greatly increased income. The tide changed with the December rise in bank rate and two more increases started to help the income from short term cash helping it to a £25,000 positive variance against budget.
- 4.6 The Council's pooled funds includes a diversified selection of equity, bonds and property and they provided the overwhelming majority of the income in the year. The dividends they pay had been negatively affected by the pandemic but recovered more quickly than envisaged in the budget providing the majority of the positive income variance of about £125,000.

5 **Prudential Indicators**

- 5.1 **Gross Debt and the Capital Financing Requirement CFR** In order to ensure that borrowing levels are prudent over the medium term the Council's external debt must only be for a capital purpose. Gross debt should not, therefore, except in the short term, exceed the CFR for 2021/22 plus the expected CFR movement over 2022/23 and 2023/24. As there is no external debt planned and the CFR is over £33m and in the budget plans of the Council it is not projected to decrease significantly over the relevant future period, the Council has complied with this prudential indicator.
- 5.2 The **Authorised Limit** is the "Affordable Borrowing Limit" required by section 3 of the Local Government Act 2003. The Council set the Authorised Limit at £15m for 2021/22. The table below demonstrates that during 2021/22 the Council has maintained gross borrowing within its Authorised Limit.
- 5.3 The **Operational Boundary** is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the Boundary are acceptable subject to the Authorised Limit not being breached. This indicator was set at £0m. There was no gross borrowing in the year.
- 5.4 **Actual financing costs as a proportion of net revenue stream** This indicator shows the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. This is a gauge of the affordability of capital spend. Net financing costs are close to zero, as the interest income is about the same as the financing cost which is purely the MRP.

	2021/22
Authorised Limit	£15m
Operational Boundary	£0m
Maximum gross borrowing position in the year	£0m
Minimum gross borrowing position in the year	£0m
Financing costs as a proportion of net revenue stream	Actual 0% Estimate 0%

5.5 **Interest rate exposure** – This indicator is set to control interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates are shown in the table below. The impact of change in interest rates is calculated on the assumption that maturing investment will be replaced at current rates.

	actual	Limit
Limit one-year revenue impact of a 1% rise in interest rates	£0.32m	£0.2m
Limit one-year revenue impact of a 1% fall in interest rates	-£0.32m	-£0.2m

- 5.6 This indicator was set in December 2020 when the projected investment balance for the end of 2021/22 was £32m. The actual value was £83m. The end of year projection has normally been exceeded as capital spend and the outflow of developer contributions is usually lower than projected but in 2021/22 this effect was compounded by other factors.
- 5.7 In the original projection the effect of the pandemic was expected to considerably worsen the revenue position of the Council and it was not a given that Government support would materialise. In reality the Council was supported by a wide range of Covid-19 grants including compensation for lost income covering a range of services. Income also bounced back more quickly than expected where there was no government support. So the expected fall in reserves didn't happen and Council reserves actually increased.
- 5.8 The Council was also the conduit for a generous range of Central Government Covid-19 grants for businesses and households which have not been fully dispensed or reclaimed by Government. Right at the end of the year the Government continued its use of councils to disburse funds with £5.6m of energy rebate. It is expected that the high-water mark has been passed as rebates and grants are paid out or paid back to the Government although there are factors such as the current planning position that provides a headwind against the quick recovery of capital spend and developer contributions outflow.
- 5.9 Looking at the specific nature of the risk it should also be noted that the risk we are considering is that we will be disadvantaged by a 1% decrease in interest rates. As interest rates were just starting to increase from close to zero in March 2022 the chance that they would reverse course was very low.
- 5.10 For 2022/23 the indicator has been increased to £250,000 to recognise the levels of cash being held. The reduction in cash balances together with a more normal interest rate environment should make meeting the indicator more manageable.
- 5.11 **Maturity structures of fixed borrowing -** These gross limits are set to reduce the Council's exposure to large fixed rate loans falling due for refinancing. Although the Council has no borrowing this indicator is required by the CIPFA code.

Maximum percentage of borrowing in each age category	upper	lower	actual
Under 12 months	100%	0%	0%
12 months to 2 years	100%	0%	0%
2 years to 5 years	100%	0%	0%
5 years to 10 years	100%	0%	0%
10 years and above	100%	0%	0%

5.12 **Total Principal Funds Invested over a year** – This limit contains the Council's exposure to the possibility of loss that might arise as a result of it having to seek early repayment or redemption of investments. The limits and actuals on the long-term principal sums invested to final maturities beyond the period end are below and actuals were well within limits.

£m	2021/22	2022/23	2023/24
Actual principal invested beyond year-end	2.5	0	0
Limit on principal invested beyond year-end	12	10	8

Economic and treasury management context for 2021/22

5.13 The Council's treasury management activities are critically affected by what is happening in the general economy which is subject to continuing uncertainty. The Council has engaged Arlingclose Ltd to advise on various aspects of Treasury Management and a part of that advice, a commentary on the economic background and the finance sector during 2021/22, is included as Appendix B to this report.

Debt management activity during 2021/22

5.14 No new borrowing was undertaken. As the CFR shown above is £34m the Council is using its internal resources in lieu of borrowing. This lowers overall treasury risk by reducing both external debt and temporary investments and was judged to be the best way of funding capital expenditure. Current borrowing costs are still low by historic levels (e.g. PWLB 50 year loan around 1.8%)

6 Investment activity in 2021/22

- 6.1 The Council's objectives are to give priority to the security and liquidity of its funds before seeking the best rate of return. Its surplus cash is therefore held with local authorities, highly credit-rated banks, approved building societies and diversified pooled funds. The Council's treasury management activity fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Treasury Management Code of Practice and the DLUHC Investment guidance. These require the Council to approve an investment strategy before the start of each financial year.
- 6.2 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 6.3 The Council's longer term cash balances comprise revenue and capital reserves and its core cash resources are shown in the table below. The Council is borrowing internally to cover its CFR which reduces the funds to be invested. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. As the resources available exceed the CFR the Council holds net investments as shown below.

