

7.	Draft Annual Governance Statement 2018/19	21 - 44
	To receive the Report of the Director of Corporate Resources	
8.	Risk Management - Quarterly Update	45 - 56
	To receive the report of the Director of Corporate Resources	
9.	Historic issue with the Council Tax Reduction Scheme	57 - 64
	To receive the report of the Director of Corporate Resources	
10.	Draft Accounting Policies	65 - 78
	To receive a briefing from the Head of Finance	
11.	Internal Audit Progress Report - Quarter 3 (30/09/18 to 31/12/18)	79 - 92
	To receive the report of the Horsham Chief Internal Auditor	
12.	Internal Audit Strategy 2019/20 and Annual Plan	93 - 114
	To receive the report of the Horsham Chief Internal Auditor	
13.	Urgent Business	
	Items not on the agenda which the Chairman of the meeting is of the opinion should be considered as urgent because of the special circumstances	

Audit Committee
12 DECEMBER 2018

Present: Councillors: Stuart Ritchie (Chairman), Paul Marshall (Vice-Chairman), John Chidlow, Paul Clarke, Tim Lloyd and Godfrey Newman

Apologies: Councillors: Brian Donnelly

AAG/25 **MINUTES**

The minutes of the meeting held on 12th December 2018 were approved as a correct record and signed by the Chairman.

AAG/26 **DECLARATIONS OF MEMBERS' INTERESTS**

Councillor Paul Marshall declared an interest in item 9, Risk Management – Quarterly Update as he was a Cabinet Member of West Sussex County Council.

AAG/27 **ANNOUNCEMENTS**

The Chairman introduced the new External Auditor as well as the LGSS Revenues & Benefits Operations Manager.

AAG/28 **AUDIT PLAN 2018/19**

The External Auditor outlined the Audit Plan for 2018/19.

The External Auditor informed Members that there would be a greater focus on the risk of fraud in revenue recognition. The External Auditor's judgement was the significant risk at HDC would relate to the improper capitalisation of revenue expenditure.

It was reported that two new accounting standards had been delayed until April 2020 in all local government bodies, IFRS 9 & IFRS 15.

RESOLVED

That the Audit Plan 2018/19 be noted.

AAG/29 **ANNUAL GOVERNANCE STATEMENT - 6 MONTH REVIEW**

The Director of Corporate Resources presented the Annual Governance Statement 6 Month Review.

It was reported that the move of all Horsham and Mid Sussex based revenues and benefits systems to Milton Keynes Council had been delayed until January 2019 due to an external technology provider being unable to meet the original date.

The reliability of the Power Supply at Hop Oast Depot item had been removed from the Action Plan as it would not be cost-effective to buy a generator for the building.

RESOLVED

That the Annual Governance Statement – 6 Month Review be noted.

AAG/30 **TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS MID-YEAR REPORT 2018/19**

The Group Accountant (Technical) presented the Mid-Year Treasury and Prudential Indicators report and provided a summary of the previous 6 months.

On 30 September 2018, the Council's external debt was £4m and its investments totalled £44.6m.

During the first half of 2018/19, the Council's cash balances were invested in accordance with the Council's treasury management strategy although in one instance the exposure in the Council's own bank exceeded the level that strategy would allow as an investment in that bank.

Interest of £0.4m was earned on investments at an average return of 1.0%.

RESOLVED

That the report be noted.

AAG/31 **CAPITAL STRATEGY 2019/20 INCORPORATING INVESTMENT AND TREASURY MANAGEMENT STRATEGY**

The Group Accountant (Technical) presented the Capital Strategy 2019/20 incorporating the Investment and Treasury Management Strategy.

The report provided an overview of how capital expenditure, capital financing, treasury and other investment activity contributed to the provision of local public services along with an overview of how associated risk was managed and the implications for future financial sustainability.

The strategies were set against the mid-term financial strategy, the context of the UK economy and projected interest rates. This report set treasury investment criteria and limits which are largely unchanged.

