



# ACCOUNTS, AUDIT & GOVERNANCE COMMITTEE

WEDNESDAY 25<sup>TH</sup> MARCH 2015 AT 5.30pm  
COMMITTEE ROOM 1, PARK NORTH, NORTH STREET, HORSHAM

**Councillors:** David Holmes (Chairman)  
Gordon Lindsay (Vice-Chairman)  
John Bailey Jim Rae  
Roy Cornell Stuart Ritchie  
Leonard Crosbie

Tom Crowley  
Chief Executive

## AGENDA

Page  
No.

1. Apologies for absence
2. To approve as correct the minutes of the meeting of the Committee held on 7<sup>th</sup> January 2015 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. Annual Certification Report 2013/14 – to be presented by the External Auditor - ***please see separate appendix***
6. Audit Plan - to be presented by the External Auditor - ***please see separate appendix***
7. Audit Progress Report - to be presented by the External Auditor - ***please see separate appendix***
8. Review of the Council's internal control environment
9. Risk Management – Quarterly Update Report 9
10. Internal Audit – Quarterly Update Report 17
11. 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

12. To consider the following exempt or confidential information:

		<b>Reason for exemption</b>	
13.	<u>Report of the Chief Internal Auditor</u>		
(a)	Internal Audit – Quarterly Update Report on Audit Follow ups	Paragraph 3	<b>41</b>

**ACCOUNTS, AUDIT & GOVERNANCE COMMITTEE**  
**7<sup>TH</sup> JANUARY 2015**

Present: Councillors: David Holmes (Chairman), John Bailey, Leonard Crosbie, Stuart Ritchie

Apologies: Councillors: Roy Cornell, Gordon Lindsay (Vice-Chairman), Jim Rae,

Also present: Paul King, Audit Director, Ernst & Young  
Katharine Eberhart, Director of Corporate Resources  
Sue McMillan, Head of Finance  
Paul Miller, Chief Internal Auditor  
Julian Olszowka, Group Accountant (Technical)

AAG/30 **MINUTES**

The minutes of the meeting held on 25<sup>th</sup> September 2014 were approved as a correct record and signed by the Chairman, subject to the following amendments:

(a) The description of Paul King being changed to Audit Director in the list of attendees and in Minute No. AAG/20;

(b) The first paragraph of Minute No. AAG/22 being amended to read: "Statements were presented for 2013/14 on which the *External* Auditor anticipated issuing an unqualified opinion."

(c) The second paragraph of Minute No. AAG/22 being amended by the addition of the following words: "The workshop had allowed Members to ask various questions of Officers to satisfy themselves that:

- fixed assets and investments were stated at fair value;
- debtors were recoverable, and provision for doubtful debts had been made;
- creditors were not understated, and provision for known claims and liabilities had been made;
- income was both complete and had been recognised in the correct accounting period;
- expenses were not overstated and had been recognised in the correct accounting period;
- only properly authorised expenditure had been incurred; and
- the accounting policies had been followed.

Members were satisfied with the responses given and were grateful for the opportunity to examine matters in greater detail with the relevant Officers."

(d) The last sentence of Minute No. AAG/25 being amended to read: "The Vice-Chairman requested *that it be made (delete "Internal Audit make it)* clear to managers that it is their responsibility to ensure that the correct training forms are completed as required."

AAG/31 **DECLARATIONS OF INTEREST**

There were no declarations of interest.

AAG/32 **ANNOUNCEMENTS**

The Chairman reminded the Members of the Committee that he had circulated to them the notes of a meeting held with Councillor John Chidlow regarding questions he had raised at Council on various internal audit issues. The points raised were noted.

AAG/33 **ANNUAL AUDIT LETTER 2013/14**

The Committee received and noted the Annual Audit Letter 2013/14, which summarised the External Auditor's findings from the 2013/14 audit, as discussed at the last meeting of the Committee.

Paul King, Audit Director, Ernst & Young gave an update on the current position regarding the qualification letter issued in respect of the housing benefits claim. The external auditor explained that it was not unusual to find such errors in Benefit Claims however those found could result in the Council receiving £160,000 less towards reimbursement of benefit payments for 2014/15. The CenSus Revenue and Benefit team was currently reviewing the issues raised in the qualification letter and would be resubmitting work to the external auditors and the DWP to clarify the potential financial impact of the errors identified. This additional work would be completed by the end of February. Both Paul King and the Director of Corporate Resources answered Members questions on the claims assessment process.

The Director of Corporate Resources indicated that a report on the final outcome regarding the qualification letter would be reported to the next meeting of the Committee.

AAG/34 **LOCAL GOVERNMENT AUDIT COMMITTEE BRIEFING**

Paul King, Audit Director, Ernst & Young presented the most recent edition of Ernst & Young's Local Government Audit Committee briefing. With reference to the 'Key Questions for the Audit Committee' listed in the briefing, the Director of Corporate Resources indicated that the fraud issues covered by the National Fraud Initiative (NFI) were addressed by the Council's internal control policies. However, she would review Appendix 2 of the latest Audit Commission publication "Protecting the Public Purse" to ensure that all relevant questions were being dealt with. She also advised that the Council's whistleblowing policy would shortly be updated. It was noted that other "Key Questions For the Audit Committee" were "whether the Council had clear lines of responsibility for contract management" and "the need to have outcome based contracts."

AAG/35 **TREASURY MANAGEMENT STRATEGY 2015/16**

The Director of Corporate Resources reminded Members that the Council had significant investments and borrowing and had to manage its cash flow in both the short and long term. This required an overall strategy as well as sets of practices and procedures and the Treasury Management Strategy for 2015/16 was therefore submitted for approval.

Details of the current treasury portfolio were submitted together with information in respect of the borrowing and investment strategies, treasury management indicators, the policy on the use of financial derivatives, the Council's treasury management advisers, staff training and the investment of money borrowed in advance of need.

Members expressed concerns regarding the proposed use of Pooled Funds (other than Money Market Funds), as they considered that the risks and the tying-up of funds long term was not appropriate at a time of financial uncertainty. In response to Members' questions regarding the Council's Treasury Management Advisers, Arlingclose Limited, the Director of Corporate Resources assured the Committee that they received no financial gain as a result of their advice to the Council.

It was also noted that the liquidity benchmark for 2015/16 was a change to the previous benchmark and not a modification. The strategy would be amended to show this.

Members were also advised of the authorisation procedures used by officers in managing the Council's investments.

Members commented on the highly technical nature of the strategy and suggested that, in future, the addition of a less technical summary would be helpful for the Committee.

As Members were unhappy with the inclusion of Pooled Funds (other than Money Market Funds) within the strategy, it was suggested that references to these could be deleted (in particular paragraphs 5.10 and 5.11).

**RECOMMENDED**

- (i) That the Treasury Management Strategy for 2015/16 be approved, subject to consultation with all Committee Members following the deletion of all references to Pooled Funds (other than Money Market Funds) and its amendment to show that the liquidity benchmark for 2015/16 was a change to the previous benchmark not a modification.

AAG/35 Treasury Management Strategy 2015/16 (cont.)

- (ii) That, subject to (i) above, the Treasury Management Indicators for 2015/16 be approved.

REASONS

- (i) The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition (the 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 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/36 **TREASURY MANAGEMENT ACTIVITY AND PRUDENTIAL INDICATORS  
MID YEAR REPORT 2014/15**

The Director of Corporate Resources presented a report on treasury management activity and prudential indicators for the first half of 2014/15.

The report confirmed that, during this period, the Council had complied with its legislative and regulatory requirements and the statutory borrowing limit, the Authorised Limit, had not been breached.

At 30<sup>th</sup> September 2014, the Council's external debt was £4,000,000 and its investments totalled £31,500,000 including call accounts and money market funds.

It was noted that, during the first half of 2014/15, the Council's cash balances had been invested in accordance with the Council's treasury management strategy, with interest of £100,000 being earned on investments, an average return of 0.6%.

RESOLVED

That the mid-year treasury management stewardship report and mid-year prudential indicators for 2014/15 be noted.

AAG/36 Treasury Management Activity And Prudential Indicators Mid Year Report 2014/15 (cont.)

REASON

The report meets the requirements of the relevant CIPFA Codes of Practice for Treasury Management and Prudential Indicators in Capital Finance.

AAG/37 **INTERNAL AUDIT – QUARTERLY UPDATE REPORT**

The Chief Internal Auditor submitted a report summarising the work of the Internal Audit Section since September 2014.

In introducing the report he indicated that, following the question raised by Councillor John Chidlow as to whether the Council's rate of moderate assurance audit opinions (20%) was acceptable, he had consulted with four other local authorities regarding the outcome of their internal audits. Of the four authorities consulted one had a moderate assurance audit opinion rate of 17%, one of 24% and two of 27%. It was therefore considered that the Council's rate of 20% was acceptable.

