



ACCOUNTS, AUDIT & GOVERNANCE COMMITTEE

WEDNESDAY 28TH MARCH 2012 AT 5.30pm
COMMITTEE ROOM 1, PARK NORTH, NORTH STREET, HORSHAM

Councillors: David Holmes (Chairman)
Gordon Lindsay (Vice-Chairman)
John Bailey Leonard Crosbie
Jonathan Chowen Jim Rae
Roy Cornell

Tom Crowley
Chief Executive

AGENDA

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1. Apologies for absence	
2. To approve as correct the minutes of the meeting of the Committee held on 14 th December 2011	1
3. To receive any declarations of interest from Members of the Committee	
4. To receive any announcements from the Chairman of the Committee or the Chief Executive	
5. Objection to the 2010/11 Accounts	8
6. Audit Plan 2011/12 - <i>please see separate appendix</i>	
7. Certification of Claims and Returns – Annual Report - <i>please see separate appendix</i>	
8. Audit Commission Update	30
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12. 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	



ACCOUNTS, AUDIT & GOVERNANCE COMMITTEE
14TH DECEMBER 2011

Present: Councillors: David Holmes (Chairman) Gordon Lindsay (Vice Chairman) John Bailey, Roy Cornell, Leonard Crosbie, Jim Rae

Apologies: Councillor: Jonathan Chowen

Also present: Councillor Christian Mitchell

AAG/25 **MINUTES**

The minutes of the meeting held on 29th September 2011 were approved as a correct record and signed by the Chairman.

AAG/26 **DECLARATIONS OF INTEREST**

There were no declarations of interest.

AAG/27 **ANNOUNCEMENTS**

The Chairman raised a number of outstanding issues from previous minutes:

- The Head of Financial & Legal Services would produce and submit to the next meeting a forward programme of standing items for the coming year
- The Head of Financial & Legal Services and the Chief Internal Auditor would consider any possible adjustments required to the Committee's terms of reference and report thereon to the next meeting
- The Head of Financial & Legal Services would arrange further training for members of the Committee on understanding the Council's accounts and treasury management matters

AAG/28 **ANNUAL AUDIT LETTER 2010/11**

The Chairman of the Committee welcomed Helen Thompson, District Auditor and Emma Bryant, Audit Manager to the meeting, to present the Audit Commission's Annual Audit Letter for 2010/11.

The Annual Audit Letter summarised the District Auditor's findings from the 2010/11 audit, which had been discussed at the last meeting of the Committee.

In particular, the Committee's attention was drawn to the key messages in the letter including:

AAG/28 Annual Audit Letter 2010/11 (cont.)

- The District Auditor had issued an unqualified audit opinion on the Council's financial statements on 29th September 2011.
- 2010/11 was the first year the financial statements had had to be produced under International Financial Reporting Standards, which had required a significant amount of additional time and effort. The District Auditor commended the Council on meeting this challenge and providing a draft set of accounts by the set deadline that, in the main, were compliant with the new requirements.
- The District Auditor had also issued an unqualified value for money conclusion for the year ending 31st March 2011, indicating that the Council had proper arrangements in place for securing economy, efficiency and effectiveness.

It was noted that, whilst the unqualified audit opinion had been issued on 29th September 2011, the District Auditor had not yet been able to close the audit formally due to an objection made to the 2010/11 accounts but that she hoped to be in a position to do so by the end of February 2012.

It was agreed that updates would be given by the Director of Corporate Resources at the next meeting of the Committee:

- on the outstanding areas in respect of the National Fraud Initiative
- to confirm that the issues identified by the District Auditor in respect of focusing on the accuracy of forecasting; reporting this to Members; and bringing action plans together to form a single monitor of progress were being addressed.

The District Auditor would provide further information on the Council's nearest statistical neighbours and the meaning of running costs in relation to the Value for Money profile information, for circulation to members of the Committee.

A copy of the Annual Audit Letter would be deposited in the Members' Room.

RESOLVED

That the content of the Annual Audit Letter 2010/11 be noted.

AAG/29 **OBJECTION (LATER WITHDRAWN) TO THE 2008/09 ACCOUNTS**

A member of the public addressed the Committee in respect of this item.

The Head of Financial & Legal Services reported that, in response to an

AAG/29 Objection (later withdrawn) to the 2008/09 Accounts (cont.)

objection to the 2008/9 accounts by a local elector (subsequently withdrawn) relating to the future of the Town Hall, the District Auditor had written to the Council confirming that she was satisfied the Council had acted within the law in respect of the three specific issues raised by the objector.

However, the process for dealing with the Town Hall had been drawn out and the District Auditor had asked the Council to consider whether it could have acted differently to avoid this and to implement any learning for future decisions. It was noted that the copy of the District Auditor's letter circulated with the agenda, whilst dated 17th December 2010, was in all respects identical to the final letter which was dated 21st December 2010. Details of the Council's response to the District Auditor's letter were submitted.

As referred to in minute number AAG/29 above, the District Auditor indicated that she was now dealing with a similar objection to the 2010/11 accounts.

The Committee discussed a number of issues referred to in the letters, including the use of the private treaty route for bids.

In particular, Members considered that there was a lack of clarity regarding the difference between and the remit of Working Groups and Advisory Groups and requested that changes be made to the Constitution to remedy this.

RESOLVED

That the Council's response to the District Auditor be noted.

AAG/30 TREASURY MANAGEMENT STRATEGY 2012/13

The Head of Financial Services reminded Members that this Committee had responsibility for the implementation and monitoring of the Council's treasury management policy and practices. The Council had significant investments and borrowing and had to manage its cash flow in both the short and long term. It therefore required an overall strategy as well as sets of practices and procedures and the Treasury Management Strategy for 2012/13 was therefore submitted for approval.

The Chartered Institute of Public Finance and Accountancy had published a revised version of its Code in November 2011, in light of the additional financial freedoms available to local authorities in the Localism Act 2011. It would therefore be necessary formally to adopt the Treasury Management in the Public Services: Code of Practice 2011 Edition and a new Treasury

AAG/30 Treasury Management Strategy 2012/13 (cont.)

Management Policy Statement, which had been amended in line with the new Code of Practice.

Details of the current and expected treasury portfolios were submitted together with information in respect of:

- the investment strategy
- Investment criteria and limits
- Non-specified investments
- The Planned investment strategy for 2012/13
- Security benchmark: average credit rating
- Liquidity benchmark
- Yield benchmark
- Liquidity management
- Borrowing Strategy
- Policy on Use of Financial Derivatives

The CIPFA Treasury Management Code set a number of indicators the Council had to set, as follows:

- Interest rate exposures
- Maturity structure of borrowing
- Principal sums invested for periods longer than 364 days
- Gross and net debt
- Borrowing limits

The Department for Communities and Local Government Investment Guidance required the Council to note the use of treasury management advisers, staff training arrangements and its policy on investment of money borrowed in advance of need each year as part of the investment strategy.

Members requested that, at the next meeting of the Committee, they be provided with information in respect of the current qualifications of and training undertaken by the Council's treasury management team.

It was also agreed that Members of the Committee should be provided with training in respect of treasury management matters to enable them to better understand the information presented.

RECOMMENDED

- (i) That the 2011 version of the CIPFA Treasury Management Code of Practice be adopted.

AAG/30 Treasury Management Strategy 2012/13 (cont.)

- (ii) That the revised Treasury Management Policy Statement be adopted.
- (iii) That the Treasury Management Strategy for 2012/13 be approved.
- (iv) That the Treasury Management Indicators for 2012/13 be approved.

REASONS

- (i) The Council has previously adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice Fully Revised Second Edition 2009 (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year.
- (ii) The Department for Communities and Local Government (CLG) issued revised guidance on local authority investments in March 2010 that requires the Council to approve an investment strategy before the start of each financial year.

AAG/31 INTERNAL AUDIT – QUARTERLY UPDATE REPORT

The Chief Internal Auditor submitted a report summarising the work of the Internal Audit Section from September 2011.

A summary of audit findings in respect of performance indicators, The Capitol, purchase cards, the transparency agenda, transport & plant and staff loans (car loans, season ticket loans, Pavilions membership & Cycle to Work scheme) was submitted. Internal Audit had also been involved in a recent lengthy special investigation and a 'lessons learnt' report had been produced for the Chief Executive together with a comprehensive action plan which was being reviewed by the Corporate Management Team. The main outcomes of this process would be reported to the Committee at its next meeting.

It was noted that Internal Audit was continuing to support the joint Information Security Project, pending the filling of the Information Security Manager's post. The Chief Internal Auditor was also a member of the

AAG/31 Internal Audit – Quarterly Update Report (cont.)

Project Assurance Core Team, which oversaw key Council projects as identified by Corporate Management Team.

As previously reported, Internal Audit resources had been stretched during the current financial year due to the incidence of special investigations and the long-term sick leave of a member of the audit team. Resources had been temporarily increased to ensure that all key financial systems were audited during 2011/12. Also, the audit plan had been revised and now included some additional areas for review which had been brought forward in response to areas of weakness identified, whilst the following audits would be deferred until 2012/13: Use of Consultants, Section 106 Agreements, Facilities Management and Reprographics.

The Chief Internal Auditor also reported on the current position regarding the percentage of agreed action items implemented in respect of audits undertaken in 2010/11 and 2009/10.

The Committee was concerned to note that a number of planned audits were being slipped and requested the Head of Financial & Legal Services to report to the next meeting on the adequacy of audit resources and how the risk was being evaluated. Members also requested that steps be taken to fill the vacant position of Information Security Manager as soon as possible, which would relieve some of the pressure on the audit team. It was considered that the results of the six most recent audits, resulting in two opinions of 'substantial assurance' and four of 'moderate assurance' demonstrated the continuing need for a strong internal audit team.

RESOLVED

- (i) That the summary of audit work undertaken since September 2011 be noted.
- (ii) That the revised audit plan for 2011/12 be noted.

REASON

- (i) To comply with the requirements set out in the CIPFA Code of Practice for Internal Audit.
- (ii) The Committee is responsible for reviewing the effectiveness of the Council's system of internal control.

AAG/32 **RISK MANAGEMENT – QUARTERLY UPDATE REPORT**

The Head of Financial & Legal Services reminded the Committee that it was charged with responsibility for monitoring the effectiveness of the Council's risk management arrangements.

It was noted that the corporate risk register had been fully reviewed by the Corporate Management Team and it was recommended that one risk: CRR18 (Hop Oast and Hurston Lane depots not large enough to accommodate the waste refuse vehicles) should now be removed as all actions had now been completed. It was also noted that a new risk had been added (CRR27 – Failure to comply with Council policy & procedures and legislative requirements in respect of Health & Safety) pending a comprehensive review of the Council's health & safety arrangements.

A meeting of senior officers had been arranged in early January 2012 to undertake a comprehensive review of corporate risk management and the Risk Management Strategy.

Members expressed concern that some senior managers were overworked and that this might, in itself, be a risk. Whilst the Head of Financial & Legal Services advised that this was a management issue, that it was a key role of managers to be aware of pinch points, and that the Chief Executive was aware of current areas of concern; the Chairman of the Committee indicated that he would raise this issue with the Chief Executive.

RESOLVED

- (i) That the updated Corporate Risk Register be approved.
- (ii) That risk CRR18 be removed from the Corporate Risk Register.
- (ii) That the progress made in respect of departmental risk registers be noted.

REASON

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

AAG/33 **URGENT MATTERS**

There were no urgent matters to be considered.

The meeting finished at 7.45pm having commenced at 5.30pm.

CHAIRMAN

Report to Accounts, Audit and Governance Committee

28th March 2012

By the Director of Corporate Resources

DECISION REQUIRED

Not exempt



Objection to the 2010/11 Accounts

Executive Summary

The District Auditor has issued her decision on the objection to the 2010/11 accounts by Mr Mayfield and this is attached. The objector asked the District Auditor to issue a public interest report under Section 8 of the Audit Commission Act 1988 in relation to a number of matters. Her decision is not to issue a public interest report and the reasons are set out in detail in the decision letter to Mr Mayfield.

The District Auditor has written to the Council pointing out that although she has decided not to issue a public interest report, there are some matters identified as a result of her work on Mr Mayfield's objection where she is critical of the Council's actions and where she believes it needs to take some action in response. This letter is also attached with a response from the Chief Executive. The Council acknowledges the points made in the District Auditor's letter and in her decision letter to Mr Mayfield and will take action to ensure these issues do not arise again.

In particular, the Council is taking great care to ensure that its current marketing of the Town Hall is conducted in a clear and transparent manner and conforms with all the recommendations of the District Auditor.

Recommendations

The Committee is recommended:

- i) To note the decision of the District Auditor not to issue a public interest report in response to the objection to the 2010/11 accounts
- ii) To note the comments made in the District Auditor's letter to the Chief Executive and the response to that letter

Background Papers

Consultation **External Auditors**

Wards affected **All**

Contact Sue McMillan Ext 5302

Reasons for Recommendations

- i) To ensure that the Council takes action in response to the issues which have been identified by the District Auditor

Background Information

1 Introduction

The purpose of this report

- 1.1 The purpose of this report is to report the District Auditor's decision on the objection by Mr Mayfield to the 2010/11 accounts.

2 Details

- 2.1 The District Auditor has issued her decision on the objection to the 2010/11 accounts by Mr Mayfield and this is attached. The objector asked the District Auditor to issue a public interest report under Section 8 of the Audit Commission Act 1988 in relation to a number of matters. Her decision is not to issue a public interest report and the reasons are set out in detail in the decision letter to Mr Mayfield.

The District Auditor has written to the Council pointing out that although she has decided not to issue a public interest report, there are some matters identified as a result of her work on Mr Mayfield's objection where she is critical of the Council's actions and where she believes it needs to take some action in response. This letter is also attached with a response from the Chief Executive. The Council acknowledges the points made in the District Auditor's letter and in her decision letter to Mr Mayfield and will take action to ensure these issues do not arise again.

In particular, the Council is taking great care to ensure that its current marketing of the Town Hall is conducted in a clear and transparent manner and conforms with all the recommendations of the District Auditor.

3 Staffing Consequences

- 3.1 There are no staffing consequences arising from this report.

4 Financial Consequences

- 4.1 There are no financial consequences arising specifically from this report.