Balance Sheet Resources	31 March 2022 £m
General fund CFR	-34
Less Usable reserves	97
Less working capital	20
Total	83

	31.3.21 Balance £m	Movement £m	31.3.22 Balance £m	31.3.22 Rate %
Call accounts	2.7	1.4	4.1	0.1
Money Market Funds – call	18.0	-7.5	10.5	0.5
Money Market Funds – cash	9.4	3.9	13.3	0.5
plus or short bonds				
Short-term deposits	4.0	25.5	29.5	0.8
Pooled Funds - Property	4.7	0.9	5.6	3.9
Pooled Funds – Multi-Asset	7.0	-0.1	6.9	3.9
Pooled Funds – Equity	5.1	0.5	5.6	3.8
Pooled Funds – Bonds	6	-0.3	5.7	2.2
REIT	2.1	0.0	2.1	1.6
Total Investments	59.0	24.3	83.3	1.5

6.4 The breakdown of investments held at period end

- 6.5 **Yield** The investment income budget for the year 2021/22 was £0.792m (£0.933m in 2020/21). The actual interest received was £0.942m (£0.858m in 2020/21). Cash balances were well above budget although for most of the year this didn't greatly help returns as cash rates were very low for most of the year and only started to recover late in the year. Pooled funds income largely exceeded expectations with equity returns being particularly strong. Because of the large short term cash balances the overall return was pushed down to 1.2% (1.5% in 2020/21).
- 6.6 **Security** A benchmark is used as a way of expressing the credit risk of the whole portfolio of counterparties that the Council invests with. The Council has adopted a benchmark of an equivalent credit rating of A against which the portfolio was assessed at the end of each month. The portfolio average credit rating was a minimum of A+ in the year which is one notch above the benchmark.
- 6.7 **Liquidity benchmark** The Council needs to ensure it has a sufficient level of liquidity so it has funds available when necessary. To ensure liquidity the Council set a benchmark of the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing. For 2021/22 the benchmark amount was £3m. The actual funds available were in excess of the benchmark for the whole year; the lowest amount available overnight was £13m.
- 6.8 **Compliance with strategy** The strategy was compiled with throughout 2021/22 with the exception of the interest sensitivity indicator discussed in paragraph 5.5 above.
- 6.9 **Pooled funds** The Council holds £23.8m in unrated pooled funds comprising equity, bonds and property. These funds yield 3.5% which is significantly more than the other investments available. An increased return generally brings an increase in risk and in this case the risk is to the capital value of the investments. The value of the investments at the year-end was £1.5m above the initial investment. However, it should be remembered that these investments are longer term so the capital losses or gains should not be overemphasised as the Council will hold the funds through periods of volatility.

- 6.10 **Variable Net Asset Value Money Market Funds** The Council uses Low Volatility Net Asset Value Money Market Funds for day to day liquidity. The low volatility refers to the fact that each unit of the fund costs £1 to buy and is redeemed at £1. To facilitate this, the investments within the funds are short term and liquid and so returns are close to Bank of England bank rate. As the Council has cash it can invest over the medium term it has £13.3m in money market funds which can invest in longer term instruments like short term bonds and consequently should have higher yields but where the value of a unit invested can change. At a time of rising rates these type of funds can lag behind the shorter duration money market funds as their overall average rates do not respond as quickly to the new rates. They also suffer a reduction in capital value as they have older bonds with lower rates which will take longer to mature so that the newer higher interest bonds can replace them. The value of these funds was £130,000 less than the purchase price on 31 March 2022
- 6.11 **Social Housing REIT –** In 2019/20 the Council invested £2m in a REIT specialising in supported social housing. The pandemic had significantly delayed its development of sites so dividends have been lower than expected at 1.6%. The expectation is that the REIT will continue to develop its operations and grow its dividends. There was a small capital gain of £60,000 at the year-end.
- 6.12 Although the volatility of capital values is a concern, the Council is in the position to avoid crystallising any capital losses as it has funds available for three to five year period. In the accounts these unrealised capital gains or losses will not have an impact on the General Fund as the Council can defer them to the Pooled Investment Fund Adjustment Account until 2023/24. This date may be extended and DLUHC is expected to consult on this shortly.

Non-Treasury investments

- 6.13 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in DLUHC's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.
- 6.14 At year end the Council held £59.7m of directly owned property and £0.4m loans to local bodies for service purposes. These investments generated £3.47m of investment income for the Council after taking account of direct costs and making provision for possible losses, representing a rate of return of 5.8%. Income was slightly down on the estimated income of £3.6m at a return 6.3% in the original 2021/22 strategy. It should be noted that although the Council has made a provision for losses there are ongoing discussions with the tenants who have claimed that their trading has been adversely affected by the pandemic.
- 6.15 The income from these non-treasury investments provides an important contribution to financing of the Council's overall service delivery. To ensure stable income flows the Council has a core of longer term leases. The Council's properties have very high occupancy in the high 90% and so can place reasonable reliance on a stable flow of rents. That said there is a significant retail element which will not be immune from the well-recognised risks to the sector.