The Investment Strategy incorporated information on commercial property to explicitly show the Councils risk management approach in that area.

It was noted that the valuations of investment properties tabled against their initial cost to measure gains or losses includes legacy properties that HDC don't necessarily have accurate purchase records for. This would make it seem as though there is a loss where no such loss exists.

RESOLVED

That the Capital Strategy be approved as an appropriate overarching strategy for the Council while leaving the full Council to approve the updated Capital Strategy that will accompany the 2019/20 budget to Council in early 2019.

RECOMMENDED TO COUNCIL

- i) That Council approve the Treasury Management Strategy for 2019/20 and the associated limits and specific indicators included in section 4 and appendix B of this report.
- ii) That Council approve the Investment Strategy for 2019/20 and the associated limits and specific indicators included in section 5 and appendix C of this report.

AAG/32 **RISK MANAGEMENT - QUARTERLY UPDATE**

The Director of Corporate Resources highlighted key areas from the Risk Management – Quarterly Update.

CRR30 – WSCC have proposed some cuts to their budgets on the September 2018 forward Plan. This may cause an increase in costs of homelessness, Housing Services, Recycling and Transport.

CRR31 – May 2019 Local Elections. The success of the election process is dependent upon adequate staffing, effective equipment and proper processes. This may pose a risk due to the potential unavailability of key officers and inadequate processes leading to failure.

CRR18 - Council services are increasingly reliant on IT systems at a time when there are greater opportunities for malicious attackers to exploit security weaknesses.

RESOLVED

That the Risk Management – Quarterly Update be noted.

AAG/33 **INTERNAL AUDIT - QUARTERLY UPDATE REPORT**

The Chief Internal Auditor provided Members with the Quarterly update on Internal Audit.

The Contract Management audit resulted in an audit opinion of Partial Assurance. Contract Management guidelines appear towards the end of the Procurement Toolkit and do not include appropriate signposting. The Council's Management Training e-learning suite does not include a module dealing with Procurement. At the commencement of the audit, it was found that the Contracts Register on the Council's website was out of date, an updated version of the register has since been uploaded. The Council's Procurement officers maintain a detailed version of the published Contracts Register but information in key fields are not always recorded. Appropriate action to address the findings of this audit had been agreed with management within a formal action plan.

The Community Infrastructure Levy (CIL) audit resulted in an audit opinion of Reasonable Assurance. Since CIL was introduced, the volume of developments dealt with is relatively low, although it is expected to increase steadily over time. Current arrangements should deal well with this level of transactions but improvements to deal with the allocation and spending of funds, and associated reporting processes, were in need of some further development.

Parking Enforcement audit resulted in an audit opinion of Reasonable Assurance. The Si-Dem Parking Management system (used by the Parking Operations team) ensured that parking enforcement was carried out in a controlled manner. A few actions for improvement were identified relating to access controls will be addressed. This would help ensure that user permissions will be correctly configured to reflect the role that each user performs within the Parking Operations team and will help ensure appropriate separation of duties.

The ICT Incident Management audit resulted in an audit opinion of Substantial Assurance. The Head of Technology Services had produced a documented incident management process.

A fraud risk assessment had been completed together with a fraud assessment plan. It was reported there was only one outstanding item in action tracking out of 31 within the previous 12 months.

RESOLVED

That the report be noted.

AAG/34 **URGENT BUSINESS**

There was no Urgent Business.

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/35 **RISK BASED VERIFICATION POLICY**

The LGSS Revenues & Benefits Operations Manager presented Members with the Risk Based Verification Policy. The report provided a background to the current approach for verifying Housing Benefit and Council Tax Reduction claims.

RESOLVED

That the Risk Based Verification Policy be approved.