A summary of audit findings in respect of Cash and Bank; Debtors; and Housing Rents and Maintenance, all of which had achieved an overall audit opinion of substantial assurance, and Health and Safety; Contracts and BACS, all of which had achieved an overall audit opinion of moderate assurance, was submitted. Concern was expressed at weaknesses found relating to the management and control of contracts given that previous action had been taken to tighten up procedures. The Internal Auditor confirmed that the weakness was not in the procedures but failure to follow them. Members were advised of actions that were being taken to address the issues raised in respect of the three areas that had achieved an overall audit opinion of moderate assurance. The Director of Corporate Resources reported on action already being taken to review the Council's internal control environment and indicated that she would report further on this to the next meeting of the Committee.

The Chief Internal Auditor also reported on two special investigations that had been carried out, one in respect of missing laptop computers and one following a fuel theft at the Hurston Lane Depot. Members discussed both issues at length and the Director of Corporate Resources and Chief Internal Auditor advised Members on action being taken to improve the control environment and security in both areas. Members expressed concern regarding these two incidents.

The Chief Internal Auditor advised that all departmental risk registers had now been reviewed and converted to 5x5 risk matrices. Internal audit was

AAG/37 Internal Audit – Quarterly Update Report (cont.)

also involved in a number of project team meetings including the office move and disaster recovery.

The audit plan was progressing well and it was anticipated that 85% of the plan would be completed, which was within the performance target set.

RESOLVED

That the summary of audit and project work undertaken since September 2014 be noted.

REASONS

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

AAG/38 RISK MANAGEMENT – QUARTERLY UPDATE REPORT

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

It was noted that the corporate risk register had been fully reviewed by the Senior Leadership Team and that all departmental risk registers had been reviewed and updated.

With regard to CRR38 (relating to the Community Infrastructure Levy Scheme), Members queried whether there were any control actions that needed to be included, given that approval of the Horsham District Planning Framework and therefore CIL procedures was now delayed. The Director of Corporate Resources would raise this with the risk owner.

RESOLVED

That the report be noted.

REASON

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

AAG/39 URGENT MATTERS

There were no urgent matters to be considered.



AAG/40 **EXCLUSION OF THE PRESS AND PUBLIC**

RESOLVED

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

AAG/41 **INTERNAL AUDIT – QUARTERLY UPDATE REPORT ON AUDIT FOLLOW UPS (PARAGRAPH 3)**

The Chief Internal Auditor submitted a report summarising progress since September 2014 on the implementation of actions in respect of audits undertaken in 2014/15, 2013/14, 2012/13, 2011/12 and 2010/11.

The Chief Internal Auditor gave an update on the current position in respect of three specific areas: Casual Worker Policy & Volunteers Policy; Land Charges; and ICT Hardware.

RESOLVED

- (i) That progress in terms of agreed actions implemented since September 2014 be noted.
- (ii) That the position in respect of the specific areas of concern highlighted by the Chief Internal Auditor be noted.

RESOLVED

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

The meeting finished at 8.20pm having commenced at 5.30pm.

**CHAIRMAN**



# Horsham District Council

Year ending 31 March 2015

Audit Plan

March 2015



Accounts, Audit and Governance Committee  
Horsham District Council  
Park North  
North Street  
Horsham  
West Sussex  
RH12 1RL

17 March 2015

Dear Members of the Accounts, Audit and Governance Committee

## **Audit Plan**

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Accounts, Audit and Governance Committee with a basis to review our proposed audit approach and scope for the 2014/15 audit in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, Standing Guidance, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for Horsham District Council, and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this plan with you on 25 March 2015 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Paul King  
Director  
For and behalf of Ernst & Young LLP  
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# Contents

- 1. Overview .....2
- 2. The Local Audit and Accountability Act 2014 .....4
- 3. Financial statement risks .....5
- 4. Economy, efficiency and effectiveness .....7
- 5. Our audit process and strategy.....9
- 6. Independence..... 13
- Appendix A Fees..... 16
- Appendix B UK required communications with those charged with governance .... 18

In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' ('Statement of responsibilities'). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

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

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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

# 1. Overview

## Context for the audit

This Audit Plan covers the work that we plan to perform to provide you with:

- ▶ our audit opinion on whether the financial statements of Horsham District Council give a true and fair view of the financial position as at 31 March 2015 and of the income and expenditure for the year then ended; and
- ▶ a statutory conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on your Whole of Government Accounts return.

When planning the audit we take into account several key inputs:

- ▶ strategic, operational and financial risks relevant to the financial statements;
- ▶ developments in financial reporting and auditing standards;
- ▶ the quality of systems and processes;
- ▶ changes in the business and regulatory environment; and
- ▶ management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

In parts three and four of this plan we provide more detail on the above areas and we outline our plans to address them. Our proposed audit process and strategy are summarised below and set out in more detail in section five.

We will provide an update to the Accounts, Audit and Governance Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September 2015.

## Our process and strategy

### Financial statement audit

We consider materiality in terms of the possible impact of an error or omission on the financial statements and set an overall planning materiality level. We then set a tolerable error to reduce the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality to an appropriately low level. We also assess each disclosure and consider qualitative issues affecting materiality as well as quantitative issues.

Where possible and more efficient we will seek to rely on the controls in your systems, therefore reducing the year-end testing required.

To the fullest extent permissible by auditing standards, we will seek to rely on the work of internal audit wherever possible

**Arrangements for securing economy, efficiency and effectiveness**

Our approach to the value for money (VFM) conclusion for Horsham District Council for 2014/15 is based on criteria specified by the Audit Commission relating to whether there are proper arrangements in place within the Council for:

- ▶ securing financial resilience
- ▶ challenging how the Council secures economy, efficiency and effectiveness.

We adopt an integrated audit approach, so our work on the financial statement audit feeds into our consideration of the arrangements in place for securing economy, efficiency and effectiveness.

Further detail is included in section 4 of this Audit Plan.

## 2. The Local Audit and Accountability Act 2014

The Local Audit and Accountability Act 2014 (the 2014 Act) closes the Audit Commission and repeals the Audit Commission Act 1998.

The 2014 Act requires the Comptroller and Auditor General to prepare a Code of Audit Practice. This must be laid before Parliament and approved before 1 April 2015.

Although this new Code will apply from 1 April 2015, transitional provisions within the 2014 Act provide for the Audit Commission's 2010 Code to continue to apply to audit work in respect of the 2014/15 financial year. This plan is therefore prepared on the basis of the continued application of the 2010 Code of Audit Practice throughout the 2014/15 audit.



### 3. Financial statement risks

We outline below our assessment of the financial statement risks facing Horsham District Council, identified through our knowledge of the Council's operations and discussion with those charged with governance and officers.

At our meeting, we will seek to validate these with you.

Significant risks (including fraud risks)	Our audit approach
<b>Risk of management override</b>	
<p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement, and include this risk in all of our audit plans. It is not specific to Horsham District Council.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements</li> <li>▶ reviewing accounting estimates for evidence of management bias, and</li> <li>▶ evaluating the business rationale for significant unusual transactions; and</li> <li>▶ reviewing the Council's arrangements for identifying and properly disclosing significant related party transactions in its financial statements.</li> </ul>
<b>Other financial statement risks</b>	
<b>Accounting for property, plant and equipment</b>	
<p>The Council uses Excel spreadsheets to produce its figures and disclosures for property, plant and equipment. In previous years we have found that this process produces a complex audit trail and, as a result, the risk of misstatement is increased.</p> <p>We understand that the Council is planning to introduce a new property, plant and equipment module which may be in place by the year end. This module will interface with the system and automatically post updates to the ledger and will replace the spreadsheet used to date. There is a risk of misstatement if the module does not function as anticipated or if data is not migrated across from the spreadsheet to the new module correctly.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ reviewing the clarity of the audit trail and ensuring it is consistent with the draft financial statements;</li> <li>▶ reviewing the migration and testing process undertaken by the Council for the new module, if implemented; and</li> <li>▶ substantively testing the entries in the balance sheet and disclosures.</li> </ul>
<b>Disposal of Park North</b>	
<p>In October 2014, the Council approved the move of Council offices from Park North and North Point to County Hall North. The move is planned to start in March 2015 and complete in June 2015. The Council will then dispose of the Park North building.</p>	<p>We will review the valuation of the Park North and North Point buildings and the associated disclosure within the 2014/15 financial statements.</p>

### **Respective responsibilities in relation to fraud and error**

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ▶ identifying fraud risks during the planning stages;
- ▶ enquiry of management about risks of fraud and the controls to address those risks;
- ▶ understanding the oversight given by those charged with governance of management's processes over fraud;
- ▶ consideration of the effectiveness of management's controls designed to address the risk of fraud;
- ▶ determining an appropriate strategy to address any identified risks of fraud; and
- ▶ performing mandatory procedures regardless of specifically identified fraud risks.

We will consider the results of the National Fraud Initiative and may refer to it in our reporting to you.

## 4. Economy, efficiency and effectiveness

Our approach to the value for money (VFM) conclusion for Horsham District Council for 2014/15 is based on criteria specified by the Audit Commission relating to whether there are proper arrangements in place at the Council for securing:

1. financial resilience, and
2. economy, efficiency and effectiveness in the use of resources.