Property by type	31.3.2022 actu		2 actual	ual 2021/22	
£millions	Purchase cost / 31 st March 2007 value	Gains or losses	Value in accounts	Capital Gain or Ioss in year	Income Return In year
Retail – legacy	2.7	2.0	4.7	-0.2	7.5%
Retail – Swan Walk	9.5	-7.6	1.9	0.0	11.6%
Light industrial - legacy	9.3	10.3	19.6	1.6	6.0%
Healthcare – legacy	6.5	1.9	8.4	0.1	6.0%
Office - legacy	1.3	0.7	2.0	0.1	4.8%
Retail - recent	14.6	-5.1	9.5	-0.2	5.0%
Light industrial – recent	6.3	3.7	10.0	0.3	3.8%
Healthcare - recent	0.6	0.3	0.9	0.0	5.5%
Education -recent	1.8	-0.1	1.7	0.0	10.2%
Leisure - recent	1.5	-0.6	0.9	0.0	4.8%
Total properties	54.1	5.5	59.6	1.7	5.8%
Realised assets Note 1	0.1	0.4	0.5	0.4	n/a

6.16 Below is a breakdown of performance grouping assets by type.

Note 1 Industrial unit sale see 6.19 below

- 6.17 The purchase cost figures above need to be viewed with care as no reliable purchase cost is available for the legacy categories and Swan Walk so the base valuation is the earliest full valuation we have, which is from 2007 when retail was probably at its peak value. Overall capital values are above notional "purchase cost" with the light industrials compensating for retail weakness. In terms of percentage return, care should be taken as the denominator is the valuation at 31 March 2022 and this is subject to revaluation.
- 6.18 The return for Swan Walk is an estimate as the accounts for the year ending last October have not yet been supplied to the Council. Swan Walk was badly affected by the pandemic with many tenants seeking reductions in their rents and the leasehold was also sold by Aviva. Officers have been pursuing the managing agents for the accounts but the managing agents have explained that the delay is because of the need to reconcile any pandemic-related debts and apportion the rents and write offs between the former and present leaseholder.
- 6.19 The table includes a line for a realised asset. A unit in a small Henfield-based industrial site was sold to the tenant at a price that was attractive relative to the continuing value of the unit to the Council. Based on the notional purchase price on the same basis as the table above the gain on sale was over £450,000. Relative to the current revalued value of the asset the gain was over £300,000. Following the local authority accounting rules any gain is not recognised in the income of the Council but results in a capital receipt that can only be used to finance new capital spend. The gain is reflected in the table above to recognise it as a return due to the Council's commercial portfolio.

6.20 The 2021/22 strategy also set a series of performance indicators shown below.

Indicator	2021/22 Actual	2021/22 Forecast
Commercial investments: Property Overall value	£59.7m	£56m
Debt to net service expenditure ratio	0%	0%
Commercial income to net service expenditure ratio	34%	32%
Net income return target	5.8%	6.3%
Operating overheads of property section attributable to commercial property as a proportion of net property income	6.6%	6.4%
Average Vacancy levels	2%	2%
Tenant over 5% of overall income	6	5
Weighted Average Unexpired Lease Term (WAULT)	8yr 6m	9yr
Bad debts written off	£163,888	£200,000

- 6.21 The overall value of investment property has exceeded the estimate made in December 2020 mostly due to revaluations gains of £4m in the revaluations of 31 March 2021 and 2022.
- 6.22 Other indicators are generally in line with forecasts.
- 6.23 The Weighted Average Unexpired Lease Term (WAULT) excludes the Swan Walk lease which is an outlier at 122 years and would skew the figure up to 14 years. Overheads as a percentage of income was slightly over estimate.
- 6.24 Arun House income just slipped above 5% in the year to make 6 tenants, however the lease on this property expires at the end of July 2022.
- 6.25 Bad debts written off in the year 2021/22 are due to the pandemic and some discussions with tenants affected by the pandemic are ongoing. The final write off amounts will only be known when discussions are concluded and they will be reflected in the 2022/23 reporting. A provision of £29,000 was added in 2021/22.
- 6.26 The valuation figures are based on the unaudited accounts. If there are significant changes for the final audited accounts, the changes in treasury management activity and prudential indicators will be reported to the committee.

7 **Resource consequences**

7.1 This report provides information only; no staffing or financial resources are required as a result of it.

8 Legal Considerations and Implications

8.1 There are no legal consequences.

9 **Risk Assessment**

9.1 The framework of indicators and reporting against them provides an effective system of risk control.

10 **Procurement implications**

- 10.1 There are no procurement implications.
- 11 Equalities and Human Rights implications / Public Sector Equality Duty
- 11.1 There are no impacts on any relevant groups and no Equalities Impact Assessment is required.

12 Environmental Implications

12.1 There are no direct environmental impacts from this report.

13 **Other Considerations**

13.1 There are no Data Protection implications or issues concerning Crime & Disorder.

Appendix A - Revised CIPFA Codes, Updated PWLB Lending Facility Guidance

In August 2021 HM Treasury significantly revised guidance for the Public Works Loan Board (PWLB) lending facility with more detail and 12 examples of permitted and prohibited use of PWLB loans. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.

CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20th December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of nontreasury investments.

The principles of the Prudential Code took immediate effect although local authorities could defer introducing the revised reporting requirements until the 2023/24 financial year which is the approach being taken.

To comply with the Prudential Code, authorities must not borrow to invest primarily for financial return. This Code also states that it is not prudent for local authorities to make investment or spending decision that will increase the CFR (e.g. by not financing capital spend) unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold; however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments.

Borrowing is permitted for cashflow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. Borrowing to refinance capital expenditure primarily related to the delivery of a local authority's function but where a financial return is also expected is allowed, provided that financial return is not the primary reason for the expenditure. The changes align the CIPFA Prudential Code with the PWLB lending rules.

Unlike the Prudential Code, there is no mention of the date of initial application in the Treasury Management Code. The Code now includes extensive additional requirements for service and commercial investments, far beyond those in the 2017 version. The Council will follow the same process as with the Prudential Code, i.e. delaying changes in reporting requirements to the 2023/24 financial year.

Appendix B Arlingclose Commentary on 2021/22

Economic Background: The continuing economic recovery from coronavirus pandemic, together with the war in Ukraine, higher inflation, and higher interest rates were major issues over the period.

Bank Rate was 0.1% at the beginning of the reporting period. April and May saw the economy gathering momentum as the pandemic restrictions were eased. Despite the improving outlook, market expectations were that the Bank of England would delay rate rises until 2022. Rising, persistent inflation changed that.