Appendix 1

Consequences of the Proposed Action

What are the risks associated with the proposal?	There are reputational risks to the Council if the Council does not respond appropriately to the District Auditor's comments.
Risk Assessment attached Yes/No	No
How will the proposal help to reduce Crime and Disorder?	There is no impact on Crime and Disorder.
How will the proposal help to promote Human Rights?	There is no impact on Human Rights.
What is the impact of the proposal on Equality and Diversity?	There is no impact on Equality and Diversity.
Equalities Impact Assessment attached Yes/No/Not relevant	Not relevant.
How will the proposal help to promote Sustainability?	There is no impact on Sustainability.

1 March 2012

Direct line 0844 798 1790
Email helen-thompson@audit-commission.gov.uk

Dear Mr Mayfield

— **Horsham District Council – audit of accounts for the year ended 31 March 2011 – decision on your objection**

I am writing to advise you of my decision on your objection to the accounts of Horsham District Council for the year ended 31 March 2011.

You will recall that I wrote to you on 20 December 2011 to outline my provisional views on your objection. At the same time I disclosed to you the material information on which my provisional views were based and gave you opportunity to make representations by 24 January 2012.

On 21 December 2011 you indicated that you would not be responding to the provisional view letter, a position that you reiterated at the beginning of your letter of 23 January 2012. However, your letter of 23 January did include comments about my provisional views. I have considered those, as appropriate, in reaching my final decision on your objection.

In reaching my decision I have also taken account of the Council's response to my provisional views and the results of some further enquiries that I needed to make in light of comments contained in your letter of 23 January.

In your letter of 23 January, you reiterated your concern that the timetable for dealing with this objection might have been designed to incorporate future possible actions by the Council. I have previously explained the timescales in which I am required to deal with objections and outlined the timetable I was then working to, without regard to the dates of Council meetings. However, in my view it is entirely appropriate for an auditor to take account of actions taken by a council during the course of an objection and the outcome of such actions, regardless of whether their impact on the auditor's decision is positive or negative. In this case the Council's actions during 2011/12, including the outcome of its meeting on 21 December 2011, have not been a major factor in my decision whether or not to issue a Report in the Public Interest as requested by your objection. However, to the extent that they are relevant, I have taken them into account.

Your objection

Under Section 16 of the Audit Commission Act 1998 (the Act) local government electors can object about:

- any matter in respect of which the auditor could take action under Section 17 (unlawful item of account); and / or
- any other matter in respect of which the auditor could make a report under Section 8 (Report in the Public Interest).

Your objection did not identify any potentially unlawful item of account in 2010/11. Instead you asked me to issue a Report in the Public Interest under Section 8 of the Act to bring matters to the attention of the public. Specifically the objection related to your concerns that:

- the Council failed to take heed of my letter dated 21 December 2010;
- the Council used the conclusion in my letter of 21 December 2010 - that it had "acted within the law" - to provide unwarranted assurance about, for example, its handling of requests made under the Freedom of Information Act;
- by entering a conditional agreement with Bill's Produce during 2010/11, which linked future Horsham operations to the success or otherwise of a newly opened branch in Reading, the Council exposed itself to unacceptable risk and loss of control;
- the Council's Annual Governance Statement for 2010/11 was flawed, despite you having drawn alleged shortcomings to the attention of the Accounts, Audit and Governance Committee; and
- Council minutes are not always a true reflection of discussions, citing a Cabinet minute from 27 January 2011.

Before I set out my findings and decision on your objection, I think it is helpful to set out the legislation governing objections and the discretionary framework that auditors have to work within when reaching decisions on an objection which asks the auditor to issue a Report in the Public Interest.

Code of Audit Practice

The Act requires the Audit Commission to prepare, and keep under review, a Code of Audit Practice which prescribes the way in which auditors appointed by the Commission are to carry out their functions. The Code is approved by Parliament. Paragraph 55 of the Code states:

“In considering whether to exercise any of their specific powers under the Act, auditors should apply a balanced and proportionate approach in determining the time and resources to be spent on dealing with matters that come to their attention. They should consider:

- **the significance of the subject matter;**
- **whether there is wider public interest in the issues raised;**
- **whether the substance of the matter has previously been considered by the body’s auditor;**
- **the costs of dealing with the matter, bearing in mind that these fall directly on the taxpayer; and**
- **in the case of objections, the rights of both those subject to objection and the objector.”**

The auditor’s exercise of discretion - action under Section 8

I have discretion whether to make a Report in the Public Interest where I consider there is a matter that should be considered by the audited body or brought to the attention of the public.

Factors that I may take into account when considering making a Report in the Public Interest include whether it is necessary to:

- ensure a matter is considered by the audited body;
- ensure a matter is brought to the attention of the public;
- encourage the audited body to take appropriate action;
- highlight an audited body’s failure to take action or respond; or
- express my view as an impartial person.

The following may be reasons why I might consider not making a Report in the Public Interest:

- the audited body has already taken action to remedy the deficiencies;
- it would unnecessarily undermine public confidence in the audited body;
- no actual or only small losses have been incurred; or
- the matter involves a technical failing with no real consequences.

Other considerations and possible outcomes

Other factors that I need to consider when deciding what action (if any) to take include:

- the cost, against the benefits, of taking a particular course of action;
- the significance of the issue;
- what the proportionate response would be;
- whether there are any issues of principle or legal interpretation that need to be determined;
- which action would be in the public interest;
- whether the issue is likely to reoccur; and
- what course of action (if any) would make a difference for the future.

Possible outcomes from deciding on an issue or objection, which are not all mutually exclusive, include:

- taking no action;
- referring the issue to the audited body to consider;
- writing a letter or report to the audited body, setting out matters that I want to draw to the attention of its officers and elected members;
- including matters in my Annual Audit Letter;
- making statutory recommendations under Section 11 of the Act; and
- issuing a Report in the Public Interest.

When, as in this case, an objection only asks the auditor to issue a Public Interest Report, the auditor is not required to provide a statement of reasons for their decision. However, in the interests of openness, my findings and reasons for my decision are set out in the remainder of this letter.

Findings

In the following paragraphs I outline my findings, on which I have based my decision, in relation to each part of your objection.

The Council's response to my letter

You expressed concern that the Council failed to take heed of my letter dated 21 December 2010.

I sent my letter to the Council following the withdrawal of your objection to its 2008/09 accounts. My objective was to ensure that "*as much value is gained from that work (on the objection) as possible*". The letter contained no recommendations, but outlined my findings and conclusions. It identified a need for the Council to:

1. consider how it could have acted differently to avoid processes around the Old Town Hall becoming drawn out and to implement any learning for future decisions;
2. provide advisory or working groups with clear guidance and limits within which to work;
3. assist community groups by facilitating their interactions with the Council, its decision making and business processes;
4. establish processes which require agents to declare any potential conflict of interest before they are appointed;
5. adopt a formal process with stronger controls for any future major procurement or asset disposal exercises. This should include establishing how bids or tenders will be evaluated prior to advertising the opportunity, so that there can be a transparent basis for the eventual decision;
6. establish plans, with clear milestones and accountabilities, for all significant projects; and
7. ensure that Council and Committee reports and minutes accurately describe procurement and other similar processes.

I asked the Council for its views on all aspects of your objection. In relation to this element, Council officers told me that my letter:

- was discussed at Management Team;
- was taken into account during the recent remarketing of the Town Hall; and
- would be considered by the Council's Accounts, Audit and Governance Committee during December 2011.

Subsequently I requested a more detailed account of how the Council had responded to my findings. The Chief Executive explained the Council's position on each of the issues raised by my letter, as summarised at points 1 to 7 above. In particular he:

- committed to ensure clarity over the respective roles of advisory and working groups in future; and
- stated that the Council has adopted "Prince II" and other monitoring arrangements for all significant future projects.

On 14 December 2011, the Accounts, Audit and Governance Committee considered a report from the Council's Head of Financial and Legal Services. The report asked the Committee to "*note the Council's response to the District Auditor*". It included a copy of my letter for Committee members' consideration and quoted the Chief Executive's response to my enquiries.

The Council's use of my letter

My letter of 21 December 2010 related to your withdrawn objection to three specific items of account. My view was that the items of account were not unlawful. I also found no evidence that the Council had acted unlawfully in its marketing of the Old Town Hall, bid evaluation or decision-making.

You stated that the Council has used the conclusion in my letter - that it had "*acted within the law*" - to provide unwarranted assurance about, for example, its handling of requests made under the Freedom of Information Act.

You provided three pieces of evidence in support of that statement:

- an extract from a letter said to have been sent to the Local Government Ombudsman by the Council's Monitoring Officer on 4 October 2011. It said:

"Mr. Mayfield has also made objection to the 2008/09 statutory accounts based on three items of expenditure related to the future of the Old Town Hall in Horsham. There was considerable correspondence between Mr. Mayfield and the District Auditor which ultimately led to Mr. Mayfield withdrawing his objection on 27th September 2010. The District Auditor concluded that the Council had acted within the law."

- a letter from a Council Solicitor to you about the outcome of a Freedom of Information Act Review. In so far as the letter appeared relevant to this part of your objection, it said:

"The objection was regarding the payment of a fee of approximately £300 by the Council..... The District Auditor wrote to the Council on 21 December 2010 and stated that she was 'satisfied that the Council has acted within the law'."

- your reply to the Council's Solicitor. In respect of my letter to the Council, your letter only said that:

"The December 21st letter from the District Auditor was reported in the local press as being critical of the Council. In my view, only the courts can decide whether the Council acted within the Law. It can also be shown from the District Auditor's file that the Council misled her inquiry by initially, falsely contrasting the opening bid from Gondola with the final bid from Bill's Produce."

In an email sent to me on 25 November 2011, the Council's Chief Executive stated:

"As your original report said, the Council has not acted illegally in any of the processes it has followed."

More recently that statement was quoted in a report to the 14 December 2011 meeting of the Accounts, Audit and Governance Committee.

Conditional agreement with Bill's Produce

You contend that the Council exposed itself to unacceptable risk and loss of control, by entering a conditional agreement with Bill's Produce, which linked future Horsham operations to the success or otherwise of a newly opened branch in Reading.

You expanded on your view in correspondence. For example, you wrote:

"In spite of the District Auditor's previous warnings on Risk Management the Council apparently turned down a no strings, more immediate and superior offer in almost every way, from Gondola (including less impact on this historic building); in favour of the conditional bid from Bill's Produce. As the condition was based on performance at the Reading Branch the Council seemed happy to put the matter completely out of its own hands and delay potential occupancy well beyond the Reading opening date. In terms of 'risk' things don't get much riskier I believe."

The Council's response to this part of your objection explained that an agreement for lease is a commonly used interim stage in progressing towards a completed lease, the "trading condition" was one part of such an agreement and the Council *"felt this was a reasonable risk to take"*.

The Agreement for Lease:

- effectively required licensing, planning and trading conditions to be met by 19 December 2010 or, by agreement, 19 April 2011 if delay was caused by judicial review of a planning decision;
- stated the main lease would be for 25 years at an annual rent of £52,500 for the first five years and then subject to review; and
- contained the Trading Condition.

The unsigned Lease Agreement confirmed that:

- Bill's Produce would have benefited from a rent free period of three months; and
- rent payable by Bill's Produce would rise to at least £70,000 at the first Review Date (5 years) and could not fall at subsequent Review Dates (years 10, 15 and 20).

In summary, the Agreements required Bill's Produce to pay the Council £249,375 in the first five years of the lease and at least £70,000 per annum thereafter.

In accordance with the Agreement for Lease, solicitors acting for Bill's Produce advised the Council that the trading condition had not been met on 8 October 2010 and provided the Council with supporting evidence. Bill's Produce could therefore walk away, unless they opted to waive the trading condition, which they did not.

Effectively the Agreement for Lease lapsed on 8 October 2010, which was two weeks before your Judicial Review application was turned down on 22 October 2010. The Lease Agreement could not have been signed before the Judicial Review outcome was known and so the trading condition on its own did not cause a delay in the Council realising income from the Old Town Hall.

I looked for any other financial impact of the Council's decision to pursue the aborted conditional agreement with Bill's Produce, rather than another course of action. The decision to award the lease to Bill's Produce was taken on 14 May 2009 by the Cabinet Member for Finance and Assets, based on a report from the Strategic Land and Property Manager. The report compared the Bill's Produce bid with a competing offer from Ask/Gondola. The evaluation section stated that, in financial terms alone:

- the Bill's Produce offer was £52,500 per annum for the first five years, subject to a rent free period of three months (i.e. £249,375 in the first five years); and
- Ask/Gondola's offer was £70,000 per annum for the first five years, subject to a rent free period of two years (i.e. £210,000 in the first five years).

If, hypothetically, the Council had accepted that Ask/Gondola offer in May 2009 it would have received no lease rental income until at least the 2011/12 financial year, so there would have been no beneficial impact during 2010/11.

However, the Strategic Land and Property Manager's report made no reference to a second offer from Ask/Gondola which, I understand, was received more than two weeks before the decision on 14 May 2009. It offered the Council £72,500 per annum for the first five years, subject to a rent free period of one year (i.e. £290,000 in the first five years, £40,625 more than the Bill's Produce offer).

Based on the evaluation criteria used by the Council, the improved financial offer on its own was not sufficient to swing the lease decision in Ask/Gondola's favour. Officers have told me that is the reason why the report to the Portfolio Holder was not updated for the second offer. I have been told the Portfolio Holder was briefed about it informally. However, the second Ask/Gondola offer also expanded on the initial offer regarding non-financial aspects. These were not factored into the decision either.

Had a decision been taken in Ask/Gondola's favour instead, it is feasible, but by no means certain, that the Council could have received income of up to £60,000 in the 2010/11 financial year.

As at February 2012 the Council still owns the Old Town Hall. Following a decision at a Council meeting on 21 December 2011, it is to be remarketed and offers invited for leasehold or freehold disposal.

Annual Governance Statement

You believe that the Council's Annual Governance Statement for 2010/11 was flawed, despite you having drawn shortcomings to the attention of the Accounts, Audit and Governance Committee.

On 21 June 2011 you wrote to the Chairman of the Council's Accounts, Audit and Governance Committee enclosing a copy of a "*Report on draft HDC Annual Governance Statement*" prepared by your representative, Mr Jeremiah. You also emailed both documents to me on 22 June and I shared them with my audit team.