The Audit Commission VFM guidance for 2014/15 requires that auditors consider and assess the significant risks of giving a wrong conclusion and carry out as much work as is appropriate to enable them to give a safe conclusion on arrangements to secure VFM.

Our assessment of what is a significant risk is a matter of professional judgement, and is based on consideration of both quantitative and qualitative aspects of the subject matter in question.

We have not identified any significant risks to the value for money (VFM) conclusion. However, we have identified the following key areas that we will consider to support our VFM conclusion.

The table below provides a high-level summary of our risk assessment and our proposed response to those risks.

Other risks	Impacts arrangements for securing:	Our audit approach
<b>Financial standing</b>		
The Council continues to experience funding challenges from national policies to reduce the deficit.	Economy, efficiency and effectiveness	We will review the Council's 2015/16 budget and medium term financial plan and consider the reasonableness of the underlying assumptions.
	Financial resilience	
		We will also consider the progress of the Council's Transformation Programme in achieving savings and efficiencies to date.
<b>Council spending</b>		
The Audit Commission produces value for money and financial ratio profiles for local authorities on an annual basis. This provides an indication of the relative spending of an individual body against a comparator group of statistical nearest neighbours which have similarities in population, expenditure, and geographical area.	Economy, efficiency and effectiveness	We will consider the comparative spending of the Council based on the latest available VFM profile data.
	Financial resilience	

We will keep our risk assessment under review throughout our audit and communicate to the Accounts, Audit and Governance Committee any revisions to the specific risks identified here and any additional local risk-based work we may need to undertake as a result.

## 5. Our audit process and strategy

### 5.1 Objective and scope of our audit

Under the Audit Commission's Code of Audit Practice ('the Code') our principal objectives are to review and report on, the Council's:

- ▶ financial statements
  - ▶ arrangements for securing economy, efficiency and effectiveness in its use of resources
- to the extent required by the relevant legislation and the requirements of the Code.

We issue a two-part audit report covering both of these objectives.

#### i) Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We will also review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require.

#### ii) Arrangements for securing economy, efficiency and effectiveness

The Code sets out our responsibility to satisfy ourselves that the Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In arriving at our conclusion, we will rely as far as possible on the reported results of the work of other statutory inspectorates on corporate or service performance.

In examining the Council's corporate performance management and financial management arrangements, we consider the following criteria and areas of focus specified by the Audit Commission:

- ▶ arrangements for securing financial resilience – whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- ▶ arrangements for securing economy, efficiency and effectiveness - whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

### 5.2 Audit process overview

#### Processes

Our initial assessment of the key processes across the Council/ CCG has identified the following key processes where we will seek to test key controls, both manual and IT:

- ▶ Accounts payable
- ▶ Accounts receivable
- ▶ Council tax
- ▶ Business rates

To the fullest extent permissible by auditing standards, we will seek to place reliance on the work of Internal Audit to test controls in its annual programme of work.

We have also identified the following key processes that we will test substantively post year-end:

- ▶ Cash and Bank
- ▶ Housing Benefit
- ▶ Payroll
- ▶ Property, Plant and Equipment
- ▶ Treasury management
- ▶ Financial Statements Close Process.

### **Analytics**

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

- ▶ help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests
- ▶ give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Accounts, Audit and Governance Committee.

### **Internal audit**

As in prior years, we will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where we raise issues that could have an impact on the year-end financial statements

### **Use of experts**

We will use specialist EY resource as necessary to help us to form a view on judgments made in the financial statements. Our plan currently includes involving specialists in pensions and valuations for both property and business rates appeals provisions..

### **Mandatory procedures required by auditing standards**

As well as the financial statement risks outlined in section three, we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

#### ***Procedures required by standards***

- ▶ addressing the risk of fraud and error;
- ▶ reviewing significant disclosures included in the financial statements;
- ▶ assessing the effectiveness of entity-wide controls;
- ▶ reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- ▶ maintaining auditor independence.

### ***Procedures required by the Code***

- ▶ reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement and the Remuneration Report;
- ▶ reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO; and
- ▶ reviewing and examining, where appropriate, evidence relevant to the Council's corporate performance management and financial management arrangements, and its reporting on these arrangements.

## **5.3 Materiality**

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition. We have initially determined that overall materiality for the financial statements of the Council is £1.402 million based on based on 2% of 2013/14 gross service expenditure.

We will communicate uncorrected audit misstatements greater than £70,131 to you.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

## **5.4 Fees**

The Audit Commission has published a scale fee for all authorities. This is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice 2010. The indicative fee scale for the audit of Horsham District Council is £66,792.

## **5.5 Your audit team**

The engagement team is led by Paul King, who has significant experience of the Council. Paul King is supported by Emma Bryant and Hannah Lill who are responsible for the day-to-day direction of audit work, and who are the key points of contact for the Director of Corporate Resources.

## **5.6 Timetable of communication, deliverables and insights**

We have set out below a timetable showing the key stages of the audit, including the VFM work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the Accounts, Audit and Governance Committee's cycle in 2014/15. These dates are determined to ensure our alignment with the Audit Commission's rolling calendar of deadlines.

We provide progress reports to each meeting of the Accounts, Audit and Governance Committee and will provide a formal report detailing the results of our 2014/15 audit to the September meeting of the Committee. From time to time matters may arise that require immediate communication with the Accounts, Audit and Governance Committee and we will discuss them with the Committee Chair as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Council and external stakeholders, including members of the public.

Audit phase	Timetable	Accounts, Audit and Governance Committee timetable	Deliverables
High level planning	<b>December - February</b>	April 2014 January 2015	Audit Fee letter Progress reports
Risk assessment and setting of scopes	<b>January – March</b>	25 March 2015	Audit Plan
Testing routine processes and controls	<b>February – March</b>	June 2015	Progress Report
Year-end audit	<b>July – September</b>		
Completion of audit	<b>September</b>	September 2015	<ul style="list-style-type: none"> <li>➤ Report to those charged with governance via the Audit Results Report</li> <li>➤ Audit report (including our opinion on the financial statements; and overall value for money conclusion).</li> <li>➤ Audit completion certificate</li> <li>➤ Reporting to the NAO on the Whole of Government Accounts return.</li> </ul>
Conclusion of reporting	<b>October</b>	November 2015	Annual Audit Letter

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.



## 6. Independence

### 6.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> <li>▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us;</li> <li>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review;</li> <li>▶ The overall assessment of threats and safeguards;</li> <li>▶ Information about the general policies and process within EY to maintain objectivity and independence.</li> </ul>	<ul style="list-style-type: none"> <li>▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</li> <li>▶ Details of non-audit services provided and the fees charged in relation thereto;</li> <li>▶ Written confirmation that we are independent;</li> <li>▶ Details of any inconsistencies between APB Ethical Standards, the Audit Commission's Standing Guidance and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and</li> <li>▶ An opportunity to discuss auditor independence issues.</li> </ul>

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future contracted services, and details of any written proposal to provide non-audit services;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period are disclosed, analysed in appropriate categories.

## 6.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

### ***Self-interest threats***

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Council.

At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services, and we will comply with the policies that the Council has approved and that are in compliance with the Audit Commission's Standing Guidance.

At the time of writing, there are no non-audit fees.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to the Council. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 4.

There are no self-interest threats at the date of this report.

### ***Self-review threats***

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self-review threats at the date of this report

### ***Management threats***

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions based on that work.

There are no management threats at the date of this report

### ***Other threats***

Other threats, such as advocacy, familiarity or intimidation, may arise.

We are aware that the daughter of the Director of Corporate Resources has commenced work with EY as an intern in the Leeds Office. We have put safeguards in place to ensure that this threat to independence is minimised.

### ***Overall Assessment***

Overall we consider that the adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and

independence of Paul King, the audit engagement Director and the audit engagement team have not been compromised.

### **6.3 Other required communications**

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended 27 June 2014 and can be found here:

<http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2014>

## Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2014/15 £	Out-turn 2013/14 £	Published fee 2013/14 £	Explanation
Opinion Audit and VFM Conclusion	66,792	66,792	65,892	In December 2014, the Audit Commission applied a permanent variation of £900 to the base scale fee for 2014/15. This was for audit procedures required to gain sufficient audit assurance around business rate income and expenditure within the Collection Fund. We were also required to undertake additional audit procedures to be able to gain assurance for the 2013/14 financial statements opinion and agreed a scale fee variation of £900 to that audit fee with you.
<b>Total Audit Fee – Code work</b>	<b>66,792</b>	<b>66,792</b>	<b>65,892</b>	
Certification of claims and returns <sup>1</sup>	16,510	16,480 <sup>2</sup>	9,328	Due to errors identified in the Housing Benefit Subsidy Claim for 2013/14 additional work was required to enable us to certify the claim. We agreed a scale fee variation of £7,152 in relation to the Housing Subsidy Benefit claim. For further details, please see the Annual Certification Report for 2013/14.
Non-audit work	0	0	0	

*All fees exclude VAT.*

The agreed fee presented above is based on the following assumptions:

- ▶ officers meeting the agreed timetable of deliverables;
- ▶ the operating effectiveness of the internal controls for the key processes outlined in section 5.2 above;

<sup>1</sup> Our fee for the certification of grant claims is based on the indicative scale fee set by the Audit Commission

<sup>2</sup> The fee shown is the fee to certify and report the Housing Benefit Subsidy Claim. We have since received a letter from the Department for Work and Pensions requesting further work. There will be an additional fee for this work once it has been completed.