UK CPI was 0.7% in March 2021 but thereafter began to steadily increase. Initially driven by energy price effects and by inflation in sectors such as retail and hospitality which were re-opening after the pandemic lockdowns, inflation then was believed to be temporary. Thereafter price rises slowly became more widespread, as a combination of rising global costs and strong demand was exacerbated by supply shortages and transport dislocations. The surge in wholesale gas and electricity prices led to elevated inflation expectations. CPI for February 2022 registered 6.2% year on year, up from 5.5% in the previous month and the highest reading in the National Statistic series. Core inflation, which excludes the more volatile components, rose to 5.2% y/y from 4.4%.

The government's jobs furlough scheme insulated the labour market from the worst effects of the pandemic. The labour market began to tighten and demand for workers grew strongly as employers found it increasingly difficult to find workers to fill vacant jobs. Having peaked at 5.2% in December 2020, unemployment continued to fall and the most recent labour market data for the three months to January 2022 showed the unemployment rate at 3.9% while the employment rate rose to 75.6%. Headline 3-month average annual growth rate for wages were 4.8% for total pay and 3.8% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 0.1% while regular pay fell by 1.0%.

With the fading of lockdown – and, briefly, the 'pingdemic' – restraints, activity in consumerfacing sectors improved substantially as did sectors such as oil and mining with the reopening of oil rigs but materials shortages and the reduction in the real spending power of households and businesses dampened some of the growth momentum. Gross domestic product (GDP) grew by an upwardly revised 1.3% in the fourth calendar quarter of 2021 according to the final estimate (initial estimate 1.0%) and took UK GDP to just 0.1% below where it was before the pandemic. The annual growth rate was revised down slightly to 7.4% (from 7.5%) following a revised 9.3% fall in 2020.

Having increased Bank Rate from 0.10% to 0.25% in December, the Bank of England hiked it further to 0.50% in February and 0.75% in March. At the meeting in February, the Monetary Policy Committee (MPC) voted unanimously to start reducing the stock of its asset purchase scheme by ceasing to reinvest the proceeds from maturing bonds as well as starting a programme of selling its corporate bonds.

In its March interest rate announcement, the MPC noted that the invasion of Ukraine had caused further large increases in energy and other commodity prices, with the expectation that the conflict will worsen supply chain disruptions around the world and push CPI inflation to around 8% later in 2022, even higher than forecast only a month before in the February Monetary Policy Report. The Committee also noted that although GDP in January was stronger than expected with business confidence holding up and the labour market remaining robust, consumer confidence had fallen due to the squeeze in real household incomes.

Financial markets: The conflict in Ukraine added further volatility to the already uncertain inflation and interest rate outlook over the period. The Dow Jones started to decline in January but remained above its pre-pandemic level by the end of the period while the FTSE 250 and FTSE 100 also fell and ended the quarter below their pre-March 2020 levels.

Bond yields were similarly volatile as the tension between higher inflation and flight to quality from the war pushed and pulled yields, but with a general upward trend from higher interest rates dominating as yields generally climbed. The 5-year UK benchmark gilt yield began the quarter at 0.82% before rising to 1.41%. Over the same period the 10 year gilt yield rose from 0.97% to 1.61% and the 20-year yield from 1.20% to 1.82%. The Sterling Overnight Rate (SONIA) averaged 0.39% over the quarter.

Credit review: In the first half of FY 2021-22 credit default swap (CDS) spreads were flat over most of period and are broadly in line with their pre-pandemic levels. In September spreads rose by a few basis points due to concerns around Chinese property developer Evergrande defaulting but then fell back. Fitch and Moody's revised upward the outlook on a number of UK banks and building societies on the Authority's counterparty to 'stable', recognising their improved capital positions compared to 2020 and better economic growth prospects in the UK.

Fitch also revised the outlook for Nordea, Svenska Handelsbanken and Handelsbanken plc to stable. The agency considered the improved economic prospects in the Nordic region to have reduced the baseline downside risks it previously assigned to the lenders.

The successful vaccine rollout programme was credit positive for the financial services sector in general and the improved economic outlook meant some institutions were able to reduce provisions for bad loans. However, in 2022, the uncertainty engendered by Russia's invasion of Ukraine pushed CDS prices modestly higher over the first calendar quarter, but only to levels slightly above their 2021 averages, illustrating the general resilience of the banking sector.

Having completed its full review of its credit advice on unsecured deposits, in September Arlingclose extended the maximum duration limit for UK bank entities on its recommended lending list from 35 days to 100 days; a similar extension was advised in December for the non-UK banks on this list. As ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remain under constant review.

Agenda Item 11

Report to Audit Committee

29 June 2022 By the Directors of the Housing Companies'



Not Exempt

Subsidiary Housing Company Accounts

Executive summary

In March 2019, Cabinet approved the creation of two companies for the purposes of providing affordable rental housing in the District. Horsham District Homes Ltd (HDH), the development company, and Horsham District Homes (Holdings) Ltd (HDHH) were both incorporated in 2019.

Company law requires the directors of the companies to prepare financial statements for each financial period.

The Council is not required to prepare consolidated group accounts for 2021/22 as the value of the transactions in the companies' accounts are considered immaterial. However, the accounts for the companies have been audited by an independent auditor and will be approved and signed by the boards at the companies' board meeting on 15 June 2022.

The audited annual report and financial statements for both companies are included within this report.

Recommendations

That the Committee is recommended to note:

- i) the statement of accounts for the subsidiary companies.
- ii) the update from the subsidiary companies provided within this report.

Reasons for recommendations

- i) Clause 8.1.2 of the shareholders agreement says the Company shall provide to the Council the annual accounts as soon as practicable.
- ii) In preparation for these accounts being material and potentially being consolidated with the Councils statement of accounts in 2022/23.