The Council's Annual Governance Statement was considered by the Accounts, Audit and Governance Committee at its meeting on 28 June 2011. Receipt of your letter and report was acknowledged, but not taken into account. The Committee approved the Annual Governance Statement without amendment.

My audit includes a review of the Council's Annual Governance Statement, which I conduct in accordance with the Audit Practice's Audit Manual. My professional responsibilities are to review the Annual Governance Statement, and comment in my Audit Opinion if it differs significantly from my understanding of the Council's system of internal control. However, I do have to:

- consider the completeness of disclosures in meeting the requirements of proper practices;
- identify whether the disclosures are misleading; and

- identify any inconsistencies between the disclosures and information that I am aware of from my work on the financial statements and other work.

The Audit Manual also requires me to:

- include a reference in my Audit Opinion if I conclude from my review that there are inconsistencies between the Annual Governance Statement and my understanding; and
- consider whether any matters arising from my review of the Statement are significant enough to warrant a Report in the Public Interest.

In conducting the review my team and I did consider the documents that you had provided on 22 June 2011.

I presented my Annual Governance Report to the Council's Accounts, Audit and Governance Committee on 29 September 2011. With regard to the Annual Governance Statement my Report states that:

"I reviewed the Annual Governance Statement (AGS) and found that, whilst it reflected the findings from the Internal Audit Annual Report and the significant governance issues at the Council, the links between the AGS and the sources of assurance used to compile it could be clearer. The Head of Internal Audit's Annual Report was considered at the same Accounts, Audit and Governance Committee. However, it was considered after members had approved the AGS. Aligning the items more closely will provide members with an opportunity to consider the assurance given by Internal Audit before approving the AGS."

I recommended that the Council should:

"Ensure there are clear links between the Annual Governance Statement and the key sources of assurance which are used to compile it."

My Report also refers to my findings and recommendations in respect of the overspend on the Acorn Plus Scheme – the significant weakness disclosed in the Council's Annual Governance Statement.

I issued my Audit Opinion on the Council's accounting statements on 29 September 2011. It referred to the Annual Governance Statement as follows:

"I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007."

My Audit Opinion did not record any inconsistencies. My view at that time was that there were no matters arising from my review of the Statement that were significant enough to warrant a Report in the Public Interest.

Minutes of Council and Committee meetings

You expressed concern that Council minutes are not always a true reflection of discussions, citing a Cabinet minute from 27 January 2011.

In support of your objection you provided me with a document that compared what you believe was actually said in the relevant part of the Cabinet meeting on 27 January 2011 with what was recorded in the minutes of that meeting. The main difference is the apparent omission from the minutes of:

"Well, we had a great tenant lined up who would have been a big draw for visitors to the town centre and would have now been making a much needed contribution to keeping our council's costs down, but sadly that is not to be. Because of the delay in signing a contract the preferred tenant has now successfully opened in Reading instead. I guess Horsham town's loss is Reading's gain."

The Council's response to this part of your objection said that:

"The minutes of the Cabinet of the 27th January were agreed without alteration by a subsequent Cabinet meeting. The minutes followed normal practice and it is not usual for every comment made at such a meeting to be minuted. The important thing is the decision by the Cabinet is properly minuted."

Section 41(1) of Schedule 12 of the Local Government Act 1972 contains the statutory requirements for local authority minutes. It does not specify the degree of detail minutes must contain, but does state the requirement for approving minutes at the next suitable meeting which shall then be *"received in evidence without further proof"*.

The minutes of the next Cabinet meeting on 24 March 2011 record that the minutes of the previous meeting on 27 January 2011 were approved without amendment or dissent and were signed.

The Council's Constitution also contains requirements with regard to Council and committee minutes. With regard to the form of minutes it requires only that *"Minutes will contain all motions and amendments in the exact form and order the Chairman put them."*

My decision on your objection

I have considered whether I should issue a Report in the Public Interest under Section 8 of the Audit Commission Act 1998, drawing on the considerations outlined on pages 3 and 4 of this letter.

In summary, based on my findings I have decided that the issues raised by your objection do not warrant a Report in the Public Interest. Instead I can deal adequately with such matters through my routine reporting processes, including my next Annual Audit Letter.

Whilst I am not required to give my reasons for not issuing such a Report, in the interests of openness my reasons are set out below, taking each item from your objection in turn before considering their collective significance.

The Council's response to my letter

In my opinion, it is only the objection process that prompted the Council to record its response to my letter. It should have reacted earlier and so your objection has had a positive impact.

In terms of the factors that I take into account in deciding whether to issue a Report in the Public Interest:

- my letter has now been considered by the Council's Accounts, Audit and Governance Committee on 14 December 2011;
- my letter was included in the published agenda papers for that Committee meeting, alongside the Council's response, so there is no need for me to put those in the public domain;
- I still find some aspects of the Council's response to my letter unconvincing, but I am not aware of anything in 2010/11 which points to a recurrence of the events in earlier years that I criticised; and
- in the circumstances I can see nothing to be gained from expressing an impartial view on a matter that I do not consider to be sufficiently significant.

In terms of reasons for not issuing a Report in the Public Interest, in my opinion such a Report would be a disproportionate response to the issues identified and would unnecessarily undermine public confidence in the Council. If I remain unconvinced about the Council's response, from work I undertake as part of my 2011/12 audit, I can adequately address any matters arising in my next Annual Audit Letter.

The Council's use of my letter

In my opinion the evidence you provided does not support your suggestion that the Council has misused my letter.

- I do not believe the quotation in Mr Jeremiah's email is misleading. I also note that the letter in question appears to post-date the objection.
- Similarly I do not believe that the letter from the Council solicitor to you was misleading.
- Nothing in your reply to the Council Solicitor appears relevant to this aspect of your objection.

The Chief Executive's email to me was, however, capable of being interpreted broadly. As it was addressed to me, I do not believe that was a deliberate attempt to mislead the recipient. However, the fact it was repeated in a publicly available report to the Accounts, Audit and Governance Committee did concern me. I drew attention to this in the Accounts, Audit and Governance Committee meeting on 14 December 2011 and clarified the scope of my letter's overall conclusion. I am satisfied that no further action is required on that point.

Based on the evidence that you provided, nothing in this part of your objection suggests that the Council acted improperly. To the extent that I had reservations about the Committee report, I have addressed those. There is, therefore, no issue on which to exercise my discretion over whether to issue a Report in the Public Interest about the Council's use of my letter.

Conditional agreement with Bill's Produce

The Council is entitled to take into account factors other than maximising rental income in arriving at a most economically advantageous outcome. The evaluation methodology was not unreasonable in my view, but needed to be applied transparently. Therefore the failure to properly score the second Ask/Gondola offer was a significant omission. It left the Council exposed to accusations of bias in Bill's favour and of a lack of transparency. It also meant that the Council would not have been able to demonstrate that it received the best consideration possible for its disposal of the leasehold interest had the transaction been completed. However, the fact that Bill's Produce did not ultimately sign the Lease Agreement must be balanced against any inference that Bill's was somehow favoured.

In my opinion - taking account of the Council's explanation, the Agreement for Lease and unsigned Lease Agreement - the Council's acceptance of the trading condition was not unreasonable per se. In different circumstances the trading condition might have introduced a delay, but in fact the Judicial Review meant the Lease Agreement would still not have been signed until later, even if the trading condition had been met on 26 September or had been waived. It therefore had no actual impact on timescales.

However, the lack of clarity about the second Ask/Gondola offer means I cannot be certain that accepting Bill's offer, incorporating the trading condition, has not disadvantaged council taxpayers. It is possible, but highly uncertain, that the Council might have secured a higher income stream earlier compared with either:

- the Bill's Lease Agreement, had it been signed; or
- what actually transpired.

Instead, the Council still owns the Old Town Hall and recently decided to invite offers for leasehold or freehold disposal.

In my view, the conditional agreement in isolation is not sufficiently significant an issue to warrant a Report in the Public Interest. It is not, therefore, an issue on which I need to exercise my discretion over whether to issue such a report.

I have, however, considered whether the Council's failure to properly evaluate the second Ask/Gondola offer and treat it transparently in its decision making warrants a Report under Section 8 of the Act. I have decided that it does not because:

- I have no evidence that it is anything other than an isolated instance;
- I cannot be certain that a different outcome would have represented a better outcome for council taxpayers;
- the Council still has the opportunity to obtain an outcome that represents best value; and
- in those circumstances, to issue a Public Interest Report would be a disproportionate response and could unnecessarily undermine public confidence in the Council.

That does not mean that I do not consider the issue to be serious. However, I believe that I can deal with it adequately through my other reporting processes. I therefore intend to report my findings and concerns to the Council's Chief Executive in parallel with issuing my decision on your objection. I will ensure that my report is considered by the Accounts, Audit and Governance Committee and I will summarise it in my next Annual Audit Letter.

The Council's Annual Governance Statement

Before issuing my Opinion on the Council's accounts on 29 September 2011, I took account of the information you provided on 22 June. My judgement then was that there were no matters arising from my review of the Council's Annual Governance Statement that were significant enough to warrant a Report in the Public Interest. To the extent that I wished to comment on the Statement, I reported my findings and recommendation in my Annual Governance Report

During my consideration of this part of your objection, I have considered whether anything new has come to my attention subsequently, that gives me cause to reconsider that decision about the Annual Governance Statement for 2010/11. I am not aware of any such event.

There is, therefore, no issue on which to exercise my discretion over whether to issue a Report in the Public Interest about the Council's Annual Governance Statement.

Minutes of Council and Committee meetings

In my experience local authority minutes are rarely a verbatim record of what was said at a meeting and are not required to be. I note, however, that the Council's practice in respect of questions from the public and answers from the relevant portfolio holder is to put quotation marks around both the question and answer in the minutes. In my view, that practice is misleading if the words in quotation marks are not what was actually said.

I have also considered the impact on the minute that prompted your objection. In my opinion, the omission of the words that you contend were spoken has no or limited impact. The Local Government Ombudsman took the same view in his recent decision.

I accept the Council's practice of including quotation marks around questions and answers may be misleading and will recommend it either reviews it or ensures that words in quotation marks are a verbatim record. However, the lack of any evident impact or improper motive means, in my opinion, there is no matter on which to exercise my discretion over whether to issue a Report in the Public Interest on the adequacy of Council minutes.

Considering the combined impact

In my opinion the individual elements of your objection either:

- are not matters which need to be considered by the Council or brought to the attention of the public; or
- are such that I should not exercise my discretion to issue a Report in the Public Interest.

I have also considered whether the five matters, when viewed cumulatively, point to sufficiently weak governance arrangements that I need to consider reporting in that wider context. The issues are:

- the Council's delayed and unconvincing response to my letter of 21 December 2010;
- the Chief Executive's statement about my letter and its inclusion in a publicly available report to the Accounts, Audit and Governance Committee;
- the failure to incorporate the second Ask/Gondola offer in the Council's formal decision making process; and
- the potential for Council and committee minutes to be misleading in their coverage of questions from and answers to members of the public.

In my opinion a Report in the Public Interest would be a disproportionate response to those issues and could unnecessarily undermine public confidence in the Council. Instead I can deal with such matters through my routine reporting processes, including my Annual Audit Letter.

There is no statutory right of appeal against an auditor's decision not to issue a Report in the Public Interest.

My provisional view letter of 20 December 2011 and the file of material information provided with it continue to be covered by Section 49 of the Audit Commission Act 1998. They should not be disclosed to a third-party, other than a legal representative, without my consent or otherwise as permitted by Section 49.

Yours sincerely

Helen Thompson
District Auditor

01 March 2012

Mr T Crowley
Chief Executive
Horsham District Council
Park North
North Street
Horsham
West Sussex RH12 1RL

Direct line
Email

0844 798 1790
helen-thompson@audit-
commission.gov.uk

— Dear Tom

Horsham District Council – audit of accounts for the year ended 31 March 2011 – Decision on Mr Mayfield’s objection

I have issued my Decision on Mr Mayfield’s objection to the Council’s 2010/11 accounts today. My letter to Mr Mayfield outlines my findings and reasons for not issuing a public interest report. I enclose a copy of my Decision letter for the Council.

Although I have decided not to issue a public interest report, there are some matters identified as a result of my work on Mr Mayfield’s objection where I am critical of the Council’s actions and where I believe it needs to take some action in response. I outline these briefly below. This letter should, however, be read in conjunction with the more detailed letter to Mr Mayfield which outlines my findings in more detail.

Failure to incorporate the second Ask/Gondola offer in the Council’s formal decision making process [Pages 7 to 9, 13 and 14 of the Decision Letter]

In April/May 2009 the Council did not properly score the second Ask/Gondola offer to lease the Old Town Hall and did not incorporate that offer in its formal decision making process. That omission exposed the Council to accusations of bias and of a lack of transparency. It also meant the Council could not have readily demonstrated that it received the best consideration possible for its disposal of the leasehold interest in the Old Town Hall had the transaction been completed.

I recommend that in future tender processes the Council must ensure that all admissible bids are properly evaluated and reflected in decision making processes. Reasons for excluding any bids should be formally recorded at the time.

The Council's delayed and unconvincing response to my letter of 21 December 2010
[Pages 5, 6, and 12 of the Decision Letter]

In my opinion, it is only the objection process that prompted the Council to record its response to my letter of 21 December 2010. It should have reacted earlier and so Mr Mayfield's objection has had a positive impact.

I recommend that the Council responds formally to this letter on a timely basis. If I remain unconvinced about the Council's response to this or my previous letter, from work I undertake as part of my 2011/12 audit, I will address any matters arising in my Annual Audit Letter.

The Council's published statement about my letter [Pages 6, 7, 12 and 13 of the Decision Letter]

Mr Mayfield's objection stated that the Council used my letter to provide unwarranted assurance about its handling of requests made under the Freedom of Information Act. While I was unconvinced by the evidence he provided, your email to me dated 25 November 2011 was capable of being interpreted broadly when it said "*the Council has not acted illegally in any of the processes it has followed*". The fact that was repeated in a publicly available report to the Accounts, Audit and Governance Committee concerned me.

The Council must take care not to misrepresent my conclusions or use them out of context.