The meeting closed at 7.15 pm having commenced at 5.30 pm

CHAIRMAN

This page is intentionally left blank

Horsham District Council

**Certification of claims
and returns annual report
2017-18**

March 2019

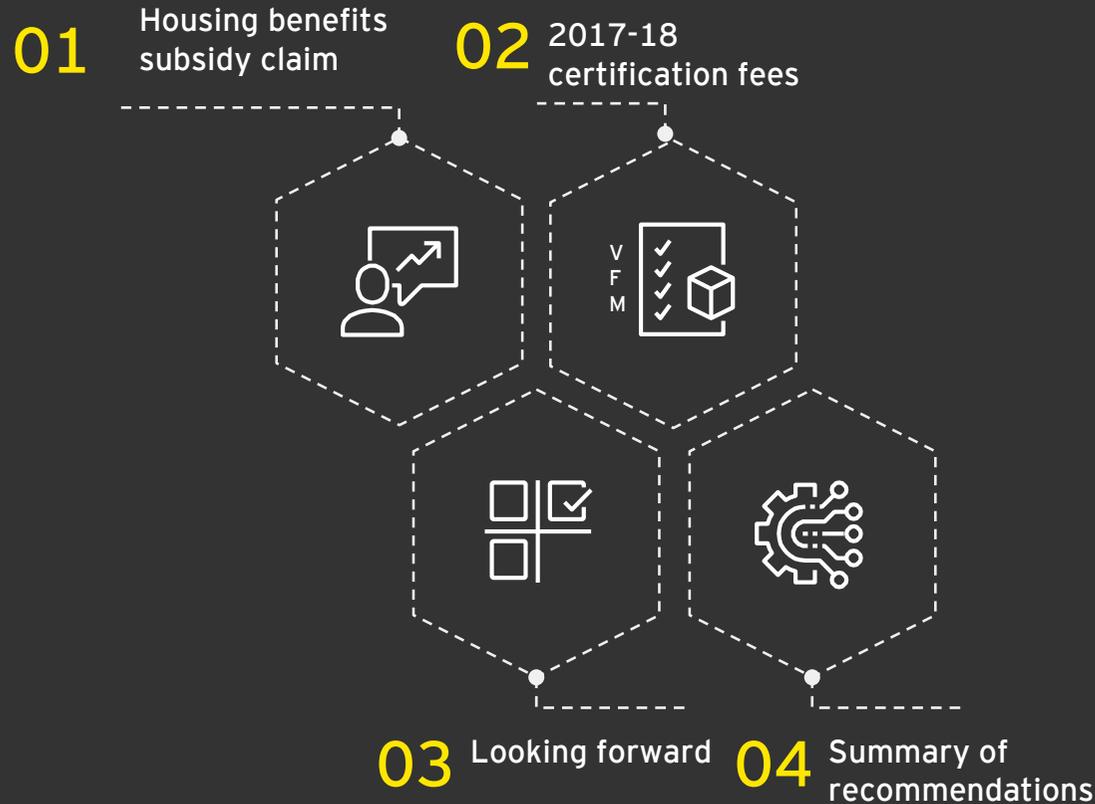
Page 9

EY

Building a better
working world

Agenda Item 5

Contents



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit Committee and management of Horsham District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Horsham District Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee, and management of Horsham District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Housing benefits subsidy claim





Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£30,679,866
Amended/Not amended	Amended - subsidy increased by £166
Qualification letter	Yes
Fee - 2017-18	£10,531
Fee - 2016-17	£12,384

Recommendations from 2016-17	Findings in 2017-18
Undertake work or review the 2016/17 subsidy claims in high risk areas such as claims with self-employed earnings and earned income, to ensure that these claims have been correctly processed and to reduce the likelihood of future qualifications of the subsidy claim.	Further details of these findings are included in section 4

Local Government administers the Government's housing benefits scheme for tenants and can claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid.

The certification guidance requires reporting accountants to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the certification of previous years claims. We found errors and carried out extended testing in several areas.

Extended and other testing identified errors which the Council amended. They had a small net impact on the claim. We have reported underpayments, uncertainties and the extrapolated value of other errors in a qualification letter. The DWP then decides whether to ask the Council to carry out further work to quantify the error or to claw back the benefit subsidy paid. These are the main issues we reported:

Rent rebates (Non HRA)

The initial sample identified one case where benefit had been underpaid due to the failure to apply a reduction to student loan income. This type of error could only lead to an underpayment, and no further work was undertaken.