Background papers: None

Wards affected: All

Contact: Samantha Wilson, Company Director, 01403 215309

Background Information

1 Introduction and background

- 1.1 The Council incorporated two housing subsidiary companies in 2019. Company law requires the directors of the companies to prepare financial statements for each financial period. This report provides background information to the financial statements.
- 1.2 The Council is not required to prepare group accounts for 2021/22 as the value of the transactions within the companies is considered immaterial. The accounts for the companies have been audited, by an independent auditor, and will be approved and signed by the companies' boards of directors at the June board meetings.

2 Relevant Council policy

2.1 The 2019 to 2023 Corporate Plan sets out the Council's strategic objectives and includes creating great places for people to live and work and creating a strong safe and healthy community. Paragraph 3.2.2 of the corporate plan states the objective of using the Council's affordable housing company to build affordable homes in areas of high demand.

3 Details

3.1 Horsham District Homes Limited (HDH)

The accounts for the year ended 31 March 2022 are included within this report. During the year, the development of three homes in Roman Way, Billingshurst started. The company continues to explore opportunities in Horsham Town for its next development. General operational running costs were incurred during in the year, resulting in the reported loss for the year.

3.2 Horsham District Homes (Holdings) Limited (HDHH)

The accounts for the period ending 31 March 2022 are included within this report. The company received s106 housing and enabling contributions from the Council to purchase five homes in Slinfold, one 2-bedroom house and four 1-bedroom flats. These properties all completed in the year and are reported as stock. The income from these properties have contributed to the net profit for the year.

3.3 The accounts for both companies have been prepared on a going concern basis due to anticipated losses in the early years being supported by the Council, which will continue until the companies return a profit, which is currently forecast towards the end of the Council's medium term financial strategy.

4 Next steps

4.1 The Council will continue to review the materiality of the transactions for the purposes of group accounts.

5 Outcome of consultations

No consultations were required.

6 Other courses of action considered but rejected

6.1 None

7 Resource consequences

7.1 There are no direct Council resource consequences arising from this report.

8 Legal consequences

8.1 For 2022/23, the Council is likely to be required to produce consolidated financial statements under the Accounts and Audit (England) Regulations 2015

9 Risk assessment

- 9.1 There are no risks to the Council for 2010/22 due to the companies' accounts not being consolidated to form group accounts with the Council's Statement of Accounts.
- 9.2 There is no risk that the companies will miss the deadline for filing the statements with Companies House is September 2022 as they were signed and submitted in June 2022.

10 Procurement implications

10.1 There are no procurement implications associated with this report.

11 Equalities and Human Rights implications / Public Sector Equality Duty

11.1 There are no equalities and human rights implications associated with this report.

12 Environmental Implications

12.1 There are no environmental implications from this report.

13 Other considerations

13.1 There are no GDPR / Data Protection or Crime & Disorder implications arising from this report.

HORSHAM DISTRICT HOMES LIMITED ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

HORSHAM DISTRICT HOMES LIMITED

COMPANY INFORMATION

Directors	S Wilson A Chalmers B Elliot
Company number	12173332
Registered office	Parkside Chart Way Horsham West Sussex RH12 1RL
Auditor	Richard Place Dobson Services Limited Ground Floor 1 - 7 Station Road Crawley West Sussex RH10 1HT

HORSHAM DISTRICT HOMES LIMITED

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2022

The directors present their annual report and financial statements for the year ended 31 March 2022.

Principal activities

The principal activity of the company continued to be that of development of affordable housing for resale to its subsidiary company, Horsham District Homes (Holdings) Limited.

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

S Wilson A Chalmers B Elliot

Statement of Going Concern

The company's business activities together with the factors likely to affect it's future development, it's financial position, financial risk management objectives, details of exposure to liquidity and cash flows have been considered by the Directors who are confident the company remains a going concern and is expected to continue to be.

Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

Small companies exemption

This report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption.

On behalf of the board

S Wilson

Director

Date:

DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE YEAR ENDED 31 MARCH 2022

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF HORSHAM DISTRICT HOMES LIMITED

Opinion

We have audited the financial statements of Horsham District Homes Limited (the 'company') for the year ended 31 March 2022 which comprise the profit and loss account, the balance sheet and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2022 and of its loss for the year then ended;
- · have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of our audit:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

INDEPENDENT AUDITOR'S REPORT (CONTINUED) TO THE MEMBERS OF HORSHAM DISTRICT HOMES LIMITED

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report. We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- · adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us: or
- the financial statements are not in agreement with the accounting records and returns; or
- · certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemption in preparing the directors' report and from the requirement to prepare a strategic report.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. The objectives of our audit are to obtain sufficient appropriate audit evidence regarding compliance with laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements, to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements, and to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit. In relation to fraud, the objectives of our audit are to identify and assess the risk of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatements due to fraud through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit.

However it is the primary responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations and for the prevention and detection of fraud.

In identifying and assessing the risks of material misstatement in respect of irregularities, including fraud, the audit engagement team made enquiries of management, and those charged with governance, regarding the procedures relating to identifying, evaluating and complying with;

- 1. laws and regulations and whether they were aware of any instances of non-compliance;
- 2. detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
- 3. the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;

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INDEPENDENT AUDITOR'S REPORT (CONTINUED) TO THE MEMBERS OF HORSHAM DISTRICT HOMES LIMITED

As a result of these procedures we consider the most significant laws and regulations that have a direct impact on the financial statements are FRS 102, General Data Protection Regulations, Companies Act 2006, NHBC, Employment and Taxes regulations. We performed audit procedures to detect non-compliance, which may have a material impact on the financial statements. These included reviewing financial statement disclosures and evaluating advice received from external advisors. There were no significant laws and regulations we deemed as having an indirect impact on the financial statements.

The audit engagement team identified the risk of management override of controls as the area where the financial statements were most susceptible to material misstatement due to fraud. Audit procedures performed included but were not limited to testing manual journal entries and other adjustments and evaluating the business rationale in relation to any significant, unusual transactions and transactions entered into outside of the normal course of business.