Council and committee minutes are potentially misleading in their coverage of questions from and answers to members of the public [Pages 11, 14 and 15 of the Decision Letter]

The Council's practice when minuting questions from the public and answers from the relevant portfolio holder is to put quotation marks around both the question and answer. In my view, that practice is misleading if the words in quotation marks are not what was actually said.

The Council needs to review that aspect of its minuting practice or ensure that words in quotation marks are genuinely a verbatim record.

So that I can formally report the outcome of my consideration of Mr Mayfield's objection, I would be grateful if this letter and my Decision letter can be included on the agenda of the next Accounts, Audit and Governance Committee meeting on 28 March 2012.

Yours sincerely

Helen Thompson
District Auditor

Our Ref:	TC/cha	Your Ref:	
E-Mail:	tom.crowley@horsham.gov.uk	Direct Line:	01403 215101
If calling please ask for:		Date:	16 March 2012

Dear Helen

Audit of Accounts for Year Ended 31 March 2011:
Decision on Mr Mayfield's Objection

Thank you for your letter of 1 March enclosing your Decision on Mr Mayfield's objection to the accounts 2010/11.

While I am pleased to note your decision not to issue a public interest report, I acknowledge the criticism you make of some of the Council's actions in this matter and the need to take action in response.

I accept that the failure to conduct a formal evaluation of the second offer from Ask/Gondola for the lease of the Town Hall and incorporate it in the formal decision-making process was an error. As you know, we have embarked on a new marketing exercise for the Town Hall and will be taking every care to ensure that it is carried out in a way which is clear and transparent. An evaluation matrix has been drawn up and approved and will be used to evaluate all bids. The results of this exercise will be reported in full to Council before any decision is taken regarding the future of the Town Hall.

I also accept that the Council should have responded more promptly to your letter of 21 December 2010 and reported it in to the Accounts, Audit and Governance Committee at an earlier date.

I note your concern that my comment in the email I sent you on 25 November 2011, reported in to the Accounts, Audit and Governance Committee on 14 December 2011, was potentially capable of misrepresenting the conclusion you reached at the end of your investigation into the objection (subsequently withdrawn) to the 2008/09 accounts.

.../

Ms Helen Thompson, District Auditor
Audit Commission
Suite 2, Ground Floor, Bicentennial Building
Southern Gate
CHICHESTER
West Sussex



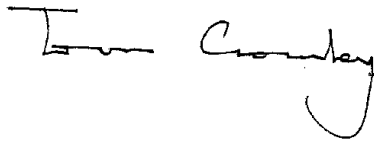
You concluded, in respect of those objections that *"overall, I am satisfied the Council has acted within the law, but the time taken to achieve its objective was long and costly"*. Since my e-mail to you was sent specifically to provide a response to your letter of 21 December 2010 on your conclusions arising from your investigation into the objection, my comment *"the Council has not acted illegally in any of the processes it has followed"* was specifically intended to refer to the processes which had formed part of that investigation. I had not intended that it be construed to refer to all of the Council's many dealings with the Blue Flash Music Trust, including Freedom of Information requests and complaints to the Ombudsman, (although to date no complaints have been upheld).

I will, of course, take note of the need to word comments carefully in the future to avoid any possibility that they could be seen to be misconstruing your views.

On your final point concerning the minuting of meetings, I am in agreement that, in future, quotation marks should only be used for verbatim records of what was said at the meeting.

I will ensure that your letter to me of 1 March and the Decision on Mr Mayfield's objection to the 2010/11 accounts are included on the Agenda for the Accounts, Audit and Governance Committee on 28 March 2012.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Tom Crowley'. The signature is fluid and cursive, with the first name 'Tom' and the last name 'Crowley' clearly distinguishable.

Tom Crowley
Chief Executive

Audit plan

Horsham District Council

Audit 2011/12



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Introduction

This plan sets out the work for the 2011/12 audit. The plan is based on the Audit Commission's risk-based approach to audit planning.

Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to you.

The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

I comply with the statutory requirements governing my audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice for local government bodies.

My audit does not relieve management or the Accounts, Audit and Governance Committee, as those charged with governance, of their responsibilities.

Accounting statements and Whole of Government Accounts

I will carry out the audit of the accounting statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view.

Materiality

I will apply the concept of materiality in planning and performing my audit, in evaluating the effect of any identified misstatements and in forming my opinion. Materiality can be defined as 'information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement'.

Identifying audit risks

I need to understand the Council to identify any risk of material misstatement (whether due to fraud or error) in the accounting statements. I do this by:

- identifying your business risks, including assessing your own risk management arrangements;
- considering your financial performance;
- assessing internal control, including reviewing the control environment, the IT control environment and internal audit; and
- assessing the risk of material misstatement arising from the activities and controls within your information systems.

Identification of significant and specific risks

I have considered the additional risks that are relevant to the audit of the accounting statements and have set these out below. I am still completing my documentation and testing of the controls for the systems that feed material entries in the financial statements. I will inform you of any additional risks arising from this work.

Table 1: **Significant risks**

Risk	Audit response
<p>Valuation of property, plant and equipment (PPE)</p> <p>The Code requires you to value PPE at fair value (with some exceptions). The valuation is a complex process and this means there is a risk the financial statements may be materially misstated because of:</p> <ul style="list-style-type: none">■ applying the wrong valuation basis;■ failing to derecognise the carrying value of assets or components of assets that you replace or restore;■ using inappropriate asset lives, residual values, or cost or fair value; or■ failing to apply the Code's requirements for componentisation for depreciation purposes. <p>Your asset register is maintained in a spreadsheet which is highly complex. My work last year identified that you do not have an End User Policy. Without a specified End User Policy in place, there is a risk that errors in financial data may result due to:</p> <ul style="list-style-type: none">■ lack of testing to ensure developments work correctly and are fit for purpose;■ inappropriate access to change data, either in error or maliciously; and■ poor or no documentation leading to a lack of contingency or weaknesses in systems knowledge	<p>To gain assurance over the valuation of property, plant and equipment shown in your financial statements, I will:</p> <ul style="list-style-type: none">■ review your arrangements for instructing your valuer and controls over information provided to valuer;■ carry out procedures to assess whether I can place reliance on the work of the valuer;■ carry out tests of detail on valuations and associated depreciation calculations;■ use my own consulting valuer, Gerald Eve, to inform my review of your valuer; and■ undertake work to ensure that totals within the fixed asset register are properly derived and agree with the amounts in the ledger.

Table 2: **Specific risks**

Risk	Audit response
<p>Heritage Assets</p> <p>The 2011/12 Code adopts the requirements of FRS 30 Heritage Assets. As this is a new requirement, there is a risk that you may not be able to identify and account for all heritage assets within the time available.</p> <p>A heritage asset is an asset with historical, artistic, scientific, technological, geophysical or environmental qualities that you hold and maintain principally for its contribution to knowledge and culture. For Horsham District Council this may include historical monuments, museum artefacts or art works.</p>	<p>I will evaluate the management controls you have in place to recognise and value heritage assets. I will also undertake testing to check you have accounted for heritage assets in accordance with FRS 30 and the Code and the financial statements are materially stated.</p>
<p>IAS 19 – pension scheme assets and liabilities</p> <p>Your financial statements will contain several material entries for retirement benefits, including the pension scheme assets and liabilities. The valuation of these items is a complex process and this means there is a risk the financial statements may be materially misstated.</p>	<p>To gain assurance over the pension scheme assets and liabilities in the financial statements, I will:</p> <ul style="list-style-type: none"> ■ review management's arrangements for instructing the actuary and controls over information provided to the actuary; ■ undertake procedures to rely on the work of the scheme actuary, Hymans Robertson, which include the use of my consulting actuary; and ■ undertake tests to ensure you account for and disclose the pension scheme assets and liabilities within the financial statements.

Risk	Audit response
<p>Housing benefit reconciliation</p> <p>My work on documenting the housing benefit system has identified that the reconciliation of the Academy system (housing benefits) and the Task system (general ledger) had not been undertaken since June 2011. There is a risk that differences between the Academy system and the ledger may not be identified if reconciliations are not completed on a regular and timely basis.</p>	<p>I will undertake testing of the year-end housing benefits reconciliation as part of my post-statement work.</p>

Recommendation
<p>R1 Undertake regular, timely and evidenced reconciliations between the housing benefit system (Academy) and the general ledger (Task).</p>

Testing strategy

My audit involves:

- review and re-performance of work of your internal auditors;
- testing of the operation of controls;
- reliance on the work of other auditors;
- reliance on the work of experts; and
- substantive tests of detail of transactions and amounts.

I have sought to:

- maximise reliance, subject to review and re-performance, on the work of your internal auditors; and
- maximise the work that I can undertake before you prepare your accounting statements.

Table 3 below shows the nature and timing of my proposed work:

Table 3: **Proposed work**

	Review of internal audit	Controls testing	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing
Interim visit	Payroll General Ledger Cash and bank Additional systems controls identified through walkthroughs	Payroll General Ledger Cash and bank Housing benefit Additional systems controls identified through walkthroughs	None	None	None
Final visit	None	None	Pensions assets and liabilities –West Sussex Pension Fund auditor	Pensions liabilities and assets – Hymans Robertson, your actuary and PwC, my consulting actuary.	All material accounts balances and amounts

	Review of internal audit	Controls testing	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing
			Payroll – West Sussex County Council auditor	Valuation of property, plant and equipment – your internal valuer, District Valuer (for specialised assets) and Gerald Eve, my consulting valuer.	Year-end feeder system reconciliations

I will agree with you a schedule of working papers required to support the entries in the accounting statements.

Whole of Government Accounts

Alongside my work on the accounting statements, I will also review and report to the National Audit Office on your Whole of Government Accounts return. The National Audit Office specifies the extent of my review and the nature of my report.

Value for money

I am required to conclude on the Authority's arrangements to secure economy, efficiency and effectiveness.

I base my conclusion on your arrangements on two criteria, specified by the Commission. These relate to your arrangements for:

- securing financial resilience – focusing on whether you are managing your financial risks to secure a stable financial position for the foreseeable future; and
- challenging how you secure economy, efficiency and effectiveness – focusing on whether you are prioritising your resources within tighter budgets and improving productivity and efficiency.

Identification of risks

I am currently undertaking my planning for my value for money conclusion work. To date, I have identified the following risks that I will address through my work. If I identify additional risks, I will tell you about these risks and my planned audit work at the next Accounts, Audit and Governance Committee meeting.

Table 4: **Specific risks**

Risk	Audit response	Separate audit output?
Financial resilience The main risk to financial resilience remains the continuing challenge of achieving a balanced budget over the medium term with reduced funding.	I will consider how you have managed your budget for 2011/12 given decreases in funding. I will also review your budget for 2012/13 and your medium term financial strategy to assess the realism and achievability of your plans.	I will report my findings in my annual governance report and annual audit letter.

Risk	Audit response	Separate audit output?
<p>National Fraud Initiative</p> <p>The national fraud initiative (NFI) is a data matching exercise carried out by the Audit Commission every two years. It compares information held by and between about 1,300 organisations including councils, the police, hospitals and nearly 100 private companies. This helps to identify potentially fraudulent claims, errors and overpayments, all hosted on a secure website. When there is a match, there may be something that warrants investigation.</p> <p>In my annual audit letter last year I reported you had made limited progress with clearing data matches other than those for housing benefits which are reviewed by Census.</p>	<p>As you have a statutory duty to undertake this work I will consider progress made on clearing the data matches since my last risk assessment in November 2011.</p>	<p>I will report my findings in my annual governance report and annual audit letter.</p>
<p>Old Town Hall procurement exercise</p> <p>You decided last year to market the Old Town Hall more widely than in previous years. I have recently completed my work on an objection to the 2010/11 accounts on issues relating to this. I concluded that the issues raised did not require reporting in the public interest. However, I wrote to you with recommendations for improving your processes.</p>	<p>I will follow up your progress in addressing these recommendations as part of my VFM conclusion work.</p>	<p>I will report my findings in my annual governance report and annual audit letter.</p>

Key milestones and deadlines

You are required to prepare the accounting statements by 30 June 2012. I aim to complete my work and issue my opinion and value for money conclusion by 30 September 2012.

Table 5: **Proposed timetable and planned outputs**

Activity	Date	Output
Opinion: planning	March 2012	Audit Plan
Opinion: controls and early substantive testing	February/March 2012	Report to Accounts, Audit and Governance Committee if necessary
Value for money	April 2012	Annual governance report
Opinion: receipt of accounts and supporting working papers	30 June 2012	N/a
Opinion: substantive testing	July/ August 2012	Annual governance report
Present annual governance report at the Accounts, Audit and Governance Committee	25 September 2012	Annual governance report
Issue opinion and value for money conclusion	By 30 September 2012	Auditor's report
Summarise overall messages from the audit	October 2012	Annual audit letter

The audit team

The key members of the audit team for the 2011/12 audit are as follows.

Table 6: **Audit team**

Name	Contact details	Responsibilities
Helen Thompson District Auditor	helen-thompson@audit-commission.gov.uk 0844 798 1790	I am responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with the Chief Executive.
Emma Bryant Audit Manager	e-bryant@audit-commission.gov.uk 0844 798 1792	Emma manages and coordinates the different parts of the audit work. She is the key point of contact for the Head of Finance and ICT.
Beena Patel Team Leader	b-patel@audit-commission.gov.uk 0844 798 6127	Beena team led the audit last year and has experience of auditing your financial statements. She will lead the on-site team in delivering the audit.

Independence and quality

Independence

I comply with the ethical standards issued by the APB and with the Commission's additional requirements for independence and objectivity as summarised in appendix 1.

I need to bring the following matter to your attention. District Auditors are normally appointed for 5 years. Appointments can be extended for a further two years if the auditor and the Accounts, Audit and Governance Committee are satisfied there are no risks relating to long association and that this is necessary to safeguard audit quality. 2011/12 will be the sixth year of my appointment at Horsham District Council. I am satisfied there are no independence risks posed by my extension for a further two years. I believe that it would be detrimental to audit quality to make a change in District Auditor at this time. The Director of Audit Policy and Regulation at the Audit Commission has approved my request for an extension, but the Accounts, Audit and Governance Committee also needs to approve it.

Quality of service

I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director – Standards & Technical, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Fees

The fee for the audit is £109,820, as set out in my letter of 28 February 2011.

The audit fee

The Audit Commission has set a scale audit fee of £109,820 which represents a 5% decrease on scale fee for 2010/11.