Rent allowances

Testing of the initial sample identified no errors.

However, in 2016/17, we identified cases where benefit had been overpaid due to the incorrect calculation of claimants income. 40 additional claims were reviewed, which identified one case where benefit had been overpaid due to the miscalculation of income, resulting in an extrapolated error of £484. Two further cases were identified where the incorrect calculation of earning had resulted in an underpayment to the claimant.



02

2017-18 certification fees





2017-18 certification fees

The PSAA determine an indicative fee each year for the certification of the housing benefits subsidy claim. For 2017-18, these indicative fees were published by the Public Sector Audit Appointments Ltd (PSAA) and are available on their website (www.psaa.co.uk).

Claim or return	2017-18 Actual fee £	2017-18 Indicative fee £	2016-17 Actual fee £
Housing benefits subsidy claim	10,531*	13,171	12,384

*-The Indicative fee for 2017-18 has been reduced by 20% because the Council carried out the initial testing.



03

Looking forward



2018/19 and beyond

From 2018/19, the Council is responsible for appointing their own reporting accountant to undertake the work on their claims in accordance with the instructions determined by the relevant grant paying body.

As your appointed auditor for the financial statements audit, we are pleased that for 2018/19 the Council has appointed us to act as reporting accountants in relation to Housing Benefits Certification.

We welcome this opportunity to continue undertaking this work for the Council providing a seamless quality service, drawing on our team of experienced and knowledgeable public sector professionals in these areas, whilst realising the synergies and efficiencies that are achieved by undertaking both the audit and grant work.



04

Summary of recommendations



Summary of recommendations

This section highlights the recommendations from our work and the actions agreed. There are no recommendations from our work in 2017/18.

Prior Year Recommendation

Recommendation	Priority	Agreed action and comment	Deadline	Responsible officer	Progress Update
<p>Undertake work or review the 2016-17 subsidy claims in high risk areas, such as claims with self-employed earnings and earned income, to ensure that these claims have been correctly processed and to reduce the likelihood of future qualifications of the subsidy claim.</p>	High	<p>The running of subsidy each month has recommenced. The subsidy officer undertakes checks of high risk cases; there is a written procedure and a signed check-list which are in turn supported by details of specific cases checked. A quarterly exercise is undertaken to compare and contrast current subsidy with the subsidy claim in past years.</p> <p>Additional training is to be undertaken by staff and in 2018/19, housing benefits is being outsourced to LGSS.</p>	Ongoing	Shirley Eveleigh, CenSus Quality Control, Appeals & Training Manager	No errors were identified during the 2017/18 certification initial testing and reduced number of errors identified in the additional testing performed based on prior year information. Therefore this recommendation is deemed to be completed.

Page 18

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2017 EYGM Limited.
All Rights Reserved.

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

This page is intentionally left blank

Report to Audit Committee

10th April 2019

By the Director of Corporate Resources

INFORMATION REPORT

Not exempt



Draft Annual Governance Statement 2018/19

Executive Summary

The annual review of the Council's governance, risk management and internal control arrangements has been undertaken to support the production of the Annual Governance Statement for 2018/19. This review included information and assurance gathering processes to ensure that the published Annual Governance Statement is correct as well as a review of the Council's Governance framework against the best practice framework devised by CIPFA/SOLACE.

The aim of the review process is to ensure that the Council has effective governance, risk management and internal control processes in place to assist with accountability and the delivery of objectives. Additionally, the review process has identified any shortfalls in these arrangements to enable them to be addressed.

Recommendations

That the Committee is recommended:

- i) To approve the draft Annual Governance Statement for 2018/19.

Reasons for Recommendations

- i) As part of good governance, it is important that the Annual Governance Statement is approved by the Audit Committee

Background Papers: Supporting evidence, Head of Service Assurance Statements, and the Annual Internal Audit Report.