A further description of our responsibilities is available on the Financial Reporting Council's website at: https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Karen Corduff ACA FCCA (Senior Statutory Auditor) For and on behalf of Richard Place Dobson Services Limited Chartered Accountants Statutory Auditor

Date:

Ground Floor 1 - 7 Station Road Crawley West Sussex RH10 1HT

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2022

	2022	2021 £
Administrative expenses	£ (14,876)	(13,883)
Loss before taxation	(14,876)	(13,883)
Tax on loss	-	-
Loss for the financial year	(14,876)	(13,883)

BALANCE SHEET AS AT 31 MARCH 2022

		2022	,	2021	
	Notes	£	£	£	£
Fixed assets					
Investments	4		1		1
Current assets					
Stocks	6	199,840		43,755	
Debtors	7	301,472		402,893	
Cash at bank and in hand		9,631		26,406	
		510,943		473,054	
Creditors: amounts falling due within one					
year	8	(66,649)		(13,884)	
Net current assets			444,294		459,170
Net assets			444,295		459,171
Capital and reserves					
Called up share capital			500,000		500,000
Profit and loss reserves			(55,705)		(40,829)
Total equity			444,295		459,171
* *					

These financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime.

The financial statements were approved by the board of directors and authorised for issue on and are signed on its behalf by:

.....

S Wilson Director

Company Registration No. 12173332

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

1 Accounting policies

Company information

Horsham District Homes Limited is a private company limited by shares incorporated in England and Wales. The registered office is Parkside, Chart Way, Horsham, West Sussex, RH12 1RL.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006 as applicable to companies subject to the small companies regime. The disclosure requirements of section 1A of FRS 102 have been applied other than where additional disclosure is required to show a true and fair view.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below.

These accounts present the financial information about Horsham District Homes Limited and do not consolidate its results with it's trading subsidiary. Exemption from preparing group accounts has been taken as the group qualifies as small.

1.2 Going concern

The directors believe that preparing the financial statements on a going concern basis is appropriate due to the continued financial support of the company's parent undertaking.

1.3 Stocks

Stocks comprises of land and work in progress, and is valued at the lower of actual cost and net realisable value.

Land Stocks is recognised at the time the liability is recognised which is generally after the exchange of contracts and once an unavoidable obligation arises and is virtually certain the contract will be completed.

1.4 Cash and cash equivalents

Cash and cash equivalents are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

1.5 Financial instruments

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Basic financial assets

Basic financial assets, which include debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2022

1 Accounting policies

(Continued)

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Basic financial liabilities

Basic financial liabilities, including creditors and loans from fellow group companies, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

1.6 Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of transaction costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

1.7 Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of stock or fixed assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

1.8 Foreign exchange

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Gains and losses arising on translation in the period are included in profit or loss.

1.9 Investment in subsidiary

Investment in subsidiary companies are recognised at cost less any provision for impairment in value.

1.10 Overhead and Support Services

Costs relating to finance and legal services, for example, are purchased as a supply and form part of the Company's administration costs.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2022

1 Accounting policies

1.11 Taxation

The tax expense represents the sum of the current tax payable and the deferred tax.

Current tax.

The tax currently payable is based on taxable profit for the year.

Deferred tax.

Deferred tax liabilities are generally recognised for all the timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against future taxable profits.

2 Judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

3 Employees

The average monthly number of persons employed by the company during the year was 0,

Horsham District Homes Limited does not directly employ any staff. A service agreement is in place between Horsham District Homes Limited and Horsham District Council.

4 Fixed asset investments

	2022	2021
	£	£
Shares in group undertakings and participating interests	1	1

5 Subsidiaries

Horsham District Homes Limited holds the following investments in subsidiary companies:

Horsham District Homes Holdings Limited

Company Number: 12356985 (Registered in England)

Principal activity: Purchase of affordable housing to be rented to residents on the Horsham District Council waiting list

The aggregate capital and reserves of Horsham District Homes Holdings Limited at 31 March 2022 were

Share Capital; £1 (2021 - £1) Reserves £(36,619) (2021 - £(42,955))

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(Continued)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2022

6 Stocks

	2022 £	2021 £
Stocks	199,840	43,755

The carrying amount of stocks includes $\pounds 43,755$ (2021 - $\pounds 43,755$) of land classified as held for sale and $\pounds 156,085$ (2021 - $\pounds 0$) stock in course of construction.

7 Debtors

	2022	2021
Amounts falling due within one year:	£	£
Amounts owed by group undertakings	23,415	23,304
Other debtors	278,057	379,589
		· <u> </u>
	301,472	402,893

8 Creditors: amounts falling due within one year

	2022 £	2021 £
Amounts owed to group undertakings	11,876	13,883
Other creditors	54,773	-
	66,649	13,883

9 Capital Commitments

Amounts contracted for but not provided in the financial statements:

At 31 March 2022 Horsham District Homes Limited was committed to the following significant capital contracts

Roman Way Billingshurst

Total Contract value - £659,067 Paid - £156,085 Contract value outstanding - £502,982

10 Events after the reporting date

On 5 April 2022, Horsham District Homes Limited received the remaining balance of their share equity (£275,000) from Horsham District Counci

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2022

11 Related party transactions

Parent Undertaking

The parent undertaking and person with significant control of Horsham District Homes Linited is Horsham District Council, a local authority in England and Wales. The address of the Council's principal place of business is Parkside, Chart Way, Horsham, West Sussex, RH12 1RL.

A summary of the Company's transactions with Horsham District Council is outlined below:

- Under a services agreement, Horsham District Council provides support services to Horsham District Homes Limited, these are included in administration costs. Amounts owed to Horsham District Council in respect of these services are included in trade creditors.
- Horsham District Homes Limited is 100% owned by Horsham District Council. During the year to 31 March 2022 Horsham District Council had paid up 225,000 shares at £1 each, and 275,000 were unpaid but have been paid up subsequent to the balance sheet date, as set out in note 10 to the financial statements..