The scale fee covers:

- my audit of your accounting statements and reporting on the Whole of Government Accounts return; and
- my work on reviewing your arrangements for securing economy, efficiency and effectiveness in your use of resources.

The scale fee reflects:

- the Audit Commission's decision not to increase fees in line with inflation;
- a decrease resulting from the new approach to local VFM audit work; and
- a decrease following the one-off work associated with the first-time adoption of International Financing Reporting Standards (IFRS).

Variations from the scale fee only occur where my assessments of audit risk and complexity are significantly different from those reflected in the 2010/11 fee. I have not identified significant differences and have therefore set the fee equal to the scale fee.

Assumptions

In setting the fee, I have made the assumptions set out in appendix 2. Where these assumptions are not met, I may need to undertake more work and therefore increase the audit fee. Where this is the case, I will discuss this first with the Director of Corporate Resources and I will issue a supplement to the plan to record any revisions to the risk and the impact on the fee.

Specific actions you could take to reduce your audit fee

The Audit Commission requires me to inform you of specific actions you could take to reduce your audit fee. I will inform you of any actions I identify.

Total fees payable

As well as the fee for the audit, the Audit Commission will charge fees for:

- certification of claims and returns; and
- the agreed provision of non-audit services under the Audit Commission's advice and assistance powers.

Based on current plans the fees payable are as follows:

Table 7: **Fees**

	2011/12 proposed	2010/11 actual	Variance
Audit	£109,820	£115,600	£(5,780)
Certification of claims and returns ⁱ	£30,905	£25,524	£5,381
Non-audit work ⁱⁱ	£0	£29,850	£(29,850)
Total	£140,725	£170,974	£(30,249)

- ⁱ The fee shown for certification of claims and returns for 2011/12 is an estimate based on work undertaken in 2009/10. The actual fee may be less than estimated. The Audit Commission Act requires me to charge fees for certification work that cover the full cost of the work. The Audit Commission sets a schedule of hourly rates for different levels of staff and the final fee for this work is dependent on the work undertaken and the grades of staff used to deliver the work.
- ⁱⁱ I received correspondence from a local elector which I accepted as a valid objection. I concluded my work on the objection and issued my decision letter on 1 March 2012. There are audit and legal fees in connection with dealing with receipt of the objection. Due to the unpredictable nature of the work involved these fees are not part of the fixed fee for audit.

Appendix 1 – Independence and objectivity

Auditors appointed by the Audit Commission must comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors. When auditing the accounting statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB). These impose stringent rules to ensure the independence and objectivity of auditors. The Audit Practice puts in place robust arrangements to ensure compliance with these requirements, overseen by the Audit Practice's Director – Standards and Technical, who serves as the Audit Practice's Ethics Partner.

Table 8: **Independence and objectivity**

Area	Requirement	How we comply
Business, employment and personal relationships	<p>Appointed auditors and their staff should avoid any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.</p> <p>The appointed auditor and senior members of the audit team must not take part in political activity for a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.</p>	<p>All audit staff are required to declare all potential threats to independence. Details of declarations are made available to appointed auditors. Where appropriate, staff are excluded from engagements or safeguards put in place to reduce the threat to independence to an acceptably low level.</p>

Area	Requirement	How we comply
Long association with audit clients	The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional consideration of threats to independence after five years.	The Audit Practice maintains and monitors a central database of assignment of auditors and senior audit staff to ensure this requirement is met.
Gifts and hospitality	The appointed auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.	All audit staff are required to declare any gifts or hospitality irrespective of whether or not they are accepted. Gifts and hospitality may only be accepted with line manager approval.
Non-audit work	<p>Appointed auditors should not perform additional work for an audited body (that is work above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might result in a reasonable perception that their independence could be compromised.</p> <p>Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.</p> <p>Work over a specified value must only be undertaken with the prior approval of the Audit Commission's Director of Audit Policy and Regulation.</p>	All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure that independence is not compromised.

Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards

Appendix 2 – Basis for fee

In setting the fee, I have assumed the following.

- the risk to the audit of the accounting statements is not significantly different to that identified for 2010/11. For example:
 - internal controls are operating effectively; and
 - I secure the co-operation of other auditors.
- the risk to my value for money responsibilities is not significantly different to that identified for 2010/11.
- Internal Audit meets professional standards.
- Internal Audit undertakes sufficient appropriate work on all systems that provide material figures in the accounting on which I can rely.
- senior officers undertake a robust quality assurance process before providing me with the draft financial statements
- the Council provides:
 - good quality working papers and records to support the accounting statements and the text of the other information to be published with the statements by 30 June 2012;
 - other information sought within agreed timescales; and
 - prompt responses to draft reports.
- local government electors do not ask any questions or make any objections to the financial statements.

Where these assumptions are not met, I will have to undertake more work which is likely to result in an increased audit fee.

Appendix 3 – Glossary

Accounting statements

The annual statement of accounts that the Council is required to prepare, which report the financial performance and financial position of the Council in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Annual Audit Letter

Report issued by the auditor to the Council after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the accounting statements presented to those charged with governance before the auditor issues their opinion and conclusion.

Annual Governance Statement

The annual report on the Council's systems of internal control that supports the achievement of the Council's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Group accounts

Consolidated accounting statements of a Council and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Council establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the accounting statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the accounting statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the accounting statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the accounting statements, which do not necessarily affect their opinion on the accounting statements.

Significance

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the accounting statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Council. This term includes the members of the Council and its Accounts, Audit and Governance Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Council must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its accounting statements.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.



Certification of claims and returns - annual report

Horsham District Council

Audit 2010/11



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Introduction

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and have to complete returns providing financial information to government departments. My certification work provides assurance to grant-paying bodies that claims for grants and subsidies are made properly or that information in financial returns is reliable. This report summarises the outcomes of my certification work on your 2010/11 claims and returns.

Under section 28 of the Audit Commission Act 1998, the Audit Commission may, at the request of authorities, arrange for certifying claims and returns because scheme terms and conditions include a certification requirement. Where such arrangements are made, certification instructions issued by the Audit Commission to its auditors set out the work auditors must do before they give their certificate. The work required varies according to the value of the claim or return and the requirements of the government department or grant-paying body:

- for claims and returns below £125,000 the Commission does not make certification arrangements and I was not required to undertake work;
- for claims and returns between £125,000 and £500,000, I undertake limited tests to agree form entries to underlying records, but did not undertake any testing of eligibility of expenditure; and
- for claims and returns over £500,000 I planned and perform my work under the certification instruction. I assessed the control environment for the preparation of the claim or return to decide whether to place reliance on it. Depending on the outcome of that assessment, I undertook testing as appropriate to agree form entries to underlying records and test the eligibility of expenditure or data.

You may amend claims and returns where I agree with your officers that this is necessary. My certificate may also refer to a qualification letter where there is disagreement or uncertainty, or you have not complied with scheme terms and conditions.

Summary of my 2010/11 certification work

You have performed well in preparing claims and returns

My work did not identify any amendments to your claims and returns for the year ended 31 March 2011. I did not issue any qualification letters with the certificates on your claims and returns.

Table 1: **Summary of 2010/11 certification work**

Number of claims and returns certified	
Total value of claims and returns certified	£71,537,253
Number of claims and returns amended because of errors	0
Number of claims and returns where I issued a qualification letter because there was disagreement or uncertainty over the content of the claim or return or it did not comply with the scheme terms and conditions	0
Total cost of certification work	£25,524

Results of 2010/11 certification work

This section summarises the results of my 2010/11 certification work and highlights the significant issues arising from that work.

Table 2: Claims and returns above £500,000

Claim or return	Value of claim or return presented for certification (£'000)	Was reliance placed on the control environment?	Value of any amendments made	Was a qualification letter issued?
Housing and council tax benefit scheme	£34,314	No – the approach to certification of the benefits claim is prescribed.	£0	No
National non-domestic rates return	£36,795	Yes	£0	No

Table 3: Claims between £125,000 and £500,000

Claim or return	Value of claim or return presented for certification (£'000)	Value of any amendments made	Was a qualification letter issued?
Disabled facilities	£428	£0	No

Summary of recommendations

This section considers the progress made in implementing recommendations I have previously made, the recommendations arising from my certification work this year and the actions agreed for implementation.

I do not have any recommendations in respect of your claims and returns for the year ending 31 March 2011. I did not make any recommendations in my report last year.

Summary of certification fees

This section summarises the fees arising from my 2010/11 certification work and highlights the reasons for any significant changes in the level of fees from 2009/10.

Table 4: Summary of certification fees

Claim or return	2010/11 fee	2009/10 fee	Reasons for changes in fee greater than +/- 10 per cent
Housing and council tax benefit scheme	£22,950	£22,007	
National non-domestic rates return	£1,108	£7,299	I was able to take a controls based approach to certifying the claim in 2010/11
Disabled facilities	£423	£506	Small variations are expected as grant claim work is charged to cover the cost of certification.
Reporting and management	£1,043	£1,223	Small variations are expected as grant claim work is charged to cover the cost of certification.
Total	£25,524	£31,035	

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The Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body.



Audit Commission Update

March 2012

Horsham District Council



The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Introduction

1 The purpose of this paper is to provide an update to officers and members of the Committee on the following issues:

- government response to consultation on the future of local public audit; and
- outsourcing of the Audit Commission's in-house audit practice;

2 If you require any additional information regarding the issues included within this briefing, please feel free to contact a member of the local audit team whose contact details are included at the end of this update.

3 Please also remember to visit our website (www.audit-commission.gov.uk) which now enables you to sign-up to be notified of any new content that is relevant to you.

Government response to consultation on the future of local public audit

4 In August 2010, the government announced its intention to bring forward legislation to abolish the Audit Commission and put in place a new framework for local public audit. In March 2011, the government published a consultation paper and, in January 2012, announced its response to the consultation to which it received 453 responses, the majority from audited bodies.

5 The Audit Commission has now awarded the contracts for the work currently undertaken by the Audit Practice for the period 2012/13 to 2016/17 (see 'update on the externalisation of the Audit Practice' below). The government envisages the retention of the Audit Commission as a small residuary body until the end of those contracts, to oversee them and to make any necessary changes to individual audit appointments.

6 Once these contracts have come to an end, the government proposes that a new local public audit regime will apply. The key features of that regime are as follows.

- The National Audit Office will be responsible for developing and maintaining audit codes of practice and providing support to auditors.
- Mirroring the Companies Act provisions, auditors will be subject to the overall regulation of the Financial Reporting Council (the FRC). The FRC will authorise one or more Recognised Supervisory Bodies (in practice, the professional institutes) to register and supervise audit firms and engagement leads.
- Directly-elected local government bodies will appoint their own auditor on the advice of an independent audit appointment panel with a majority of independent members. Such panels may be shared between audited bodies;
- Audited bodies must run a procurement exercise for their external audit appointment at least every five years, although there would be no bar on the reappointment of the incumbent audit firm (for a maximum of one further five-year term);
- Audited bodies will be able to remove their auditor, but only after due process, involving the independent audit appointment panel and culminating in a public statement of the reasons for the decision.

- The audit will continue to cover arrangements for securing economy, efficiency and effectiveness, but without imposing further burdens on audited bodies. There will be further consultation on the approach to value for money.
- The power to issue a public interest report will be retained.
- Audit firms will be able to provide non-audit services to audited bodies, subject to complying with ethical standards and gaining approval from the independent auditor appointment panel.
- The right to object would be retained, but the auditor will be given the power to reject vexatious, repeated or frivolous objections.
- Grant certification will be subject to separate arrangements between grant paying bodies, audited bodies and reporting accountants (who could be the external auditors).
- The National Fraud Initiative will continue. Discussions on how this will be achieved are ongoing.

7 The government is holding further discussions with audited bodies and audit firms to develop its proposals. The Regional Improvement and Efficiency Partnerships held events in January and February 2012 to which audited bodies were invited. The government intends to publish draft legislation for pre-legislative scrutiny in Spring 2012.

Externalisation of the Audit Practice

8 The Audit Commission has announced the results of its procurement exercise to outsource the work of the Commission's in-house audit practice. It has awarded five-year contracts to the following four firms, starting from 2012/13:

- Ernst & Young LLP, covering two contract areas in Eastern and South East
- Grant Thornton (UK) LLP, covering four contract areas in the North West, West Midlands, London (South) Surrey & Kent, and South West
- KPMG LLP, covering three contract areas in Humberside & Yorkshire, East Midlands, and London (North)
- DA Partnership Ltd, covering one contract area in the North East & North Yorkshire.

9 The existing contracts of the current accountancy firms who are audit suppliers have been extended for a further five years and will run concurrently with the new outsourced contracts.

10 Through the procurement process the Audit Commission has secured competitive prices that will save local public bodies over £30 million a year for a minimum of five years. These savings, together with the benefits of the Commission's own cost reduction programme, will be passed back to local public bodies through significant reductions in scale of audit fees. The Audit Commission has already consulted on draft scales of fees which provide for a ten per cent reduction. It is now confident that it can go significantly further. The final scales of audit fees for 2012/13 will be published in April 2012.

11 A series of introductory meetings in each contract area are being arranged between 30 April and 16 May 2012 to give audited bodies in each area an opportunity to meet the new firm proposed as their auditor and its senior partners. These meetings will allow the firms to set out their plans to manage the new portfolio and their approach to the audits. The meeting for the South East contract which includes Horsham District Council is 2 May 2012.

12 Appointments will start on 1 September 2012. As such, the Commission is extending the current audit appointment to allow any audit issues arising between 1 April 2012 and 31 August 2012 to be dealt with. The Commission's Director of Audit Policy and Regulation wrote to clients on 19 December 2011 setting out more details on this 'interim' appointment.

13 Audit Practice staff in each lot area will in the main transfer to the successful bidders at midnight on 31 October 2012.

14 Further details are available on the Commission's website. We will continue to keep you updated on developments.

15 Against this background, our focus remains:

- fulfilling our remaining responsibilities and delivering your 2011/12 audit to the high standards you expect and deserve; and
- managing a smooth transition from the Audit Practice to your new audit provider.

Useful links

Further information on the government response to consultation on the future of local public audit can be found on the Department for Communities and Local Government's website:

<http://communities.gov.uk/publications/localgovernment/localauditgovresponse>.