- ▶ we are able to place reliance, as planned, on the work of internal audit;
- ▶ the level of risk in relation to the audit of accounts is consistent with that in the prior year;
- ▶ the Audit Commission making no significant changes to the use of resources criteria on which our conclusion will be based;
- ▶ our accounts opinion and use of resources conclusion being unqualified;
- ▶ appropriate quality of documentation is provided by the Council; and
- ▶ the Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

## Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the Accounts, Audit and Governance Committee. These are detailed here:

Required communication	Reference
<b>Planning and audit approach</b> Communication of the planned scope and timing of the audit including any limitations.	▶ Audit Plan
<b>Significant findings from the audit</b> <ul style="list-style-type: none"> <li>▶ our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ significant difficulties, if any, encountered during the audit</li> <li>▶ significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ written representations that we are seeking</li> <li>▶ expected modifications to the audit report</li> <li>▶ other matters if any, significant to the oversight of the financial reporting process</li> </ul>	▶ Report to those charged with governance
<b>Misstatements</b> <ul style="list-style-type: none"> <li>▶ uncorrected misstatements and their effect on our audit opinion</li> <li>▶ the effect of uncorrected misstatements related to prior periods</li> <li>▶ a request that any uncorrected misstatement be corrected</li> <li>▶ in writing, corrected misstatements that are significant</li> </ul>	▶ Report to those charged with governance
<b>Fraud</b> <ul style="list-style-type: none"> <li>▶ enquiries of the Accounts, Audit and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ a discussion of any other matters related to fraud</li> </ul>	▶ Report to those charged with governance
<b>Related parties</b> Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> <li>▶ non-disclosure by management</li> <li>▶ inappropriate authorisation and approval of transactions</li> <li>▶ disagreement over disclosures</li> <li>▶ non-compliance with laws and regulations</li> <li>▶ difficulty in identifying the party that ultimately controls the entity</li> </ul>	▶ Report to those charged with governance
<b>External confirmations</b> <ul style="list-style-type: none"> <li>▶ management's refusal for us to request confirmations</li> <li>▶ inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	▶ Report to those charged with governance
<b>Consideration of laws and regulations</b> <ul style="list-style-type: none"> <li>▶ audit findings regarding non-compliance where the non-</li> </ul>	▶ Report to those charged with

Required communication	Reference
<p>compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</p> <ul style="list-style-type: none"> <li>▶ enquiry of the Accounts, Audit and Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Accounts, Audit and Governance Committee may be aware of</li> </ul>	governance
<p><b>Independence</b></p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement director's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ the principal threats</li> <li>▶ safeguards adopted and their effectiveness</li> <li>▶ an overall assessment of threats and safeguards</li> <li>▶ information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	<ul style="list-style-type: none"> <li>▶ Audit Plan</li> <li>▶ Report to those charged with governance</li> </ul>
<p><b>Going concern</b></p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ whether the events or conditions constitute a material uncertainty</li> <li>▶ whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ the adequacy of related disclosures in the financial statements</li> </ul>	<ul style="list-style-type: none"> <li>▶ Report to those charged with governance</li> </ul>
<p><b>Significant deficiencies in internal controls identified during the audit</b></p>	<ul style="list-style-type: none"> <li>▶ Report to those charged with governance</li> </ul>
<p><b>Fee Information</b></p> <ul style="list-style-type: none"> <li>▶ breakdown of fee information at the agreement of the initial audit plan</li> <li>▶ breakdown of fee information at the completion of the audit</li> </ul>	<ul style="list-style-type: none"> <li>▶ Audit Plan</li> <li>▶ Report to those charged with governance</li> <li>▶ Annual Audit Letter if considered necessary</li> </ul>
<p><b>Certification work</b></p> <ul style="list-style-type: none"> <li>▶ Summary of certification work undertaken</li> </ul>	<p>Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary</p>

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# Horsham District Council

## Audit Progress Report

March 2015



Building a better  
working world



Accounts, Audit and Governance Committee  
Park North,  
North Street,  
Horsham,  
West Sussex  
RH12 1RL

25 March 2015

## **Audit Progress Report – March 2015**

We are pleased to attach our Audit Progress Report

It sets out the work we have completed since our last report to the Accounts, Audit and Governance Committee. The purpose of this report is to provide the Committee with an overview of our plans and progress to date for our 2014/15 audit, and to ensure that our audit is aligned with the Committee's service expectations.

Our audit is undertaken in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Audit Commission Standing Guidance, auditing standards and other professional requirements.

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

Yours faithfully

Paul King  
Director  
For and behalf of Ernst & Young LLP



# Contents

<b>2014/15 audit .....</b>	<b>2</b>
<b>Appendix 1: Timetable 2014/15 .....</b>	<b>4</b>

In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

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

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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

## 2014/15 audit

### Financial Statements

We adopt a risk based approach to the audit and, as part of our ongoing continuous planning, we have held a number of meetings with key officers and other stakeholders to ensure the 2014/15 audit runs as smoothly as possible and identify any risks at the earliest opportunity.

#### Planning visit

Our work to identify the Council's material income and expenditure systems and to walk through these systems and controls has been in progress during February and will be completed in March and April, when we next visit the Council. The detailed testing of the controls (where planned) will also be completed during these visits.

There are no matters arising from our planning work that we need to bring to your attention at this stage.

We will review Internal Audit's testing of financial systems and, where it is appropriate to do so, we will undertake procedures to enable us to place reliance upon this testing.

#### Post statements visit

We have agreed dates for our audit visit, and will have discussions on the working papers required. We are planning to carry out our post-statements work in July.

Our detailed audit plan, setting out the risks we have identified and the work we will undertake in response, is on the agenda to be presented at this Committee.

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

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

### Value for money

The Audit Commission detailed guidance for the 2014/15 value for money conclusion which can be found at:

<http://www.audit-commission.gov.uk/wp-content/uploads/2014/10/08102014-VFM-guidance-2014-15.pdf>.

The arrangements are the same as 2013/14 and focus on corporate performance management and financial management arrangements, with regard to the following criteria and areas of focus, as specified by the Audit Commission:

- ▶ arrangements for securing financial resilience – whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future; and
- ▶ arrangements for challenging how it secures economy, efficiency and effectiveness – whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Our work supporting our initial value for money risk assessment, informed by the criteria and our responsibilities under the Code, is ongoing, and more detail is included in our Audit Plan which is on the agenda for this Committee.

## **2015/16 Audit Fees**

The Audit Commission has consulted on the proposed work programme and scales of fees for the audit of the accounts for 2015/16. It is proposing to reduce scale fees by a further 25 per cent from 2015/16 for all principal audits including the Council. It does not plan to make changes to the overall work programme. The final work programme and scales of fees will be published during March 2015. Further information can be found at:

<http://www.audit-commission.gov.uk/audit-regime/audit-fees/201516propwpsf/>

The 25 per cent fee reduction has been achieved as a result of a recent procurement exercise to retender the work undertaken under the Commission's older contracts with audit firms, and is on top of the 40 per cent cut in fees made in 2012.

## **2013/14 Grant Certification work**

We have issued our Certification of claims and returns annual report 2013/14, which summarises the results of our work on the Council's claims and returns for 2013/14. This report is on the agenda to be presented at this Committee.

The DWP has written to the Council in response to our qualification letter on the Council's Housing Benefit Claim 2013/14 requesting further work in a number of areas. We undertook this work in February and responded to the DWP by the 28<sup>th</sup> February deadline set. The results of this work are reflected in the Certification of claims and returns annual report 2013/14

## Appendix 1: Timetable 2014/15

We set out below a timetable showing the key stages of the audit, including the value for money work, and the deliverables we will provide to you through the 2014/15 Accounts, Audit and Governance Committee cycle. We will provide formal reports to the Accounts, Audit and Governance Committee as outlined below.

Audit phase	EY Timetable	Deliverable	Reported	Status
High level planning	<b>Ongoing</b>	Audit Fee Letter 2014/15	April 2014	Completed
Risk assessment and setting of scope of audit	<b>Feb 2015</b>	Audit Plan	March 2015	Completed
Testing of routine processes and controls	<b>Feb - April 2015</b>	Audit Plan	March 2015	In progress
Year-end audit	<b>July 2015</b>	Audit results report to those charged with governance Audit report (including our opinion on the financial statements and a conclusion as to whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources) Whole of Government Accounts Submission to NAO based on their group audit instructions Audit Completion certificate	September 2015	Not yet started
Annual Reporting	<b>September 2015</b>	Annual Audit Letter	November 2015	Not yet started



**EY** | Assurance | Tax | Transactions | Advisory

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2AF.