Consultation: The Senior Leadership Team, Monitoring Officer, Head of Housing and Community, Head of Finance, Head of HR & OD, Head of Technology Services and the Chief Internal Auditor.

Wards affected: All

Contact: Julie McKenzie Project Assurance Manager, 01403-215306

Attachments:

Appendix A: Annual Governance Statement 2018/19

Appendix B: Local Code of Corporate Governance

Appendix C: Governance Assurance Framework

Appendix D: AGS Action Plan 2018/19

Appendix E: AGS Action Plan 2019/20

Background Information

1 Introduction and Background

- 1.1 The Accounts and Audit (England) Regulations 2015 require the Council to review, at least annually, the effectiveness of its governance arrangements and publish an Annual Governance Statement.
- 1.2 Senior officers have been consulted and supporting documentation has been updated to reflect the current position.

2 Relevant Council Policy

The Audit Committee is responsible for approving the Annual Governance Statement in accordance with the Committee's terms of reference.

3 Details

- 3.1 The Annual Governance Statement for 2018/19 is attached in Appendix A.

4 Next Steps

- 4.1 The Committee is asked to approve the final version of the Annual Governance Statement at the July meeting.

5 Outcome of Consultations

- 5.1 Key officers have been consulted when compiling the Annual Governance Statement, including the Senior Leadership Team; Monitoring Officer; Head of Housing and Community; Head of Finance; Head of Human Resources and Organisational Development; and the Chief Internal Auditor. In addition, Heads of Service have completed and signed Annual Assurance Statements covering their areas of responsibility.

6 Other Courses of Action Considered but Rejected

- 6.1 None.

7 Resource Consequences

- 7.1 There are no direct staffing consequences arising from this report.

8 Legal Consequences

- 8.1 Regulation 6 of The Accounts and Audit (England) Regulations 2015 requires that:-

6.—(1) A relevant authority must, each financial year—

- (a) conduct a review of the effectiveness of the system of internal control required by regulation 3; and
- (b) prepare an annual governance statement;

(2) If the relevant authority referred to in paragraph (1) is a Category 1 authority, following the review, it must—

(a) consider the findings of the review required by paragraph (1)(a)—

(i) by a committee; or

(ii) by members of the authority meeting as a whole; and

(b) approve the annual governance statement prepared in accordance with paragraph (1)(b) by resolution of—

(i) a committee; or

(ii) members of the authority meeting as a whole.

8.2 In 2016 CIPFA/SOLACE published a revised framework for Corporate Governance: "Delivering Good Governance in Local Government Framework". This framework provides a useful and practical update and follows seven core principles of good governance. The Framework urges local authorities to review and report on the effectiveness of the governance arrangements.

9 Risk Assessment

9.1 There are no risks associated with this report.

10 Other Considerations

10.1 This report has no effect on Crime & Disorder; Human Rights; Equality & Diversity or Sustainability.

Horsham District Council
DRAFT Annual Governance Statement 2018-19

1. SCOPE OF RESPONSIBILITY

Horsham District Council is responsible for ensuring that its business is conducted in accordance with the law, regulations and proper standards, and that public money is safeguarded from waste, extravagance or misappropriation. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness in the exercise of its responsibilities.

Horsham District Council approved and adopted a Local Code of Corporate Governance on 22 March 2017 which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA), and Society of Local Authority Chief Executives (SOLACE) Framework for Delivering Good Governance in Local Government. A copy of the Local Code is available on our website or can be obtained from the Council offices. This statement explains how Horsham District Council has complied with the Code and also meets the requirements of the Accounts and Audit (England) regulations 2015 in particular regulation 6(1)(b), which requires all relevant bodies to prepare an Annual Governance Statement.

2. THE GOVERNANCE ASSURANCE FRAMEWORK

The Governance Assurance Framework has been in place at Horsham District Council for the year ended 31 March 2019 and up to the date of the approval of the Annual Report and Statement of Accounts for the 2018/19 financial year.

