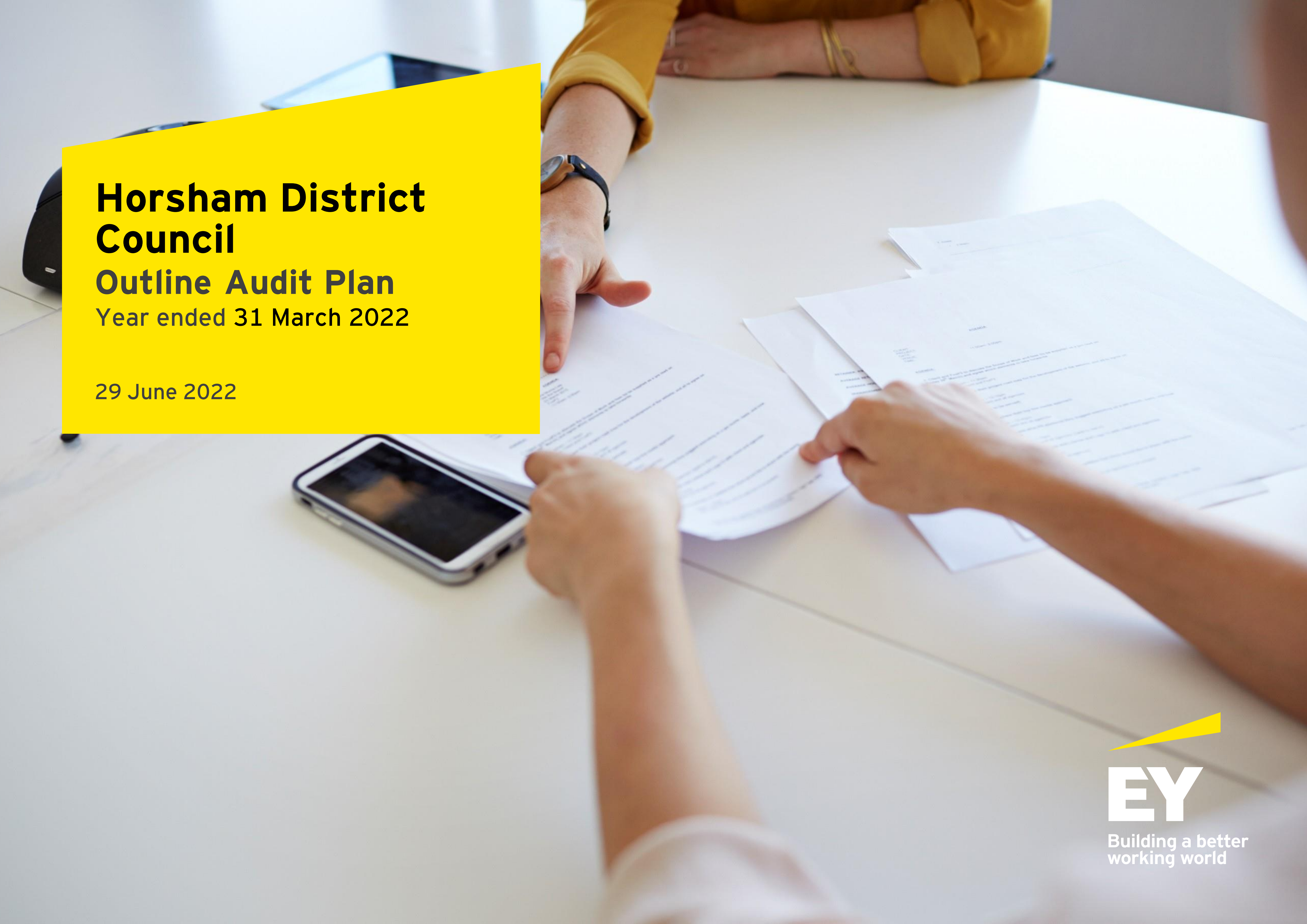


# Horsham District Council

## Outline Audit Plan

Year ended 31 March 2022

29 June 2022

EY
Building a better working world

**Private and Confidential**

29 June 2022

Horsham District Council
Parkside
Chart Way
Horsham
West Sussex
RH12 1RL

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 (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).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

# 2021/22 Audit

**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;
4. 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;
7. 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 Audit

## 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.

# 2021/22 Audit

## 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.

**Gross expenditure on the provision of services**
**£73m**

We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Authority.

**Planning materiality**
**£1.5m**

Planning materiality is the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements. For planning purposes, planning materiality for 2021/22 has been set at £1.5 million, which represents 2% of the prior years gross expenditure. The use of 2% of gross revenue expenditure in line with the prior year.

**Performance materiality**
**£1.1m**

Performance materiality is the amount we use to determine the extent of our audit procedures. We have set performance materiality at £1.1 million which represents 75% of planning materiality and is in line with the prior year.

**Audit differences**
**£73k**

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement and collection fund) greater than £73,000. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

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

# 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 |
|---|---|---|---|
| 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.<br>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. |
| Misstatements due to fraud or error | Fraud risk | No change in risk or 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.<br>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.<br>Material judgemental inputs and estimation techniques are required to calculate the year-end L&B and IP balances held in the balance sheet.<br>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.<br>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.<br>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.<br>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. |

# 02 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.

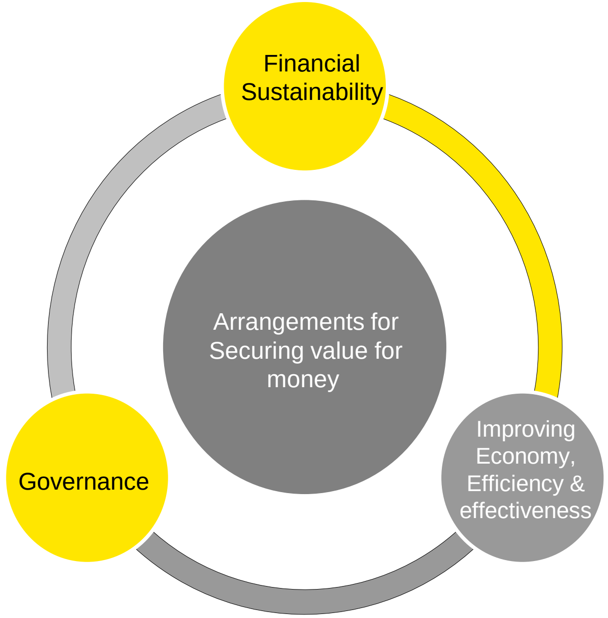
As part of the material published with its financial statements, the Authority is required to bring together commentary on its governance framework and how this has operated during the period in an annual governance statement. In preparing its annual governance statement, the Authority tailors the content 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 arrangements' to secure economy, efficiency and effectiveness on its use of resources. The Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Authority a 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 constitutes 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 matter 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.

# Value for money risks

## Responding to identified risks

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires 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.

## 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.

# 03 Fees

# Fees

## 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 |
| Scale fee Rebasing: changes in the work required to address professional and regulatory standards (1) | TBC | £25,000 | |
| Additional fee determined by PSAA Ltd (2) | TBC | | £17,636 |
| **Revised Proposed Scale Fee** | **TBC** | **£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** | **TBC** | **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.