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## **Report to Accounts, Audit and Governance Committee**

25<sup>th</sup> March 2015

By the Director of Corporate Resources

### **INFORMATION REPORT**

Not exempt



**Horsham  
District  
Council**

## **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 and corporate training.

### **Recommendations**

The Committee is recommended to:

- 1) Note the contents of this report.

### **Reasons for Recommendations**

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

<b>Background Papers:</b>	Management Information obtained from Covalent
<b>Consultation:</b>	The Senior Leadership Team, relevant Service Managers and Chief Internal Auditor
<b>Wards affected:</b>	All
<b>Contact:</b>	Paul Miller, Ext 5319

## **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 report provides an update on progress regarding the departmental risk registers and training.

### **2. Risk Management Update**

#### **2.1 Corporate Risk Register**

The Senior Leadership Team (SLT) has reviewed all outstanding actions on the Corporate Risk Register and comments have been updated to reflect the current position for each risk (see Appendix 2).

#### **2.2 Departmental Risk Registers**

All departmental risk registers have now been converted to the new 5x5 risk matrix.

#### **2.3 Corporate Training**

An independent review of Risk Management has been undertaken by outside consultants, and it was concluded that the Council's risk management process is good. However, the consultant has raised some concerns regarding the application of the process and the ownership of risks. This has highlighted a training need for senior officers, many of whom are relatively new to the organisation. Workshops have been scheduled to take place during March 2015 to address these concerns.

### **3. Next Steps**

- 3.1 Training workshops have been scheduled to take place with SLT and all service managers during March. The workshop with SLT will include a review of the Corporate Risk Register to ensure that there are no obvious gaps. The results will be fed back to the Committee at the June meeting.

### **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 Senior Leadership Team.
Risk Assessment attached ~ 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

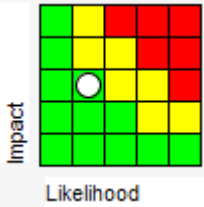

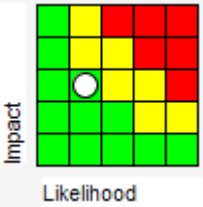


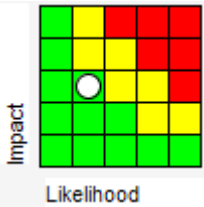
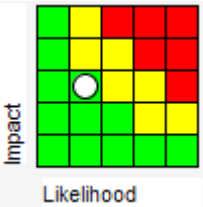
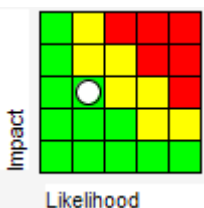
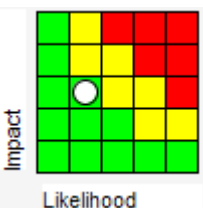
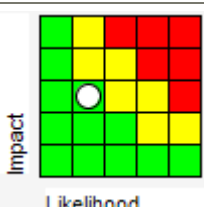
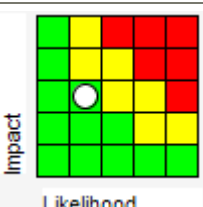
Statutory Background	The Council has a statutory responsibility to have in place arrangements for managing risks, as stated in the Accounts and Audit Regulations 2003 (amended 2006): "The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective 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 2012/15 has been published on the Council's Intranet. The Corporate Risk Register is managed by the Council's Senior Leadership Team, and each Service Manager 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 Council's project management methodology.

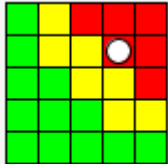
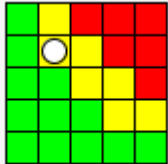
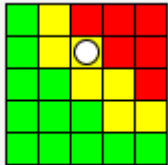
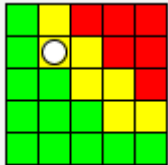
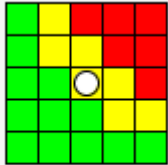
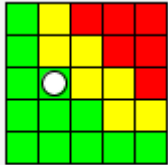
# Corporate Risk Report 5x5 Matrix Mar 2015 V2

Generated on: 13 March 2015

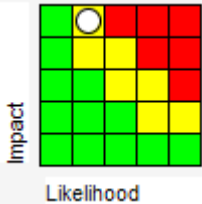

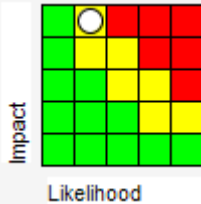


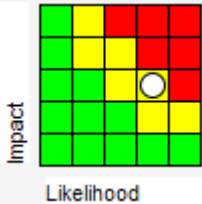

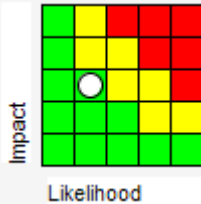



Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
CRR01 5x5 Continued reduction in government funding will result in a reduction in services.	Job losses, reduced income, capital receipts reduced or not realised, 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.	Katharine Eberhart						
CRR05 5x5 Inadequate "information security"	Financial penalties & damage to reputation.	Katharine Eberhart		CRR.05.2 Develop processes & procedures which underpin the IT Security Policy	Katharine Eberhart	▶		March 2015 Update: Ongoing information security training will be provided.
				CRR.05.4 Provide a programme of training on Information Security to all staff.	Katharine Eberhart	✓		
				CRR.05.9 Annual PSN Accreditation	Katharine Eberhart	▶		

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
CRR06 5x5 Failure to effectively implement the Council's 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 Update corporate business continuity plan and regular review.	Trevor Beadle			March 2015 Update: A new warm site has been identified and is currently being scoped out by our IT department. The new facility is the Drill Hall which is located on Denne Road and is situated over 400m away from County Hall North. The decision to use this building as our initial warm site has been agreed at SLT, and the £10k IT upgrade costs will be financed from an existing budget.
				CRR.06.2 Update departmental business continuity plans and regular review.	Trevor Beadle			
				CRR.06.4 Explore feasibility of reciprocal arrangements with other authorities (by 31/03/14)	Trevor Beadle			
CRR34 5x5 Poor decision-making / performance and loss of staff, during a time of organisational change due to loss of knowledge / poor morale of workforce.	Failure of business objectives. Loss of staff knowledge, capability and potential.	Tom Crowley						
CRR37 5x5 The challenge of delivering the day job and projects against a background of business transformation & new initiatives increases pressure on staff and stress-related absences	Disruption of service	Tom Crowley						
CRR38 5x5 Failure to implement the CIL Scheme by Summer 2015, due to delay in preparing the District Planning Framework.	Failure of business objectives, substantial financial loss and damage to reputation	Chris Lyons						

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
CRR40 5x5 The Council loses planning application appeals due to a shortfall in the Five Year Land Supply.	Failure of business objectives Financial business loss Damage to reputation	Chris Lyons	 Likelihood	CRR.40.01 Identify five year land supply via the Planning Development Framework (by 30/04/15)	Barbara Childs	✓	 Likelihood	March 2015 Update: The Public Examination into the Horsham District Planning Framework took place during November and the formal decision is expected early 2015. In the meantime work is continuing on CIL and a further hearing into our CIL scheme is anticipated to be held in Summer 2015, however this is dependent on the outcome from the HDPF examination. This risk is now considered to be low.
				CRR.40.02 Continue to raise awareness with Members (Ongoing)	Barbara Childs	▶		
				CRR.40.03 Member training (Ongoing)	Barbara Childs	▶		
CRR41 5x5 Increased risk of loss of IT services through unforeseen circumstances.	Failure of business objectives Non-compliance with statutory requirements Financial business loss Disruption of service Damage to reputation	Katharine Eberhart	 Likelihood	CRR.41.01 Develop Disaster Recovery Plan for HDC / CenSus (by 31/12/14)	John Ross	✓	 Likelihood	March 2015 Update: New backup software application has been procured & in implementation (late February 2015). This will allow for faster back-ups to be made & stored at different CenSus sites.
				CRR.41.02 Build Disaster Recovery Plan (by 31/03/15)	John Ross	✓		
				CRR.41.03 Test Disaster Recovery Plan following new software implementation Q2/Q3 (By 31/12/15))	John Ross	▶		
CRR47 5x5 Risk of loss if internal controls are inadequate.	Failure of business objectives Health & Safety Financial Service Delivery Compliance with Regulations Personal Privacy Infringement Reputation	Katharine Eberhart	 Likelihood	CRR.47.1 Officer training	Katharine Eberhart	▶	 Likelihood	March 2015 Update: Senior Officer training is scheduled to be completed by the end of April. The Council's Whistleblowing Policy has been reviewed, and consultation is currently in progress with Legal and H.R.
				CRR.47.2 Raise the profile of risk and control by incorporating them into the performance management framework (e.g. integrate into appraisal process). (By 31/03/15).	Katharine Eberhart	▶		
				CRR.47.3 Update and re-launch the Council's Whistleblowing Policy.	Katharine Eberhart	▶		



Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
CRR48 5x5 Death or serious injury due to the Council's failure to implement adequate health & safety governance and control mechanisms	Health & Safety Financial Service Delivery Compliance with Regulations Reputation	Katharine Eberhart		CRR.48.1 Set up a Health & Safety Forum with clear terms of reference. (By 31/05/15)	Robert Laban			March 2015 Update: No change. Control actions are clearly linked to the appointment of a permanent safety adviser.
				CRR.48.2 Develop and implement a corporate inspection strategy. (By 31/05/15)	Robert Laban / Health & Safety Officer			
				CRR.48.3 Clarity of responsibilities and implementation of a training programme. (Commencement 01/04/15 for training programme)	Robert Laban			
				CRR.48.4 Implement a central repository for risk assessments. (By 31/08/15).	Robert Laban / Health & Safety Officer			
CRR49 5x5 Failure of contract / poor service delivery / failure to achieve value for money due to inadequate contract management	Failure of business objectives Financial Service delivery Compliance with regulations Personal Privacy Infringement Reputation	Katharine Eberhart		CRR.49.1 Specific contract management guidelines will be developed. (By 31/05/15).	Mark Pritchard			March 2015 Update: A training programme is under development.
				CRR.49.2 A contract management training programme will be designed and implemented. (By 30/09/15).	Mark Pritchard			

## **Report to Accounts, Audit and Governance Committee**

25<sup>th</sup> March 2015

By the Chief Internal Auditor

### **INFORMATION REPORT**

Not exempt



**Horsham  
District  
Council**

## **Internal Audit – Quarterly Update Report**

### **Executive Summary**

This report seeks Member approval of the Internal Audit Charter, Internal Audit Strategy and Annual Audit Plan for 2015 to 2016, and provides details of work completed by the Internal Audit Section since December.

### **Recommendations**

The Committee is recommended to:

- i) Approve the Internal Audit Charter.
- ii) Approve the Internal Audit Strategy.
- iii) Approve the Internal Audit Plan for 2015/16.
- iv) Note the summary of audit work undertaken since December 2014.

### **Reasons for Recommendations**

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

<b>Background Papers:</b>	Public Sector Internal Audit Standards & Internal Audit Reports
<b>Consultation:</b>	N/A
<b>Wards affected:</b>	All
<b>Contact:</b>	Paul Miller, Chief Internal Auditor.

## **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 2014.

### **2. Statutory and Policy Background**

#### **Statutory Background**

- 2.1 The Accounts and Audit (England) Regulations 2011 state that “a relevant body (*the Council*) must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.” This responsibility is discharged through the Council’s Internal Audit Section.

#### **Relevant Government Policy / Professional Standards**

- 2.2 Internal Audit follows the mandatory standards set out in the Public Sector Internal Audit Standards (PSIAS) published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors.

#### **Relevant Council Policy**

- 2.3 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 work 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.

### **3. Summary of Audit Findings**

- 3.1 Section 106 Agreements

**OVERALL AUDIT OPINION: MODERATE ASSURANCE**

The Section 106 process is complex and involves several departments. The main areas for improvement are summarised as follows:

- The S106 database system is not easy to use and reports produced require excessive amounts of manual manipulation in order to make them useful for service staff and parishes. This is very time consuming, and IT support for the system is limited as there is only one person in IT who is familiar with the system. Staff turnover over the last two years, together with the quantity of data which needs to be input manually, has contributed to some issues in data quality. Management has set up a working group to make a recommendation

## Agenda Item 10

about the future of the database, bearing in mind the expected introduction of the Community Infrastructure Levy (CIL) system later in 2015. A data cleansing exercise will be undertaken before data is transferred to a new system.

- Responsibility for dealing with S106 Agreements involves several departments. Responsibility for co-ordinating processes and improving communications should be clearly assigned. A post will be created in the Planning Department re-structure which will assume overall control of the S106 process and will include drawing up clear process notes and liaising with other departments.
- Liaison between the Planning and Legal departments will be further improved by the introduction of new processes and a monthly monitoring meeting.

### 3.2 Risk Management

**OVERALL AUDIT OPINION: SUBSTANTIAL ASSURANCE** (*previously assessed as "Substantial Assurance"*)

The Director of Corporate Resources has engaged the services of a consultant to undertake an independent review of the risk management process. The process is considered to be good, although the application of the process could be improved. In particular, it was considered that:

- Risk management isn't dynamic and isn't driving activity and resources.
- Responsibility is perceived as the responsibility of the Chief Internal Auditor, when in fact it is the "collective" responsibility of SLT and all Service Managers.
- The description of some risks could be improved, and the scoring of impact and likelihood for departmental risks should be sense checked as some may have been exaggerated.
- There is a need to improve the risk escalation process.

It has been agreed that workshop training will be provided to all senior managers so they are better equipped to manage their risks. All risk registers will be the subject of a peer review at Directorate meetings, and all "high" risks will be referred to SLT who will consider whether or not they should be escalated onto the Corporate Risk Register.

### 3.3 Pensions Auto Enrolment

**OVERALL AUDIT OPINION: SUBSTANTIAL ASSURANCE**

The Council has arrangements in place to comply with pension regulations and information relating to pensions is widely available on the Council's Intranet. Service managers signing off casual timesheets have been reminded of the need to use the correct version to ensure casual workers are informed of their pension rights. During a period when the Council did not have a Payroll Controller in post, notification letters were not sent promptly to members of staff who had changed pension category. However, catching up has now taken place and procedures are in place to ensure no delays occur in future.

### 3.4 Member Allowances

**OVERALL AUDIT OPINION: SUBSTANTIAL ASSURANCE** (*previously assessed as "Substantial Assurance"*)

Whilst there is basically a sound system of control in place for the management of Member Allowances, it was identified that not all Members are submitting their travel claims on a timely basis. One Member submitted a claim covering the whole of 2013/14. Although all claims have been appropriately authorised, some forms have not been initialled to evidence that they have been checked. A number of Members complete their claim forms manually and will be encouraged to use the Council's e-form to reduce paper and officer time in administering the system.

## 4. Other Work

### 4.1 Risk Management

All risk workshops have now been completed and all departmental risk registers have been converted onto a 5x5 matrix.

### 4.2 Other Work

Internal audit has been involved in a number of projects, including the office move, business continuity and disaster recovery. The audit team is also represented on PACT which meets six weekly.

## 5. Audit Plan 2014/15 ~ Progress Update

The audit plan is on track and it is anticipated that the performance target of 85% will be achieved.

The following audits will not be undertaken during the current financial year:

- . Performance Management
- . Development Control Action Plan
- . Data Access Management
- . Elections

## 6. Internal Audit Charter

The Public Sector Audit Standards 2013 requires that the Internal Audit Charter is reviewed annually, and that any changes are approved by the Board (i.e. the Accounts, Audit and Governance Committee).

Of particular importance are the following paragraphs:

- 1.1 Definition of Internal Auditing.
- 4.1 Unrestricted access to records, physical properties and personnel.
- 6.1 Independence and objectivity.
- 6.5 The Chief Internal Auditor will report in his own name.
- 7.1 Management are responsible for ensuring effective governance arrangements.

9.2 Risk based methodology for determining the audit plan.

11.2 Quality Assurance Improvement Programme.

Internal Audit has adopted the Public Sector Internal Audit Standards as Part 1 of the procedure manual, and this is now stated in the Charter in Section 2.1. **See Appendix 3.**

### **7. Internal Audit Strategy (Year 2)**

The Public Sector Internal Audit Standards 2013 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 Standards state that the Internal Audit Strategy should be approved by the Board (i.e. the Accounts, Audit and Governance Committee). **See Appendix 4.**

### **8. Internal Audit Plan 2015/16**

The Public Sector Audit Standards 2013 requires that the Internal Audit Plan is reviewed and approved by the Board (i.e. the Accounts, Audit and Governance Committee). The plan outlines the assignments to be carried out and the estimated resources needed and is sufficiently flexible to enable the Internal Audit team to respond to changing risks and priorities of the organisation. **See Appendix 5.**

### **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.

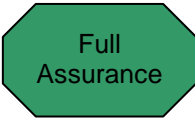
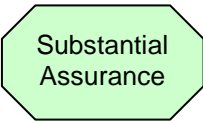

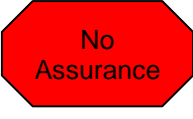
## Appendix 1

### 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.

## Appendix 2

### Categorisation of Audit Opinions

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







## Internal Audit Charter

### 1.0 Introduction:

- 1.1 Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 1.2 Where assurance is being provided by outside organisations, internal audit may be required to assess the reliability of the work undertaken.

### 2.0 Role:

- 2.1 The internal audit activity is established by the Council's Senior Leadership Team (SLT) and the Accounts, Audit and Governance Committee (AAGC) which is referred to in the Public Sector Internal Audit Standards as the "Board." The internal audit activity's responsibilities are defined by the Director of Corporate Resources and are overseen by the AAGC. **The Public Sector Internal Audit Standards have been adopted as Part 1 of the Internal Audit Procedure Manual.**

### 3.0 Professionalism:

- 3.1 The internal audit activity will govern itself by adherence to the Chartered Institute of Internal Auditors **mandatory** guidance including the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing (Standards)*. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.
- 3.2 The Institute of Internal Auditors Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, the internal audit activity will adhere to relevant organisational policies and procedures and the internal audit activity's standard operating procedures manual.

