

# Horsham District Council

## Audit Committee Progress Report

December 2017



Building a better  
working world



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

4 December 2017

## **Audit Progress Report**

We are pleased to attach our Audit Progress Report.

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

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

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

Yours faithfully

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

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

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

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

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

# 2017/18 audit

## **Fee letter**

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

## **Financial statements audit**

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

We have been liaising with Internal Audit with a view to placing reliance on the testing of controls which they perform in the normal course of their annual plan as much as possible.

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

## **Planning visit**

Our work to identify the Council's material income and expenditure systems and to walk through these systems has been substantially completed and our early substantive testing and review of the controls work performed by Internal Audit is planned for March 2017.

We will update the Committee when the planning and early substantive testing has been completed.

## **Internal Audit**

Internal Audit is a key part of the Council's internal control environment that we review during our assessment process. This process helps us to assess the level of risk of material errors occurring in the financial statements and informs the level of testing that we are required to complete in support of the audit opinion. We consider Internal Audit's progress with their annual audit plan and the results of their testing of financial systems and, where it is appropriate to do so, we will undertake procedures to enable us to place reliance upon this testing.

## **Post Statements audit**

We have agreed dates for our post statements audit with officers and agreed a timetable for the receipt of the draft financial statements and working papers. We are planning to commence our post-statements work in June 2018.

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

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

## **Value for money assessment**

We are required to reach our statutory conclusion on arrangements to secure value for money based on the overall evaluation criterion. There have been no changes from 2016/17 to the supporting sub-criteria as set out in the Audit Plan.

We have carried out our initial risk assessment. This has resulted in the following significant VFM risks which we view as relevant to our value for money conclusion, which we reported to you in our Annual Audit Plan to the January Committee.

Significant value for money risks	Our audit approach
<b>Sustainable Resource Development</b>	
<p>Local government continues to face considerable financial challenges and Horsham District Council is not immune from these pressures.</p> <p>We are aware from our review of the Council's budget monitoring for 2017/18 to quarter 2 that it is forecasting a budget underspend of around £250,000 for the year. The Council is also planning to set a balanced budget for 2018/19 and 2019/20.</p> <p>However, the financial position in future years is far more challenging and achieving financial balance will continue to become progressively harder. The current medium term financial plan is predicting significant budget gaps over the remaining years of the medium term financial plan to 2022 of £1.7m in 2020/21 and £2.3m in 2021/22 after assuming that income and efficiency actions being worked on are implemented.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ Detailed review of how the medium term financial plan is created.</li> <li>▶ Examine and challenge the key assumptions used by the Council to create the medium term financial plan.</li> <li>▶ Review the extent to which the Council is dependent upon future savings. For significant savings we will test the estimated savings in order to ensure that the Council's assumptions are reasonable.</li> </ul>
<b>Take informed decisions</b>	
<p>During the year the Council entered into the purchase of the Forum Shopping Centre (the Forum) for some £14m.</p> <p>This is a significant transaction for the Council and requires a significant use of reserves and some external borrowing to manage cashflow.</p> <p>Given the value of this transaction and the fact that the Council has taken the decision to fund this in part through external borrowing and in part from reserves, we have at this stage assessed this as a significant risk for the value for money conclusion.</p> <p>The purchase of the Centre has changed the way in which the Council manages its cashflow, requiring increased use of short term borrowing.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ Detailed review of the arrangements through which the Council entered into the purchase of the Centre to ensure that this represents value for money for the Council, including the business case for the purchase and the advice sought by the Council to support the decision.</li> <li>▶ Examine and challenge the key assumptions used by the Council in arranging the financing of the purchase.</li> <li>▶ Review the Council's cashflow management to understand the impact of the purchase of the Centre on the Council's ability to meet its financial commitments and that this was communicated to members.</li> </ul>

## 2016/17 Grant Certification Work

We completed the certification of your 2016/17 housing benefit subsidy claim in November 2017. We identified significantly fewer errors in our testing this year, with only one out of 20 cases failing in each of the two areas we test (non-HRA Rent Rebates and Rent Allowances). The additional testing performed by CenSus also identified fewer errors than in previous years and there were no amendments required to the claim form.

The error extrapolations included in our qualification letter totalled £14,484, increasing current year LA error and administrative delay by £12,629 and eligible overpayments by £1,855. The Council has not breached the LA Error Threshold this year, therefore the clawback is expected to be limited to that shown in the qualification letter.

We will present our formal certification report to the next meeting of the Audit Committee.

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