The Council's Governance Framework encompasses the way the Council is controlled and managed, both strategically and operationally, and how it will deliver its services. The structures and processes, risk management and other internal control systems are in place to monitor and manage the delivery of the Council's aims and objectives:

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

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

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

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

D: Determining and planning interventions; optimising achievement of intended outcomes.

E: Developing the capacity of the entity through its leadership and other individuals.

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

G: Good practice in transparency, reporting and audit to deliver effective accountability.

3. CORPORATE GOVERNANCE, VISION AND OBJECTIVES

The Corporate Governance Framework is aligned with the Council's Corporate Plan which outlines the Council's vision, aims and objectives. The current Corporate Plan was published in February 2016 on the Council's website and covers the period 2016-2019.

- The Council aims to deliver high quality services that meet the needs of the local community. This is set out in the Council's Corporate Plan for Horsham which is the core of the Council's purpose and vision and defines the Council's key priorities and strategic aims. This is formally reviewed and updated each year.
- The Corporate Plan is supported by the Medium Term Financial Strategy and the Council's annual budget to ensure the implications on the Council's finances are considered when the objectives are set.
- Departmental strategies and annual service plans are developed which support the delivery of the Corporate Plan, by identifying how each department contributes to the delivery of the overall aims and objectives of the Council.
- The Council's Performance Management Framework includes key performance indicators associated with the Corporate Plan. Performance on a basket of key corporate indicators is reported to the Senior Leadership Team, the Cabinet Portfolio Holders and to the Overview and Scrutiny Committee. Annual performance against targets is published on the Council's website in the Performance Indicator End of Year Report. The Council's Annual Report, which is also published on the Council's website, provides an annual summary of the year's progress against the stated Corporate Plan priorities.
- Every report submitted to the Cabinet or regulatory committee must outline how the recommended action helps to achieve one or more of the Corporate Plan priorities.

4. MEMBERS AND OFFICERS WORKING TOGETHER

The Council's Constitution gives guidance on the roles and responsibilities of Members, the Chief Executive and Chief Officers, and the Scheme of Delegation is periodically reviewed. The Governance Committee leads on changes to the Constitution including the scheme of delegation.

The Leader, Cabinet Members, and Chairmen and Vice Chairmen of standing committees receive briefings from senior management on a regular basis and Members receive training as part of the induction process.

A review of governance arrangements at the Council was reported to Full Council on 27 April 2016. The Governance Review focused on ensuring Horsham District Council has the most suitable and effective governance arrangements. The Council continues to operate The Cabinet Executive Model supported by a number of Policy Development Advisory Groups. The process of undertaking this review has widened the collective knowledge and understanding amongst Members which has continued in 2018/19. The Governance Committee began a further review of the Constitution during 2018/19 with a particular focus on the effectiveness of planning decision making. This will be reported to Council in April 2019.

Cabinet policy development advisory groups meet periodically on significant areas of business to ensure there is engagement with back bench Councillors on strategic direction.

In March and April 2017 the Overview and Scrutiny Committee reviewed its effectiveness using the guidance from the Centre for Public Scrutiny. The outcome of this review was the Committee disbanded its standing sub-committees and agreed to establish up to three task and finish groups to review particular issues. In summer 2018 the Overview and Scrutiny Committee held a Task and Finish Group to review the success of its previous review. Arising from this in November 2018 the Overview

and Scrutiny Committee agreed to establish three working groups: Finance and Performance; Business Improvement and Community, to review these areas in more detail prior to them coming to the overall Overview and Scrutiny Committee. They also agreed to hold an extra five meetings a year of the main Committee to receive the views from these groups, and to move the meetings forward in the municipal calendar so they take place before each Cabinet meeting so pre-scrutiny work can be included.