### 4.0 Authority:

- 4.1 The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorised to have full, free, and unrestricted access to any and all of Horsham District Council's records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist the internal audit activity in fulfilling its roles and

responsibility. The internal audit activity will also have free and unrestricted access to the AAGC.

**5.0 Organisation:**

5.1 The Chief Internal Auditor will report functionally to the AAGC on the following:

- Approve the Internal Audit Charter.
- Approve the Internal Audit Strategy.
- Approve the risk based internal audit plan.
- Receive communications from the Chief Internal Auditor on the internal audit activity's performance relative to its plan and other matters.
- Make appropriate inquiries of management and the Chief Internal Auditor to determine whether there is any scope or budgetary limitation that impede the ability of the internal audit activity to execute its responsibilities.

5.2 Full Council is responsible for approving the internal audit budget and resource plan.

5.3 Decisions regarding the appointment and removal of the Chief Internal Auditor are governed by the Council's Recruitment and Selection policy.

5.4 Decisions regarding the Chief Internal Auditor's remuneration are governed by the corporate pay and evaluation scheme.

5.5 The Chief Internal Auditor will report administratively (i.e. day-to-day operations) to the Director of Corporate Resources.

5.6 The Chief Internal Auditor will communicate and interact directly with senior management and the AAGC, including attendance at SLT meetings as appropriate and quarterly AAGC meetings.

5.7 The Chief Internal Auditor will establish effective communication with, and have free and unfettered access to, the Chief Executive and the Chair of the AAGC.

**6.0 Independence and Objectivity:**

6.1 The internal audit activity will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

6.2 The Internal Audit Team will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal audit's judgement.

6.3 Where the Chief Internal Auditor has direct responsibility for a non-audit activity, or heavily influences a non-audit activity, independent assurance will be obtained in one of two ways:

- Either the non-audit activity will be audited by another member of the audit team, reporting directly to the Director of Corporate Resources.
- Or the activity will be reviewed by another auditor from outside the Horsham D.C. Internal Audit Team.

- 6.4 Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.
- 6.5 The Chief Internal Auditor will have freedom to report in his or her own name, to all officers and Members and particularly to those charged with governance.
- 6.6 The Chief Internal Auditor will confirm to the AAGC, at least annually, the organisational independence of the internal auditing activity.

### **7.0 Responsibility:**

- 7.1 Management's role is to ensure that effective governance arrangements are in place to manage strategic and operational risks and to maintain an effective system of control to mitigate these risks. They are also responsible for ensuring that members of staff are aware of the processes and procedures required to operate the control systems. This includes responsibility for the prevention and detection of fraud and other illegal acts. Where recommendations are made by Internal Audit and appropriate actions are agreed, managers are responsible for ensuring that these actions are completed within the agreed timescale.
- 7.2 Internal Audit is responsible for promoting the benefits of good governance and helping to raise governance standards. The audit function should contribute towards the improvement of risk management processes, and is responsible for reviewing all aspects of internal control throughout the authority's activities and advising the Director of Corporate Resources on the soundness, adequacy and application of internal controls in relation to all key financial systems. The internal auditor should have regard to the possibility of malpractice and should seek to identify serious defects in internal control that might permit the occurrence of such an event. Whilst Internal Audit is not responsible for the prevention and detection of fraud and other illegal acts, it should evaluate the potential for the occurrence of fraud, and when it does occur, make recommendations for improving controls to prevent further occurrences.

### **8.0 Scope of Internal Audit Work:**

- 8.1 The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve the organisation's stated goals and objectives. This includes:

- Evaluating risk exposure relating to achievement of the organisation's strategic objectives.
- Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information.
- Evaluating the system established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organisation.
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Evaluating the effectiveness and efficiency with which the resources are employed.
- Evaluating operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned.
- Monitoring and evaluating governance processes.
- Monitoring and evaluating the effectiveness of the organisation's risk management processes.
- Performing consulting and advisory services related to governance, risk management and control as appropriate for the organisation.
- Reporting periodically on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan.
- Reporting significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by the AAGC.
- Undertaking investigations into fraud and irregularity.
- Evaluating specific operations at the request of the AAGC or management, as appropriate.
- Providing assurance to CenSus partners when reviewing partnership systems (such as Revenues and Benefits) or undertaking IT audits.

## **9.0 Internal Audit Plan:**

- 9.1 At least annually, the Chief Internal Auditor will submit to the SLT and the AAGC an internal audit plan for review and approval. The internal audit plan will consist of a work schedule and planned resource requirements for the next fiscal year. Where appropriate, the Chief Internal Auditor will communicate the impact of resource limitations to SLT and the AAGC.
- 9.2 The internal audit plan will be developed on a prioritisation of the audit universe using a risk-based methodology, including input of senior managers (Chief Executive, Directors and Service Managers) and the AAGC. The Chief Internal Auditor will review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programmes, systems, and controls. Any significant deviation from the approved internal audit plan will be communicated to SLT and the AAGC through periodic activity reports.

**10.0 Reporting and Monitoring:**

- 10.1 A written report will be prepared and issued by the Chief Internal Auditor or designee following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the AAGC.
- 10.2 The internal audit report will include agreed actions, timescales for implementation and the name of the officer responsible for implementation. An explanation for any corrective action(s) that will not be implemented will also be provided where applicable. Medium and high risk items where no action has been agreed will be referred to the appropriate senior manager.
- 10.3 The internal audit activity will be responsible for appropriate follow up on engagement findings and recommendations. All significant findings will remain in an open issue file until cleared.
- 10.4 The Chief Internal Auditor will periodically report to senior management and the AAGC on the internal audit activity's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by SLT and the AAGC.
- 10.5 The Chief Internal Auditor will report annually to the Accounts, Audit and Governance Committee and provide an opinion on the overall adequacy and effectiveness of the Council's governance arrangements, risk management systems and internal control environment.

**11.0 Quality Assurance and Improvement Programme:**

- 11.1 The internal audit activity will maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. The programme will include an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the *Standards* and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identified opportunities for improvement.
- 11.2 The Chief Internal Auditor will communicate to senior management and the AAGC on the internal audit activity's quality assurance and improvement programme, including results of ongoing internal assessments, and external assessments conducted at least every five years.

**Approved this 25th day of March 2015**

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**Chief Internal Auditor**

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**Director of Corporate Resources**

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**Chair of the Accounts, Audit & Governance Committee**



## HORSHAM DISTRICT COUNCIL

## INTERNAL AUDIT STRATEGY (2014 TO 2017)

## YEAR 2 (UPDATED)

**1.0 Introduction****1.1 Role and Purpose of Internal Audit**

The statutory basis for the internal audit service is provided in the Accounts and Audit Regulations 2011, which states that *a local authority shall maintain an effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practice.*

The Chief Finance Officer has a statutory duty under Section 151 of the Local Government Act 1972 to establish a clear framework for the proper administration of the authority's affairs. To perform that duty the Section 151 Officer relies on amongst other things, the work of internal audit in reviewing systems of internal control, financial management and other assurance processes.

The internal audit team will evaluate the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems regarding the:

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

The standards for "proper practice" in relation to internal audit are laid down in the Public Sector Internal Audit Standards 2013. The Chief Internal Auditor undertakes an annual self assessment against these standards.

In addition, the standard and quality of our service is scrutinised in four ways:

- Scrutiny by the Accounts, Audit and Governance Committee.
- Review by External Audit
- Customer feedback
- External assessments five yearly

**1.2 The purpose of this strategy is to outline:**

- i) A Vision Statement for the Horsham D.C Internal Audit Team
- ii) How the Internal Audit Service supports the Council's Strategic Objectives
- iii) General Internal Audit Objectives
- iv) Specific Internal Audit Objectives for 2014/17
- v) The audit planning process
- vi) Reporting
- vii) Resource requirements, training and skills
- viii) Performance management and quality assurance



ix) New Financial Year (2015/16)

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.

## **2.0 Vision Statement**

2.1 The ultimate aim is to become a centre of excellence for the provision of risk and assurance services. The Internal Audit Team is recognised as a professional unit which supports the future success of the Council. The team will provide independent challenge; respond positively to a changing environment; offer sound advice to senior managers and Members on strategic, governance, risk and control issues; and 'add value' at every opportunity. Internal Audit work spans across all areas of the Council, and the audit team is well placed to take an overview of the organisation and is often the first to be consulted when fraud is suspected, control weaknesses are identified or value for money issues arise.

## **3.0 Council's Strategic Objectives**

3.1 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**

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.

## **4.0 General Internal Audit Objectives**

4.1 The general objectives of the Horsham District Council Internal Audit Service are as follows:

- Delivery of the annual internal audit plan.