The website also includes the most recent statement on the future of local public audit:

<http://www.communities.gov.uk/news/localgovernment/2060732>

The press release on the externalisation of the Audit Commission's in-house audit practice can be found on the Audit Commission's website:

<http://www.audit-commission.gov.uk/pressoffice/pressreleases/Pages/reduce-audit-fees-by-40-percent.aspx>

Further information about the future of the Audit Commission can be found the Audit Commission's website:

<http://www.audit-commission.gov.uk/aboutus/future/Pages/default.aspx>

Contacts

Table 1: **Audit team contacts**

Name	Contact details
Helen Thompson District Auditor	helen-thompson@audit-commission.gov.uk 0844 798 1790
Emma Bryant Audit Manager	e-bryant@audit-commmission.gov.uk 0844 798 1792

Copy of the letter sent to Audited Bodies by the Audit Commission



6 March 2012

Audited bodies (except probation trusts)

Direct line 0844 798 2447

Dear [Chief Executive/Director of Finance]

Update on the outsourcing of audit services

I want to update you on the outcome of the procurement exercise to outsource the work of the Commission's in-house audit practice and on the process for making auditor appointments for 2012/13 and subsequent years.

The procurement process

The Commission has announced the award of contracts to four firms for five years, as follows:

Firm	Contract areas
DA Partnership	North East & North Yorkshire
Ernst & Young	Eastern
	South East
Grant Thornton	North West
	West Midlands
	London (South), Surrey & Kent
	South West
KPMG	Humberside & Yorkshire
	East Midlands
	London (North)

Audit Commission, 1st Floor, Millbank Tower, Millbank, London, SW1P 4HQ
T 0844 798 1212 F 0844 798 2945 www.audit-commission.gov.uk

Through our bulk purchasing power, the Commission has been able to secure very competitive prices that will save local public bodies over £30 million a year for a minimum of five years.

We consulted the Department for Communities and Local Government (DCLG) on the length of contracts to be awarded. DCLG in turn consulted key stakeholders in the different sectors and across government. Ministers' preference, taking stakeholders' views into account, was for the Commission to award the contracts for five years, which the Board agreed at its February meeting.

The significant savings we have been able to secure through the procurement, together with the benefits of our own cost reduction programme, will be passed back to local public bodies through significant reductions in scale of audit fees. We have already consulted on draft scales of fees which provide for a ten per cent reduction. We are now confident that we can go significantly further. We will publish the final scales of audit fees for 2012/13 in April.

The auditor appointment process

We began the process for making auditor appointments for 2012/13 in December 2011, when we wrote to you to consult on 'interim' auditor appointments for the first five months of 2012/13. The deadline for comments on our proposed appointment was 17 February.

I am pleased to say that in all cases our proposed appointment was accepted and the interim appointments will now be confirmed by the Commission Board on 22 March. We will write to you to confirm the appointment as soon as possible after this date.

The next stage in the process is to develop and consult on our proposals for 'permanent' auditor appointments for 2012/13 and subsequent years. We will be writing to all audited bodies on or shortly after 23 April to set out our proposals.

Where a body is currently audited by an auditor from the Commission's in-house Audit Practice, we will propose as the appointed auditor the firm that was awarded the contract in each area, unless there are good reasons that to do so would be inappropriate. Where a body is currently audited by a firm, we propose to extend that appointment. In all cases we will be consulting on the appointment of the firm – which in law will be the appointed auditor – not the individual engagement lead.

To support the consultation process, we are arranging a series of introductory meetings in each contract area between 30 April and 16 May. The purpose of these meetings is to give audited bodies in each area an opportunity to meet the new firm proposed as their auditor and its senior partners, and hear how the firm plans to manage its new portfolio and its approach to the audits.

The schedule of these meetings is:

Contract Area	Areas covered	Date
West Midlands	Herefordshire, Shropshire, Staffordshire, Warwickshire, West Midlands and Worcestershire	30 April
North West	Cheshire, Cumbria, Greater Manchester, Lancashire, Merseyside	1 May
South East	Berkshire, Buckinghamshire, East Sussex, Hampshire and Isle of Wight, Oxfordshire and West Sussex	2 May
London South, Surrey and Kent	London boroughs south of River Thames, Kent and Surrey	3 May
London North	London boroughs north of River Thames	9 May
East Midlands	Derbyshire, Leicestershire, Lincolnshire, Northamptonshire and Nottinghamshire	10 May
South West	Avon, Cornwall, Devon, Dorset, Gloucestershire, Somerset and Wiltshire	11 May
Eastern	Bedfordshire, Cambridgeshire, Essex, Hertfordshire, Norfolk and Suffolk	14 May
Yorkshire and Humberside	Humberside, South Yorkshire and West Yorkshire	15 May
North East and North Yorkshire	Cleveland, Durham, Northumberland, North Yorkshire and Tyne and Wear	16 May

Our consultation letter will include the arrangements for each meeting.

In January, we published our [Auditor appointments strategy](#), which sets out the process we will follow in making auditor appointments. This provides bodies with two opportunities to object to our proposed appointment. A panel of Commissioners will ultimately consider unresolved objections to the proposed appointments. The panel includes three local government councillors and a member with NHS expertise, and will receive independent advice from a local authority Chief Executive and Finance Director.

If you wish to clarify any of the points in this letter or ask other questions about its content, please email auditor-appointments@audit-commission.gov.uk or contact Marcine Waterman or Andrew Davies on 0844 798 2447.

Yours sincerely

Martin Evans
Managing Director, Audit Policy

**Note to:
Accounts, Audit & Governance Committee**

Annual Work Plan

The following items form part of the regular work programme of the Accounts, Audit & Governance Committee. Other items may be added from time to time as requested.

March

External Audit: Annual Fee letter
 Certification of Grant Claims & Returns

Internal Audit: Internal Audit Strategy
 Internal Audit Plans

June

External Audit: Opinion Audit Plan

Accounts: Outturn Report
 Annual Governance Statement
 Draft Statement of Accounts

Internal Audit: Annual Report

September

External Audit: Annual Governance Report

Accounts: Statement of Accounts
 Letter of Representation

Treasury Management: Treasury Management
 Activity & Prudential
 Indicators Report

December

External Audit: Annual Audit Letter

Treasury Management: Treasury Management Strategy

In addition there will be quarterly updates on Risk Management and Internal Audit.

Report to Accounts, Audit and Governance Committee

28th March 2012

By the Chief Internal Auditor

INFORMATION REPORT

Not exempt



Internal Audit – Quarterly Update Report

Executive Summary

This report seeks Member approval of the Internal Audit Strategy and Annual Audit Plan for 2012 to 2013, and provides details of work completed by the Internal Audit Section since December.

Recommendations

The Committee is recommended:

- i) To approve the Internal Audit Strategy.
- ii) To approve the Internal Audit Plan for 2012/13.
- iii) To note the summary of audit work undertaken since December 2011.

Reasons for Recommendations

- i) The “CIPFA Code of Practice in Local Government” states that the Internal Audit Strategy should be approved, but not directed, by the Audit Committee.
- ii) The “CIPFA Code of Practice in Local Government” requires that the Internal Audit Plan is approved, but not directed, by the Audit Committee.
- iii) The Committee is responsible for reviewing the effectiveness of the Council’s system of internal control.

Background Papers:	CIPFA Code of Practice 2006 and Internal Audit Reports.
Consultation:	N/A
Wards affected:	All
Contact:	Paul Miller, Chief Internal Auditor, Ext 5139

Background Information**1. Introduction****The purpose of this report**

- 1.1 The purpose of this report is to provide a quarterly summary of work undertaken by the Internal Audit Team since December 2011, and to seek Member approval for the Internal Audit Strategy and Annual Audit Plan for 2012/13.

2. Internal Audit Strategy 2012/13

The CIPFA Code requires the Head of Internal Audit to produce an internal audit strategy. This is a high-level statement of how the Internal Audit service will be delivered in accordance with the terms of reference and how it links to the organisational objectives and priorities. The CIPFA Code states that the Internal Audit Strategy should be approved, but not directed, by the Audit Committee. The Internal Audit Strategy is attached as Appendix 3 to this report.

3. Internal Audit Plan 2012/13

- 3.1 The CIPFA Code stipulates that the Internal Audit Plan should be fixed for a period of no longer than one year. The plan should outline the assignments to be carried out, their respective priorities and the estimated resources needed. The plan should differentiate between assurance and other work and should be flexible to be able to reflect the changing risks and priorities of the organisation.
- 3.2 The Internal Audit Plan for 2012/13 is attached as Appendix 4 to this report and includes an element of flexibility to enable the audit team to respond to current issues.

4. Summary of Audit Findings**4.1 Cash and Bank****OVERALL AUDIT OPINION: SUBSTANTIAL ASSURANCE**

The auditor was satisfied that a sound system of control is in place for the collection and receipting of cash within the Finance Department, and regular reconciliations are carried out to ensure that all money collected has been correctly processed and banked.

A few control weaknesses were identified, for example, corporate cash procedures have not yet been written as agreed in our last audit, and it was identified that computer access permissions to modify the Collections and Deposits Book were not restricted. A revised implementation date has been agreed for documenting the Council's corporate cash procedures, and it has been agreed that the ability to update the Cash and Deposits Book document will be restricted to those officers who require access.

4.2 Budgetary Control**OVERALL AUDIT OPINION: SUBSTANTIAL ASSURANCE**

There have been improvements in the budgetary control process since the previous audit was undertaken towards the end of 2010, and in particular, there are now structured working arrangements between Heads of Service and Accountants on budget issues.

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However, there is a need to enhance financial reporting with a clearer focus on known budget pressures. The following specific actions have been agreed:

- The Corporate Management Team (CMT) agenda will provide for quarterly exception reporting by Heads of Service on significant anticipated or actual budget variances.
- Corporate reports will in future focus more on anticipated or known budget pressures with contextual input from Heads of Service.
- Heads of Service will be requested to prepare a briefing note of budget issues that they intend to bring to the attention of CMT.
- Future periodic financial monitoring reports will make reference to the progress of the Capital Programme and any significant cost variations.

4.3 Planning Fees

OVERALL AUDIT OPINION: **SUBSTANTIAL ASSURANCE**

The auditor was satisfied that a sound system of control is in place for the processing and payment of planning application fees. The main area of concern is that there are no reconciliations being carried out between planning fee income recorded in the Idox Uniform System and what has been posted into the Council's financial system (TOTAL). Other areas of weakness identified included a lack of review of users of the Log Smart and IDOX Uniform systems, and an absence of cash handling procedures for dealing with payments received through the post. Appropriate remedial action has been agreed to address these issues.

4.4 Council Tax

OVERALL AUDIT OPINION: **SUBSTANTIAL ASSURANCE**

A full review of Council Tax was undertaken for CenSus, and our audit was undertaken on behalf of the three partnership authorities: Horsham, Mid-Sussex and Adur District Councils. There is a sound system of control over the management of council tax and most of the systems and processes are fully documented. A few control weaknesses were identified. These primarily relate to a lack of documented procedures on how to handle appeals; quality control checks; and financial reconciliations. Remedial action has been agreed with the Revenue CenSus Account Manager.

4.5 Creditors

OVERALL AUDIT OPINION: **MODERATE ASSURANCE**

The introduction of auto-matching for purchase orders and online authorisation for invoices is progressing well, and will enhance the control framework for the payment of invoices. However, a number of control weaknesses have been identified.

Of particular concern is the number of non-order invoices that are still being paid. In our previous review last year, we identified that 84% of invoices were paid without an order, and at the time of the audit, the percentage had reduced to 80%. Whilst this represents a slight improvement it remains unacceptably high. The Head of Financial and Legal Services has agreed that the number of orders raised will become a key performance indicator for the Council and will be reported to CMT. A target of 60% has been set for 2012/13 (so the number of non-order invoices should reduce to 40%). Performance monitoring reports will be shared with Heads of Service to allow them to monitor their department's performance.

Other weaknesses identified included a significant weakness concerning the audit trail relating to creditor master records; an urgent need to undertake data cleansing to deactivate creditors where transactions have not occurred for more than three years, and a lack of independent checks to ensure that invoice paid reports are reviewed. Actions have been agreed with Finance to address each of these issues.

5. Special Investigations

- 5.1 In response to control weaknesses and non-compliance issues identified during a recent special investigation, a number of additional unplanned audit reviews have been undertaken. These included purchase cards, budgetary control, staff loans and hospitality. Given the importance of budgetary control in the context of the current financial climate, this has been added to the list of 'annual' audits.

6. Project Support Work

6.1 Information Security Project

Internal Audit has continued to actively support the joint Information Security Project, an initiative designed to ensure that all Councils participating in the CenSus Partnership are implementing an acceptable level of control over information held. The delay in recruiting a person to carry out the Information Security Manager role for HDC meant the Council was falling behind our partners in terms of work being undertaken. The Chief Internal Auditor agreed to allow some audit time to be used to carry out some non-audit work on behalf of HDC. In particular, the Principal Internal Auditor has updated and consolidated the Information Security Risk Register and a review has been carried out to identify where Council information is located. This work will help identify high risk locations when data classification is carried out.

Two policies have now been produced by the project team which are now awaiting ratification (The overarching "Information Governance and Security "and "Home-working Policy – Information Security"). Internal Audit has been involved throughout the creation of these policies to help ensure that the final policy meets the Council's requirements.

The project is now focusing on training. A package will be developed using a product called "Learning Pool" which will be used to provide online training on Information Security.

6.2 Project Assurance Core Team

As previously reported, the Chief Internal Auditor is a member of the recently formed Project Assurance Core Team (PACT). This group oversees key Council projects (as identified by CMT) and produces a monthly update report highlighting any areas for concern using a 'traffic light' system. This assurance mechanism is working well, and a significant risk identified during a recent project review has been escalated onto the Council's Corporate Risk Register as the potential impact has council-wide implications.

7. Audit Resources

- 7.1 As reported in December, Internal Audit resources have been significantly stretched during the current financial year due to the incidence of special investigations and also due to one member of the audit team being on long-term sick leave. Resources were temporarily increased to help ensure that all the key financial systems are audited during 2011/12, and work on these systems is nearing completion.
- 7.2 As reported at the December meeting, the audit plan has been revised. The plan included some additional areas for review which had been brought forward in response to areas of weakness identified. The following audits have been deferred to 2012/13: Use of

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Consultants; Housing; Section 106 Agreements; Facilities Management; Reprographics; Project Management, and Parks and Countryside Services.