Group undertakings

Horsham District Homes Limited wholly owns Horsham District Homes (Holdings) Limited. During the year Horsham District Homes Limited provided Horsham District Homes (Holdings) Limited with a loan to settle their support services costs with the parent company, Horsham District Council.

12 Going Concern

The Directors believe that preparing the financial statements on a going concern basis is appropriate due to the continued financial support of Company's parent undertaking.

13 Covid-19

At the reporting date Covid-19 caused widespread lockdown measures to be imposed in the UK and worldwide. This has resulted in a reduction in both supply and demand in the economy. It is not currently possible to estimate the impact this will have on the future financial results of the ccompany and management consider it to be a significant uncertainty. Management have assessed the impact of Covid-19 on the results reported for the financial year ended 31 March 2022 and consider that all COVID 19 related costs and effects have been reflected in the accounts.

HORSHAM DISTRICT HOMES (HOLDINGS) LIMITED ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

COMPANY INFORMATION

Directors	A Chalmers R Jarvis B Elliott S Wilson
Company number	12356952
Registered office	Parkside Chart Way Horsham West Sussex RH12 1RL
Auditor	Richard Place Dobson Services Limited Ground Floor 1 - 7 Station Road Crawley West Sussex RH10 1HT

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2022

The directors present their annual report and financial statements for the year ended 31 March 2022.

Principal activities

The principal activity of the company is the purchase of affordable housing to be rented to residents on Horsham District Council waiting list.

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

A Chalmers R Jarvis B Elliott S Wilson

Statement of Going Concern

The Company's business activities together with the factors likely to affect it's future development, it's financial position, financial risk management objectives, details of exposure to liquidity and cash flows have been considered by the Directors who are confident the company remains a going concern and is expected to continue to be.

Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

Small companies exemption

This report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption.

On behalf of the board

.....

S Wilson Director

Date:

DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE YEAR ENDED 31 MARCH 2022

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF HORSHAM DISTRICT HOMES (HOLDINGS) LIMITED

Opinion

We have audited the financial statements of Horsham District Homes (Holdings) Limited (the 'company') for the period ended 31 March 2022 which comprise the profit and loss account, the balance sheet and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2022 and of its profit for the year then ended;
- · have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of our audit:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

INDEPENDENT AUDITOR'S REPORT (CONTINUED) TO THE MEMBERS OF HORSHAM DISTRICT HOMES (HOLDINGS) LIMITED

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemption in preparing for the directors' report and take advantage of the small companies exemption from the requirement to prepare a strategic report.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT (CONTINUED) TO THE MEMBERS OF HORSHAM DISTRICT HOMES (HOLDINGS) LIMITED

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non compliance with laws and regulations. The objectives of our audit are to obtain sufficient appropriate audit evidence regarding compliance with the laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements, to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements, and to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

In relation to fraud, the objectives of our audit are to identify and assess the risk of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatements due to fraud through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit.

However it is the primary responsibility of management with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provision of laws and regulations and for the prevention and detection of fraud.

In identifying and assessing the risks of material misstatement in respect of irregularities, including fraud, the audit engagement team made enquiries of management, and those charges with governance, regarding the procedures relating to identifying, evaluating and complying with;

1. laws and regulations and whether they were aware of any instances of non-compliance;

2. detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; 3.the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;

As a result of these procedures we consider the most significant laws and regulations that have a direct impact on the financial statement are FRS 102, General Data Protection Regulations, Companies Act 2006, Employment and Taxes regulations. We performed audit procedures to detect non-compliance, which may have a material impact on the financial statements. These included reviewing financial statement disclosures and evaluating advice received from external advisors. There were no significant laws and regulations we deemed as having an indirect impact on the financial statements.

The audit engagement team identified the risk of management override of controls as the area where the financial statements were most susceptible to material misstatement due to fraud. Audit procedures performed included but were not limited to testing manual journal entries and other adjustments and evaluating the business rationale in relation to any significant, unusual transactions and transactions entered into outside of the normal course of business.

A further description of our responsibilities is available on the Financial Reporting Council's website at: https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

INDEPENDENT AUDITOR'S REPORT (CONTINUED) TO THE MEMBERS OF HORSHAM DISTRICT HOMES (HOLDINGS) LIMITED

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Karen Corduff ACA FCCA (Senior Statutory Auditor) For and on behalf of Richard Place Dobson Services Limited Chartered Accountants Statutory Auditor

Date:

Ground Floor 1 - 7 Station Road Crawley West Sussex RH10 1HT

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2022

	2022 £	2021 £
Turnover	16,973	_
Administrative expenses	(29,639)	(42,956)
Other operating income	6,170	-
Loss before taxation	(6,496)	(42,956)
Tax on loss	8,589	-
Profit/(loss) for the financial year	2,093	(42,956)

BALANCE SHEET

AS AT 31 MARCH 2022

		2022	2	2021	
	Notes	£	£	£	£
Fixed assets					
Tangible assets	4		-		308,490
Investment properties	5		756,290		-
			756,290		308,490
Current assets					
Debtors	6	19,503		1	
Cash at bank and in hand		3,190		-	
		22,693		1	
Creditors: amounts falling due within one year	7	(65,480)		(42,956)	
Net current liabilities			(42,787)		(42,955)
Total assets less current liabilities			713,503		265,535
Creditors: amounts falling due after more than one year	8		(750,122)		(308,490)
Net liabilities			(36,619)		(42,955)
Capital and reserves					
Called up share capital			1		1
Profit and loss reserves			(36,620)		(42,956)
Total equity			(36,619)		(42,955)

These financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime.

The financial statements were approved by the board of directors and authorised for issue on and are signed on its behalf by:

S Wilson

Director

Company Registration No. 12356952

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

1 Accounting policies

Company information

Horsham District Homes (Holdings) Limited is a private company limited by shares incorporated in England and Wales. The registered office is Parkside, Chart Way, Horsham, West Sussex, RH12 1RL.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006 as applicable to companies subject to the small companies regime. The disclosure requirements of section 1A of FRS 102 have been applied other than where additional disclosure is required to show a true and fair view.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest \pounds .