- Assist senior management in strengthening the Council's governance framework, including risk management.
- Provide sufficient flexibility within the annual audit plan to enable the audit function to provide an immediate response to current issues and the changing needs and priorities of the organisation.
- Ensure agreed actions arising from audit assignments are implemented.
- 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 will also undertake other non-assurance work to "add value" to the organisation (including risk management, project assurance, advisory services and fraud-related work).
- Comply with the mandatory Public Sector Internal Auditing Standards which came into effect on 1<sup>st</sup> April 2013.
- Commitment to training and professional development.
- Continue to achieve a high standard in all key performance indicators for the service.
- Maximise the use of technology, including the use of computer audit software tools such as IDEA (Interactive Data Extraction & Aalysis).
- Work in partnership with the Council's external auditors to ensure that audit work is coordinated and to avoid duplication of effort.
- Continue to explore partnership working opportunities. Income generation opportunities are also being sought to support the Council's Commissioning objectives.

## **5.0 Specific Internal Audit Objectives for 2014/17**

5.1 Specific objectives of the Horsham District Council Internal Audit Service for 2014/17 are as follows:

- i) Reduce the number of internal audit paper files by 90%.
- ii) Develop audit control matrices for at least 80% of the audits included in the Strategic Internal Audit plan.
- iii) Switch to a three year audit plan or expand the service.
- iv) Identify and attend appropriate contract / commissioning training seminars / courses.
- v) Achieve full compliance with the Public Sector Internal Audit Standards.
- vi) Provision of training to improve auditor's aptitude in the use of computer audit assisted techniques.

## 6.0 Audit Planning Process

6.1 Internal Audit work will be adequately planned, controlled and recorded to identify key risk areas, establish audit priorities and ensure the effective use of audit resources.

- **Strategic Audit Plan**

The Strategic Audit Plan is reviewed annually. Internal Audit work to a four year strategic plan and a risk assessment methodology is used to help establish priorities and resource allocations.

- **Annual Audit Plan**

The annual audit plan is derived from the four year strategic plan using a risk based approach. The following key financial systems will be audited annually as they are material to the production of the Authority's accounts

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

The Council's External Auditors may place reliance upon the work of Internal Audit to avoid duplication of effort.

In addition, the Internal Audit Service will undertake review work in a number of other high risk areas:

- ☐ BACS
- ☐ Business Continuity
- ☐ Computer Audit
- ☐ Contracts

There are currently 64 additional service and operational areas which are audited on a four yearly basis. The Chief Internal Auditor will consult with senior managers 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 the following reasons:

- Enable the audit team to respond quickly to changes in priorities. Special Investigations.
- Project assurance work.
- Value for money work.
- Consultancy

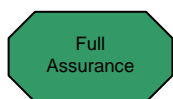
Any displacement of a previously planned review by unplanned work will be clearly justified. In the event that a planned audit is replaced by consultancy work or value for money work (anticipated to be in excess of five days), prior authorisation will be obtained from the Chair of the Accounts, Audit and Governance Committee.

## 7.0 Reporting

### 7.1 Assignment Reporting

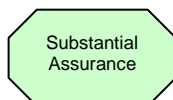
All formal internal audit assignments will result in a formal report. The primary purpose of the audit report is to provide an independent and objective opinion to management on the framework of internal control, risk management and governance in operation and to stimulate improvement.

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



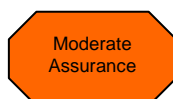
**System of Control:** *There is a sound system of control in place which minimises risk to the Council; and*

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



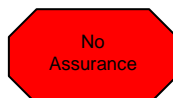
**System of Control:** *Whilst there is basically a sound system of control (i.e. key controls are in place), there are some weaknesses which may place the Council at risk in a few areas; and/or*

**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.*

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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 Service Manager and Director relating to the service area under review. All reports will be copied to the Section 151 Officer and the Chief Executive.

### 7.2 Follow ups

Action plans detailing agreed actions will form an integral part of each audit report, together with timescales for completion and responsible officers. Service Managers (or Directors) are accountable for any actions agreed within the action plans and are responsible for ensuring actions are properly implemented within the agreed timescales.

The Chief Internal Auditor will request progress reports from management, including evidence of actions taken where appropriate, within a timeframe that reflects delivery dates for agreed actions. The Chief Internal 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.

### 7.3 Quarterly Reports

The Chief Internal Auditor will submit quarterly reports to the Senior Leadership Team 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.

### 7.4 Annual Audit Opinion

The Chief Internal Auditor will prepare an annual report for the Senior Leadership Team 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.
- Any issues which are considered to be particularly relevant to the Annual Governance Statement.
- Comments on compliance with the Public Sector Internal Audit Standards.
- Feedback on performance against targets.

## **8.0 Resource Requirements, Training & Skills**

8.1 The annual 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 complete the audit plan.

8.2 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.

8.3 At Horsham, Internal Audit work is undertaken by an in-house team of three full-time employees and one part-time employee providing the equivalent of 3.6 full time staff. Internal audit staff will be appropriately qualified and have suitable audit experience. There is currently no requirement for elements of the audit service to be provided externally.

8.4 Partnership working was undertaken during 2014/15 in order to reduce duplication of Internal Audit work on CenSus Council Tax, and further partnership working will be undertaken in

2015/16. Partnership working between Horsham D.C. and Crawley B.C. has been undertaken in previous years (since 2012/13). Due to increasing efficiency, it is envisaged that Horsham D.C. Internal Audit will provide Crawley Internal Audit with resources in return for an income during 2015/16.

- 8.5 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 are evaluated on an ongoing basis in response to the changing demands placed upon the Internal Audit section resulting from emerging local and national issues.

## 9.0 Performance Management & Quality Assurance

- 9.1 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.
- 9.2 A suite of performance indicators has been designed, and performance against these indicators will be reported to the Senior Leadership 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 the 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%
A11	<u>New for 2014/15</u> . Percentage of points arising documents reviewed and issued within 15 days of being sent to the Chief Internal Auditor.	85%

- 9.3 The Chief Internal Auditor is committed to full compliance with the mandatory Public Sector Internal Audit Standards 2013. This includes ensuring that auditors are regularly reminded of their ethical responsibilities.

**10.0 Audit Objectives for 2015/16**

- (i) Achievement of the audit plan for 2015/16 (and other performance indicators).
- (ii) Continue to create control matrices when undertaking audit assignments to improve future efficiency.
- (iii) Provide assistance to the Director of Corporate Resources in helping to improve the risk management process and application. In particular, the Risk Management Strategy will be re-written, and the Risk Management procedure document will be replaced by a Risk Management Toolkit.
- (iv) Encourage service managers to incorporate high and medium risks identified during audit assignments into their departmental risk registers.
- (v) Reduce paper files to six linear meters ready for the office move on 5<sup>th</sup> May 2015.
- (vi) Continued training programme for team members, including computer assisted audit techniques.
- (vii) Work towards vision of becoming a 'Centre of Excellence' for the provision of audit and risk services.
- (viii) Prepare electronic files ready for an external review of the Internal Audit Service in 2016/17. The purpose of the review is to ensure that the Public Sector Internal Audit Standards are being complied with and that the internal audit service is fit for purpose.

Paul Miller  
Chief Internal Auditor  
5<sup>th</sup> March 2015

## Annual Audits ~ Key Financial Systems

Days

Ernst & Young Key Financial Controls (ISA)	10
Asset Management	10
Housing Benefits (CenSus Partnership)	0
Cash & Bank	24
Council Tax (CenSus Partnership)	0
Creditors	15
Debtors	12
N.N.D.R. (CenSus Partnership)	24
Payroll	15
Treasury Management	12

## Annual Audits ~ Other

BACS	3
Business Continuity	8
Contracts	16
Followups	12
Computer Audit ~ Gap Analysis vs ISO27001 Information Security Standard	22
Computer Audit ~ Data Access Management	17
Computer Audit ~ Computer Asset Inventory	14
Purchase Cards	7

## 4 Year Cycle

Agency Staff	12
Building Control Fees	14
Car Parking ~ Off Street Parking	18
Customer Service / Complaints Management	10
Depots ~ Trade Waste Collection	15
Elections	10
Fuel Cards	8
Housing Allocations	12
Leisure ~ Capitol Theatre & Drill Hall	16
Planning Fees	14
Security	8
Staff Loans	6
Vehicle Management & Maintenance	16
VAT	18
Review of Legal Computer Application System	6
Project Work ~ New Finance System	16

## Other Work

AGS / Governance Code	7
Risk Management ~ Strategy	3
Risk Management ~ Risk Register Updates	6
Risk Management ~ Development of Toolkit	10
Risk Management ~ Training / Workshops	3
Risk Management ~ Director's Meetings	4
Risk Management ~ Advice	4
Project Assurance (PACT)	10
National Fraud Initiative (NFI) Data Matching	20
Corporate Fraud / Anti-Fraud	20
Project ~ Broadbridge Heath	5
Project ~ Office Move	5
Project ~ Business Case Reviews	1
Management Inductions	1
Office Move ~ Paper Disposal	8
Commissioning	8
Contingency	55



**Other Audit Activities**

Sussex Audit Group (Chief Auditor Group)	3
Sussex Audit Group (IT Sub Group)	2
Audit Advice / Consultancy	4
Meetings / Liaison with External Auditors	2
Committee Representation	20
PSIAS Compliance, Procedural Updates & PSIAS Audit	10
Meetings re Partnership Working	1
Subsidy Return Testing for EY	20