- 7.3 Although seven audits have slipped to 2012/13, three non-planned reviews have been undertaken during 2011/12 and the net effect means that we will have completed more than 85% of the audit plan, which is in accordance with our performance target. The additional resource afforded to the audit team on a temporary basis has enabled the audit plan to be largely achieved, which has minimised the impact on the strategic four year plan. The audit plan for 2012/13 is achievable with the current level of resource (i.e. 3.5 FTE staff plus the previously agreed temporary resource working 3 days per week until contract expiry on 31st July 2012).

8. Audit Follow ups

- 8.1 A new follow-up monitoring system has been designed and implemented which will improve the accuracy of reporting and will enable outstanding items to be monitored more effectively. The percentages of agreed actions implemented for the previous two financial years are detailed in the table below:

Financial Year	No. of Agreed Actions	No. of Agreed Actions Implemented	% Implemented
2009/10	128	95	74%
2010/11	155	106	68%

Further progress will be reported in June, together with figures for 2011/12.

9. Next Steps

- 9.1 Not applicable.

10. Outcome of Consultations

- 10.1 Not applicable.

11. Other Courses of Action Considered but Rejected

- 11.1 Not applicable

12. Staffing Consequences

- 12.1 There are no direct staff consequences.

13. Financial Consequences

- 13.1 There are no financial consequences.

Appendix 1

Consequences of the Proposed Action


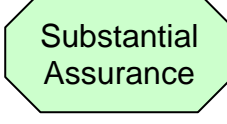


Consequences of the proposed action on:	
Risks	All internal audit work is undertaken using a risk based approach and as part of this process, audit findings are risk assessed prior to being reported. The risk assessment then determines the order in which control weaknesses are reported and informs the overall audit opinion (see Appendix 2 for definitions).
Risk Assessment attached Yes/No	No
Crime and Disorder	This report has no effect on Crime & Disorder issues.
Equality and Diversity/ Human Rights	The audit plan is undertaken in a way that encompasses the Council's overall corporate aims, objectives and values.
Equalities Impact Assessment attached Yes/No/Not relevant	Not relevant.
Sustainability	This report has no effect on sustainability.

Statutory and Policy Background

Statutory Background	The Accounts and Audit Regulations 2003 (as amended in 2006) made under Section 23 of the Local Government Act 1982. These state that the relevant body (the Council) shall "maintain an adequate and effective system of internal audit of its accounting records and system of internal control in accordance with proper internal audit practices." This responsibility is discharged through the Council's Internal Audit Section.
Relevant Government Policy / Professional Standards	Internal Audit follows the standards set out in the " <i>Code of Practice for Internal Audit in Local Government</i> " published by the Chartered Institute of Public Finance and Accountancy known as CIPFA.
Relevant Council Policy	Internal Audit is conducted in accordance with the Council's Constitution. Financial Regulation FR27 states that the Director of Corporate Resources shall maintain a continuous, comprehensive and up-to-date internal audit. The Chief Internal Auditor is required to report on a quarterly basis on the results of internal audit, and 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.

Appendix 2

Categorisation of Audit Opinions

 <p>Full Assurance</p>	<p>System of Control: There is a sound system of control in place which minimises risk to the Council; and</p> <p>Compliance with Controls: Audit testing identified that all expected controls are being consistently applied.</p>
 <p>Substantial Assurance</p>	<p>System of Control: Whilst there is basically a sound system of control (i.e. key controls are in place), there are some weaknesses which may place the Council at risk in a few areas; and/or</p> <p>Compliance with Controls: Audit testing identified a lack of compliance with controls in a few areas.</p>
 <p>Moderate Assurance</p>	<p>System of Control: There are some weaknesses in the system of control (i.e. the absence of two or more key controls) which is placing the Council at risk in a number of areas; and/or</p> <p>Compliance with Controls: Audit testing identified a lack of compliance with two or more key controls.</p>
 <p>No Assurance</p>	<p>System of Control: The system of control is very weak or non-existent, which is placing the Council open to significant risk: and/or</p> <p>Compliance with Controls: Audit testing identified a high number of key controls which are not being complied with.</p>

Appendix 3

Internal Audit Strategy 2012/13

1.0 Introduction

1.1 CIPFA Code of Practice

The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (Section 7.1) states that “the head of internal audit must produce an audit strategy; this is the high level statement of how the internal audit service will be delivered and developed in accordance with the terms of reference and how it links to the organisational objectives and priorities”.

1.2 The purpose of this strategy is to outline:

- How the Internal Audit Service supports the Council's District Plan priorities.
- Primary Internal Audit objectives.
- The audit planning process.
- The audit reporting process.
- Resources, qualification requirements and competence matrix.
- Performance management and quality assurance processes.

1.3 Our aim is to help the Council meet the high standards of service delivery, conduct and governance its stakeholders expect by examining, evaluating and reporting on the internal control environment.

1.4 The corporate risk register will be used to help inform the risk assessment of the audit universe, but will be supplemented with Internal Audit's own assessment of risk and materiality. Over time, this assessment will draw more extensively from the Council's risk registers.

1.5 The internal audit coverage for the coming 12 months has taken account of the corporate risk register, internal audit risk assessment, project work and input from directors and heads of service.

2.0 Council's Strategic Objectives

2.1 Through the work it undertakes, Internal Audit will support the Council's stated mission which sets out the Council's focus over the coming years. The Council's mission statement, which is articulated in the District Plan 2011 to 2015, is: “Promoting a better quality of life” which is underpinned by six themes:

- **Economic Development**
- **Efficiency and Taxation**
- **Arts, Heritage and Leisure**
- **Sustainable Communities**
- **Environment**
- **Safer and Healthier**

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The Internal Audit Service at Horsham assists in the achievement of these objectives by *providing a high quality audit service that gives management and Members reasonable assurance that the Council's control environment is effective, and acts as an agent for change by making recommendations for continual improvement*". We aim to be flexible and pragmatic and to deliver our service in collaboration with management to suit organisational needs. Through a risk based approach we will make a positive contribution to corporate governance arrangements and assist management in developing a framework for achieving objectives within acceptable levels of risk. Within the team we will provide a work environment that is both supportive and challenging to facilitate the development and retention of staff.

2.2 In order to support the Council's mission statement, the Chief Internal Auditor will provide an annual report to the Accounts, Audit and Governance Committee which provides an opinion on the overall adequacy and effectiveness of the Council's governance arrangements, risk management process and internal control environment.

3.0 Internal Audit Objectives

3.1 The primary objectives of the Horsham District Council Internal Audit Service are as follows:

- To ensure that the Internal Audit Service strengthens corporate governance by helping to improve the governance framework and helping the Council to continue to embed risk management into the culture of the Council.
- To provide an annual assurance statement by forming and evidencing an independent opinion on the organisation's risk management, internal control environment and governance arrangements based upon the results of audit work completed during the year.
- Whilst the Internal Audit section's primary role is to review, appraise and report on the adequacy of controls, it also undertakes other non-assurance work to "add value" to the organisation (including risk management, project assurance, advisory services and fraud-related work).
- To comply with the objectives set out in the 'CIPFA Code of Practice for Internal Audit in Local Government.'
- To ensure that Internal Audit continues to achieve a high standard in all key performance indicators for the service.
- To continually review the efficiency and effectiveness of the Internal Audit Service, and in particular, to maximise the use of computer audit software tools such as IDEA (Interactive Data Extraction & Analysis).
- To work in partnership with the Audit Commission auditors and other Internal Audit functions as appropriate, to ensure that audit work is coordinated to avoid duplication of effort.
- To provide sufficient flexibility within the annual audit plan to enable the audit function to respond to current issues and the changing needs and priorities of the organisation.

4.0 Audit Planning

4.1 Internal Audit work will be adequately planned, controlled and recorded to establish audit priorities and ensure the effective use of audit resources.

- **Strategic Audit Plan**

Internal Audit work to a four year strategic plan and a risk assessment methodology is used to establish priorities and resource allocations. This plan is reviewed and updated annually.

- **Annual Audit Plan**

An annual operational audit plan will be derived from the four year strategic plan using a risk based approach whereby audits will be selected based on greatest inherent risk. The following key financial systems are audited annually as they are material to the production of the Authority's accounts

- ☐ Budgetary Control
- ☐ Business Rates
- ☐ Cash Receipting & Bank Reconciliation
- ☐ Council Tax
- ☐ Creditors
- ☐ Debtors
- ☐ Housing Benefits
- ☐ Payroll
- ☐ Treasury Management

Specific tests are undertaken to satisfy the requirements set out in the International Standards for Auditing. The Audit Commission reviews the team's work on these audits to assess whether reliance can be placed on the results for their statutory audit process. In addition, the Internal Audit Service will undertake annual reviews of a number of other high risk areas:

- ☐ Information Technology
- ☐ Performance Management
- ☐ Risk Management
- ☐ Corporate Governance

There are currently 41 additional service and operational areas which are to be audited on a four yearly basis. The Chief Internal Auditor will consult with Heads of Service about audit coverage as part of the annual audit planning process which will include a discussion about risk management and emerging risks which could impact on departmental objectives. Emerging risks could include significant local or national issues which may result in a one-off review, or alternatively may need to be incorporated into the strategic audit plan. The annual audit plan is approved by the Accounts Audit & Governance Committee.

A contingency allocation will also be built into the plan for consultancy work, investigations, counter fraud work, project assurance work and other unplanned enquiries. Any commissioned review work must be able to clearly demonstrate a contribution to the audit opinion on risk management, control and governance. Any displacement of a previously planned review by unplanned work will be clearly justified.

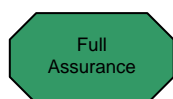
5.0 Audit Reporting

5.1 Assignment Reporting

All formal internal audit assignments will result in a formal report. The primary purpose of the audit report is to provide an independent and objective opinion to management on the framework of internal control, risk management and governance in operation and to stimulate improvement.

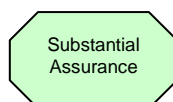
Low priority findings and value for money issues will be reported as a “Manager’s List” item (appended to the report) leaving the line manager to decide on appropriate action required. However, where there are a considerable number of low priority items, these will be included in the main body of the report together with an assessment of their collective significance.

The level of opinion provided in the formal audit report will be based on the following definitions:



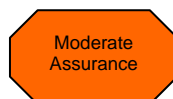
System of Control: *There is a sound system of control in place which minimises risk to the Council; and*

Compliance with Controls: *Audit testing identified that all expected controls are being consistently applied.*



System of Control: *Whilst there is basically a sound system of control (i.e. key controls are in place), there are some weaknesses which may place the Council at risk in a few areas; and/or*

Compliance with Controls: *Audit testing identified a lack of compliance with controls in a few areas.*



System of Control: *There are some weaknesses in the system of control (i.e. the absence of two or more key controls) which is placing the Council at risk in a number of areas; and/or*

Compliance with Controls: *Audit testing identified a lack of compliance with two or more key controls.*



System of Control: *The system of control is very weak or non-existent, which is placing the Council open to significant risk; and/or*

Compliance with Controls: *Audit testing identified a high number of key controls which are not being complied with.*

Where possible, the formal audit report will be issued electronically within 15 days of the final meeting at which action and timescales for implementation are agreed. The formal audit report will be issued to the Line Manager, Head of Service and Director relating to the service area under review. All reports will be copied to the Section 151 Officer and the Chief Executive.

5.2 Follow ups

Action plans will form an integral part of the report detailing agreed actions, timescales for completion and responsible officers. Managers are accountable for any actions agreed within the action plans and responsible for ensuring actions are properly implemented within the agreed timescales and that this is reported to Internal Audit on a timely basis.

Internal Audit will request progress reports from management, including evidence of actions taken where appropriate, within a timeframe that reflects delivery dates for agreed actions. The auditor will consider management responses and, where appropriate, evidence submitted, and exercise judgment as to whether any further action (e.g. a follow up review) is required by Internal Audit.

5.3 Quarterly Reports

The Chief Internal Auditor will submit quarterly reports to the Corporate Management Team (CMT) and the Accounts Audit & Governance Committee to summarise the main findings from audit assignments and remedial action agreed. An audit opinion for each audit assignment will also be given.

5.4 Annual Audit Opinion

The Chief Internal Auditor will prepare an annual report for CMT and the Accounts Audit & Governance Committee to include:

- An opinion on the overall adequacy and effectiveness of the framework of governance, risk management and internal control based upon work carried out during the year.
- Any issues which are considered to be particularly relevant to the Annual Governance Statement.
- Comment on compliance with the standards as set out in the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006.
- Feedback on performance against targets.

6.0 **Resource Requirements, Training & Skills**

- 6.1 The annual operational audit plan will identify the resources required to complete the work, thereby highlighting sufficiency of available resources. The Accounts, Audit and Governance Committee will be advised where, for whatever reason, Internal Audit is unable to provide assurance on any significant risks within the timescale envisaged by the risk assessment process.
- 6.2 The effectiveness of the Internal Audit section depends on the quality, training and experience of staff. In order to deliver the Audit Strategy and Annual Audit Plan, appropriate resources and skills will be required.
- 6.3 At Horsham, Internal Audit work is undertaken by an in-house team of three full-time employees and one part-time worker providing the equivalent of 3.5 full time staff. Internal audit staff will be appropriately qualified and have suitable audit experience. Appropriate qualifications are CCAB, IIA or AAT. There is currently no requirement for elements of the audit service to be provided externally.
- 6.4 Partnership working was undertaken during 2011/12 in order to reduce duplication of Internal Audit work on CenSus Revenues and Benefits, and further partnership working will be undertaken in 2012/13 as agreed by the Section 151 Officers of Horsham, Mid Sussex and Adur District Councils.
- 6.5 Training needs of individual auditors are identified using a competency matrix which is utilised to identify technical, professional, interpersonal and organisational competencies. This forms the basis of a skills register which records levels of competency achieved by each auditor together with a summary of training needs. As part of the annual appraisal process, personal development plans will be prepared for all audit staff following a skills gap analysis. Training needs will be evaluated on a six monthly basis and will respond to the changing demands placed upon the Internal Audit section resulting from emerging local and national issues.