The financial statements have been prepared under the historical cost convention, modified for investment properties and certain financial instruments at fair value. The principal accounting policies adopted are set out below.

1.2 Going concern

At the 31 March 2022, the company net liabilities of £36,619. The Directors have considered the going concern assumptions used in preparing the accounts and believe the company to be a going concern on the basis that it is in the start-up phase. The company is reliant on the support of its parent company on not calling the debt due until there are sufficient funds available to repay the debt.

1.3 Turnover

Turnover is recognised at the fair value of the consideration received or receivable for goods and services provided in the normal course of business, and is shown net of VAT and other sales related taxes. The fair value of consideration takes into account trade discounts, settlement discounts and volume rebates.

When cash inflows are deferred and represent a financing arrangement, the fair value of the consideration is the present value of the future receipts. The difference between the fair value of the consideration and the nominal amount received is recognised as interest income.

1.4 Tangible fixed assets

Assets in the course of construction are not depreciated.

1.5 Investment properties

Valuation of investment properties - At each year end the directors will estimate the value of investment property. The valuation is a key figure in the accounts and is subject to judgement. In the year of purchase the valuation is based on cost.

1.6 Impairment of investment properties

At each reporting period end date, the company reviews the carrying amounts of its investment properties to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2022

1 Accounting policies

(Continued)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

1.7 Cash and cash equivalents

Cash and cash equivalents are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

1.8 Financial instruments

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Basic financial assets

Basic financial assets, which include debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2022

1 Accounting policies

(Continued)

Basic financial liabilities

Basic financial liabilities, including creditors and loans from fellow group companies, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

1.9 Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of transaction costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

1.10 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

1.11 Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of stock or fixed assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2022

1 Accounting policies

(Continued)

1.12 Government grants

Government grants are recognised at the fair value of the asset received or receivable when there is reasonable assurance that the grant conditions will be met and the grants will be received.

A grant that specifies performance conditions is recognised in income when the performance conditions are met. Where a grant does not specify performance conditions it is recognised in income when the proceeds are received or receivable. A grant received before the recognition criteria are satisfied is recognised as a liability.

1.13 Foreign exchange

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Gains and losses arising on translation in the period are included in profit or loss.

1.14 Overhead and Support Services

Costs relating to finance and legal services, for example, are purchased as a supply and form part of the Company's administration costs.

1.15 Taxation

The tax expense represents the sum of the current tax payable and the deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year.

Deferred tax

Deferred tax liability are generally recognised for all timing differences and deferred tax assets are recognised to the extent that is probable that they will be recovered against future taxable profits.

2 Judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

Valuation of investment properties - At each year end the directors will estimate the value of investment property. The valuation is a key figure in the accounts and is subject to judgement.

3 Employees

The average monthly number of persons (including directors) employed by the company during the year was 0.

Horsham District Homes Holdings Limited does not directly employ any staff. A service agreement is in place between Horsham District Homes Holdings Limited and Horsham District Council.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2022

Tangible fixed assets 4

5

6

Tangible fixed assets		Assets unde constructio £
Cost		~
At 1 April 2021		308,490
Transfers		(308,490)
At 31 March 2022		
Depreciation and impairment		
At 1 April 2021 and 31 March 2022		-
Carrying amount		
At 31 March 2022		-
At 31 March 2021		308,490
Investment property		2022
At 1 April 2021		£
Additions		447,800
Transfers		308,490
At 31 March 2022		756,290
Debtors	2022	2021
Amounts falling due within one year:	2022 £	2021 £
Amounts owed by group undertakings	1	1
Other debtors	10,913	-
Deferred tax asset	8,589	-
	19,503	1

7 Creditors: amounts falling due within one year

	2022 £	2021 £
	L	r
Amounts due to group undertakings	61,152	13,884
Other creditors	4,328	29,072
	65,480	42,956

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2022

8	Creditors: amounts falling due after more than one year		
		2022 £	2021 £
	Housing and enabling grants received	750,122	308,490
9	Capital commitments		
	Amounts contracted for but not provided in the financial statements:		
		2022	2021
		£	£
	Acquisition of tangible fixed assets	-	304,000

10 Parent company

Parent Undertaking

The parent undertaking and person with significant control of Horsham District Homes (Holdings) Limited is Horsham District Homes Limited. The ultimate parent undertaking is Horsham District Council, a local authority in England and Wales. The address of the Council's principal place of business is Parkside, Chart Way, Horsham, West Sussex, RH12 1RL.

Related Party Transactions

A summary of the Company's transactions with Horsham District Homes (Holdings) Limited is outlined below:

- Horsham District Homes (Holdings) Limited borrowed £21,502 from Horsham District Homes Limiyed to pay for the support services during the period. This amount is within creditors (note 7).
- Horsham District Homes (Holdings) Limited is 100% owned by Horsham District Homes Limited. During the period to 31 March 2022 Horsham District Homes (Holdings) Limited had issued 1 share at £1 each, which remain unpaid.
- Horsham District Homes (Holdings) Limited received grant income from Horsham District Council. The grants are shown in long term creditors and will be classed as income once the grant conditions have been met.
- Under a services agreement, Horsham District Council provides support services to Horsham District Homes (Holdings) Limited, these are included in administration costs. Amounts owed to Horsham District Council in respect of these services are included in creditors (note 7).

11 Covid-19

At the reporting date Covid-19 caused widespread lockdown measures to be imposed in the UK and worldwide. This has resulted in a reduction in both supply and demand in the economy. It is not currently possible to estimate the impact this will have on the future financial results of the company and management consider it to be a significant uncertainty. Management have assessed the impact of Covid-19 on the results reported for the financial period ended 31 March 2022 and consider that all COVID 19 related costs and effects have been reflected in the accounts.

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