7.0 Performance Management & Quality Assurance

- 7.1 Internal Audit will deliver a quality service that demonstrably adds to the improvement of the organisation's risk management, control and governance arrangements. Quality will be assured by adherence to audit processes that are subject to continuous review. The Chief Internal Auditor will undertake a review of working papers prior to the issue of each audit report.
- 7.2 A suite of performance indicators has been designed, and will be reported to the Corporate Management Team and Members as part of the Annual Audit Report. The targets set out below will be reviewed at the end of each financial year and revised as appropriate.

Code	Indicator	Target
A01	Percentage of agreed action items implemented.	100%
A02	Percentage of audits on annual audit plan completed within the year.	85%
A03	Management Satisfaction (very satisfied or satisfied) with Audit Service.	95%
A08	External Audit reliance on Internal Audit work achieved.	Yes
A09	Percentage of final reports issued within 15 days of completion of the final meeting to agree action and timescales.	85%
A10	Percentage of key financial system audits on annual audit plan completed within the year.	100%

- 7.3 The Chief Internal Auditor is committed to full compliance with the CIPFA Code of Practice for Internal Audit in Local Government. This includes ensuring that auditors are regularly reminded of their ethical responsibilities: integrity, objectivity, competence and confidentiality.

Paul Miller
Chief Internal Auditor
10th March 2012

Appendix 4

Internal Audit Plan 2012/13

HORSHAM DISTRICT COUNCIL OPERATIONAL AUDIT PLAN 2012/13	Estimated Days	Notes
KEY FINANCIAL SYSTEMS		
Audit Commission Key Control Testing	28	
Asset Management	1	Follow up only.
Budgetary Control	13	
Cash & Bank	17	
Council Tax	0	Mid Sx D.C. auditors will undertake for 3 authorities.
Creditors & Purchase Cards	23	
Debtors	16	
Housing Benefits	0	Adur D.C. auditors will undertake for 3 authorities.
Business Rates	35	CenSus audit (covering HDC, MSDC & ADC).
Payroll	17	
Treasury Management	16	
OPERATIONAL & SYSTEMS AUDITS		
Main Accounting System	21	
Risk Management (Assurance)	11	
Contracts	1	Follow up only.
Network Security (Data Management)	20	
Email & Transmission of Sensitive Data	18	
Physical & Environmental Controls ~ Server Rooms	12	
Business Continuity	7	
Performance Management	16	
Corporate Governance	12	
Repairs & Maintenance	23	Including Facilities Mgt ~ 2011/12 audit plan
Use of Consultants	13	2011/12 audit plan.
Commercial Rents	24	
Housing	11	2011/12 audit plan.
Improvement Grants	20	
Licensing (Hackney Carriages)	21	
Community Development	17	
Planning Section 106	23	2011/12 audit plan.
Reprographics	20	2011/12 audit plan.
Museum	17	
Domestic Waste Collection	23	
Parks & Open Spaces	13	2011/12 audit plan.
Emergency Planning	11	
Voluntary Sector Grants	15	
Project Management	16	2011/12 audit plan.

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SPECIAL INVESTIGATIONS / FRAUD / PROJECT WORK		
Special Investigations & Proactive Fraud Work (incl. NFI)	40	
Project ~ New Payroll System	8	
Project ~ Information Security	9	
Project ~ Business Transformation	8	
Risk Management ~ Strategy / Procedures / Training	36	
Audit Advice (e.g. Corporate Issues)	7	
Follow-ups	12	
OTHER		
Annual Governance Statement / Governance Group	10	
Sussex Audit Group & IS Sub-Group	6	
Audit Commission	4	
Committee Representation	9	
Project Assurance	20	
TOTAL	720	

Report to Accounts, Audit and Governance Committee

28th March 2012

By the Head of Financial & Legal Services

INFORMATION REPORT

Not exempt



Risk Management – Quarterly Update 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

The Committee is recommended to:

- 1) Consider the updated version of the Corporate Risk Register.
- 2) Note the progress which has been made with the departmental risk registers.

Reasons for Recommendations

As part of good governance, it is important that these documents are considered by Members.

Background Papers:	Management Information obtained from Covalent
Consultation:	Chief Internal Auditor
Wards affected:	All
Contact:	Sue McMillan, Ext 5302

Background Information

1. Introduction

The Purpose of this Report

- 1.1 The Accounts, Audit and Governance Committee is charged with responsibility for monitoring the effectiveness of the Council's risk management arrangements.
- 1.2 The deadline for completing the first quarter review of departmental risk registers has now passed, and feedback on progress is summarised in this report.

2. Risk Management Update

2.1 Corporate Risk Register

- The Corporate Management Team (CMT) has reviewed all outstanding actions on the Corporate Risk Register and comments have been updated to reflect the current position for each risk.
- CMT has agreed that CRR11, CRR23 and CRR25 should be removed from the "live" Corporate Risk Register as all planned actions have been implemented and the level of risk in each case has been reduced to an acceptable level. Risks which have been removed from the "live" register are now reviewed by CMT on an annual basis.
- A new risk, CRR28, has been added following a number of breakdowns of the air conditioning units in the new server room in County Hall North. A bespoke component has been ordered and once fitted, it is expected that the problem will be resolved. In the meantime, monitoring has been increased and remedial actions have been planned should further failures occur.

2.2 Departmental Risk Registers

A total of 13 out of 18 departmental risk register reviews (61%) were completed and signed off by the 21st February cut-off date (compared to 61% in November and 67% in August). As at 16th March, all reviews had been undertaken with the exception of one.

3. Next Steps

- 3.1 A meeting of senior officers took place on 31st January 2012 to undertake a detailed review of Corporate Risk Management and how this should operate in future. Feedback has been provided to CMT and it has been agreed that the Chief Internal Auditor will write a new risk management strategy and revise the procedure manual. It was also agreed that Internal Audit Team should provide refresher training to all departments during 2012/13.

4. Outcome of Consultations

- 4.1 Not applicable.

5. Other Courses of Action Considered but Rejected

5.1 Not applicable.

6. Staffing Consequences

6.1 There are no direct staff consequences.

7. Financial Consequences

7.1 There are no financial consequences.

Appendix 1

Consequences of the Proposed Action

Consequences of the proposed action on:	
Risks	The report provides an update on the Council's corporate risks and how these are being managed by the Corporate Management Team.
Risk Assessment attached Yes/No	See Appendix 2 for the latest version of the Council's Corporate Risk Register.
Crime and Disorder	Effective risk management helps to ensure that the Council achieves its objectives within this area.
Equality and Diversity/ Human Rights	Effective risk management helps to ensure that the Council achieves its objectives within this area.
Equalities Impact Assessment attached Yes/No/Not relevant	Not relevant.
Sustainability	This report has no effect on sustainability.

Statutory and Policy Background

Statutory Background	The Council has a statutory responsibility to have in place arrangements for managing risks, as stated in the Accounts and Audit Regulations 2003 (amended 2006): "The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of the body's functions and which includes arrangements for the management of risk".
Relevant Government Policy / Professional Standards	Risk management is an essential element of good corporate governance. The CIPFA/SOLACE Framework on Corporate Governance requires councils to establish and maintain a systematic strategy, methodology and processes for managing risk. They must also report publicly on the effectiveness of these arrangements.
Relevant Council Policy	The Council's Risk Management Strategy 2008 to 2011 is published on the Council's Intranet. A Corporate Risk Register is managed by the Council's Corporate Management Team, and each Head of Service is responsible for managing one or more departmental risk registers. When undertaking major projects, a risk log is maintained which is a requirement of the PRINCE 2 Lite methodology adopted by the Council.





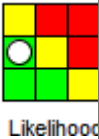





Corporate Risk Report with Actions March 2012 V3

Generated on: 12 March 2012








Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Action Code & Title	Action Owner	Status	Target Risk Matrix	Quarterly Update
CRR01 Pressure on the Council's budget & future impact on HDC finances	Job losses, reduced income, capital receipts reduced or not realised, service cuts (non-statutory functions, increased workload (e.g. debt recovery), and possible damage to reputation. Loss of discretionary services impacting on quality of life.	Sue McMillan		CRR.01.3 Focus on corporate priorities through the corporate & departmental service planning processes (Monthly).	CMT			March 2012 Update: A medium term financial strategy will be developed by the 30th September 2012.
				CRR.01.5 Continuous review of costs and income (Ongoing).	CMT			
				CRR.01.6 Identify future development opportunities to generate additional capital receipts and revenue streams (Ongoing).	Ray Lee			
				CRR.01.7 Explore opportunities for further shared services (Ongoing).	Directors			
				CRR.01.8 Develop & Deliver a new Medium Term Financial Strategy (Ongoing).	CMT			
CRR05 Inadequate "information security"	Financial penalties & damage to reputation.	Peter Dawes		CRR.05.1 Develop an ICT Security Policy (by 30/09/12)	Peter Dawes			March 2012 Update: See Footnote. ²
				CRR.05.2 Develop processes & procedures which underpin the IT Security Policy (by 30/09/12).	Peter Dawes			
				CRR.05.4 Provide a programme of training on Information Security to all staff (by 30/09/12).	Peter Dawes			
				CRR.05.8 Stop Members from using personal email addresses. When emailing Members, CMT will always send emails / email responses to Member's HDC account.	Peter Dawes			

² Michala Liavaag has now been appointed by HDC who will undertake the Information Security Manager role for Horsham. Implementation dates for CRR.05.1 to CRR.05.4 have been re-set to 30th September 2012. CRR.05.8 was discussed by CMT in the light of a recent Information Commissioner's ruling following an investigation into a government minister's use of his wife's email for business purposes in the context of Freedom of Information enquiries.

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CRR06 Lack of a tested Business Continuity Plan	Disruption to service, legislative breaches (if critical paperwork lost), loss of income & failure to achieve objectives.	Natalie Brahma-Pearl		CRR.06.1 Develop corporate business continuity plan and regular review (30/11/11 - then quarterly review). CRR.06.2 Develop departmental business continuity plans and regular review (by 30/9/11 & then quarterly Review).	Greg Charman Greg Charman	 		March 2012 Update: See Footnote ³
CRR11 Project problems due to inadequate project management.	Project fails to meet desired outcomes, increased costs, delays in implementation, loss of income, & damage to reputation.	Ray Lee						March 2012 Update: All control actions have been implemented. The new process for reviewing the top 12 projects by the Project Assurance Core Team (PACT) and the CMT Performance Management Group is now embedded. CMT have agreed that this risk should now be removed from the Corporate Risk Register.
CRR21 There is currently no formal system in place for calling out staff	An incident which cannot be resolved causing service interruptions at HDC Offices or other buildings for which we are responsible	Natalie Brahma-Pearl		CRR.21.1 Review Duty Officer and Out of Hours system (by 1/4/12) CRR.21.2 Review appropriate Role Profiles to ensure that Out of Office cover is addressed (by 1/4/12)	Natalie Brahma-Pearl Natalie Brahma-Pearl	 		March 2012 Update: No change. Target date for completion of actions remains as 1/4/12.

³ All remaining HDC departmental BIA's scheduled and due for completion by April 20th. Full corporate BIA due for completion by April 30th. Departmental part two plans to be completed shortly after full BIA and will focus on Park House & Crawley Borough Council as alternative warm sites due for completion May 30th. Full corporate disaster recovery plan due for completion and adoption by June 29th. IT & Census to complete a business recovery plan in line with information ascertained from all points raised above. Date of completion determined by IT/Census.

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Action Code & Title	Action Owner	Status	Target Risk Matrix	Quarterly Update
CRR23 Loss of ICT & Telephone Service due to failure in the Data Centre	Failure of business objectives Non compliance with statutory requirements Financial business loss Disruption of service Damage to reputation	Tom Crowley						March 2012 Update: On the basis that all actions have been implemented, CMT agreed that this risk should now be removed from the Corporate Risk Register.
CRR24 Loss of Telephone System due to hardware failure	Failure of business objectives Non compliance with statutory requirements Financial business loss Disruption of service Damage to reputation	Peter Dawes		CRR.24.02 Explore partnership opportunities (by 31/3/12) CRR.24.03 Consider purchase of new system - report will be produced shortly (by 31/3/12).	Graham Crossingham			March 2012 Update: A number of replacement options are being considered and evaluated to replace the existing system. Consideration of the solutions depends on the outcome of the evaluation of the West Sussex Wide Area Network – the final decision will depend on the affordability of this network. The technical aspects are being evaluated by the West Sussex IT Managers and the strategic implications are being considered by the Better Together Board.

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Action Code & Title	Action Owner	Status	Target Risk Matrix	Quarterly Update
CRR25 Potential lack of compliance with Children Act 2004 (Section 11)	Non compliance with statutory requirements and damage to reputation.	Natalie Brahma-Pearl	Impact Likelihood	CRR.25.04 CRB Register ~ Recruitment and Selection (31/3/12)	Natalie Brahma-Pearl		Impact Likelihood	March 2012 Update: All actions have now been implemented. CMT have agreed that this risk should now be removed from the Corporate Risk Register.
CRR27 Health & Safety ~ Failure to comply with Council Policy & Procedures and Legislative requirements	Death/serious injury/injury Non compliance with statutory requirements Financial business loss Damage to reputation	Tom Crowley	Impact Likelihood	CRR.27.03 Develop Action Plan to address risks identified (By 31/1/12)	Peter Dawes		Impact Likelihood	March 2012 Update: The health and safety action plan has been completed. 21 out of 69 actions have been implemented. Further update due to go to CMT in April 2012.
				CRR27.04 An update on progress regarding implementation of the action plan will be presented to CMT in April 2012.	-- enter action details here --			
CRR28 Loss of ICT infrastructure due to current time limited problems with the air handling systems at CHN Data Centre	Failure of business objectives Disruption of service Damage to reputation	Peter Dawes	Impact Likelihood	CRR.28.01 Issues escalated to WSCC who have changed control systems (check twice weekly)	Graham Crossingham		Impact Likelihood	March 2011: New Risk: air conditioning in the County Hall North server room has failed on a number of occasions in recent weeks. The problem has been identified and a bespoke component has been ordered.
				CRR.28.02 Installed own 24/7 monitoring equipment	Graham Crossingham			
				CRR.28.03 Implemented interim 24/7 temperature control	Graham Crossingham			
				CRR.28.04 Agreed timescale for system fix (chase twice weekly)	Graham Crossingham			