The Council participates in a number of partnerships with other local authorities. In particular the Revenues and Benefits, Building Control, Internal Audit and Procurement. The Council, in agreement with its partners Adur and Worthing and Mid Sussex Councils, disbanded the ICT partnership in favour of local working combined with a move to the Cloud. From 1 April 2018 the Council purchases its revenues and benefits service from the LGSS. The Council also engages in local community development work with other local public bodies.

5. VALUES AND HIGH STANDARDS OF BEHAVIOUR

The Council has incorporated in its Constitution a Member Code of Conduct and an Employee Code of Conduct. A register of declared interests is held for officers. Senior Officers and those involved in procurement are required to submit an annual declaration as well as all officers making declarations when needed. Members' Registers are available on the Council's website. Members are required to review their registers annually. Members are responsible for ensuring that if there are changes to their interests that the Monitoring Officer for the Council is notified of these changes. The Standards Committee promotes and maintains high standards of conduct by Councillors and also considers whether a complaint or allegation of misconduct by a Member should be investigated. The Council has also appointed Independent Person in accordance with the Localism Act 2011. The Council has two Independent persons who attend the Standards Committee.

As part of an ongoing Organisational Development Programme to ensure we have employees with the right skills, behaviours and attitudes, the organisation has developed core values of 'customer focus', 'achieving excellence' and 'our people'. Desired behaviours are set out in the Corporate Behavioural Framework which forms part of annual performance appraisals. Individuals are assessed against desired behaviours, with training needs identified to improve personal performance.

The culture of the organisation sets the foundation for the prevention of fraud and corruption by creating an environment that is based on openness and honesty in all Council activities.

The Council has the following policies and procedures in place which aim to prevent or deal with any instances of fraud, dishonesty or malpractice.

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

The Head of Technology updated the Council's Information Security Policies during 2018/19 and compulsory training for all staff in technology security was introduced.

6. TAKING INFORMED AND TRANSPARENT DECISIONS AND MANAGING RISK

The Council's Constitution sets out how the Council operates and the process for policy and decision making. A comprehensive review of the Constitution was completed in September 2016, and the amendments were approved by Full Council on 7th December 2016. A further review of the Constitution, especially around the planning function commenced by the Governance Committee during 2018. Council will decide on the changes in April 2019. The Governance Committee also ironed out various anomalies in the 2016 Constitution during the year.

The Council's Risk Management arrangements are reviewed for effectiveness by the Audit Committee to ensure the process is embedded in the culture of the authority.

The Audit Committee also reviews the Corporate Risk Register which details the most significant risks facing the Council at each meeting.

All Heads of Service are responsible for implementing strategies at departmental level ensuring adequate communication, training and the assessment and monitoring of risks. All officers are responsible for considering risk as part of everyday activities and provide input to the risk management process.

The Chief Internal Auditor provides an annual opinion on the Council's governance arrangements, risk management systems and the overall control environment in his end of year report to the Audit Committee.

7. CAPACITY AND CAPABILITY OF MEMBERS AND OFFICERS

Training programmes for Council employees are identified from regular 1-2-1s, team meetings, staff appraisals and personal development programmes. All new recruits have a series of basic courses in key areas such as health and safety, data protection and IT security they must complete before they pass their induction. During 2018/19 the Head of Human Resources and Organisational Development has started a programme to ensure all staff have completed these courses and a programme is in place for annual updates where necessary.

New Members to the Council receive induction training in key areas including the Constitution, ethical governance, decision-making processes and the Council's Code of Members' Conduct. The induction also includes an introduction to the Council's services. All new Members are allocated a 'buddy' who is a senior Council officer tasked with helping the new Members to settle into the Council. There is an ongoing training programme of Member briefings on important areas of the Council's work. There is also ongoing training covering specific issues in a variety of areas.

8. ENGAGEMENT WITH LOCAL PEOPLE AND OTHER STAKEHOLDERS

The Council works hard to communicate its aims for the District. It conducts a wide range of service specific surveys to ascertain the views and needs of its residents. In autumn 2017 the Council carried out a customer satisfaction survey of the District. The Council consults with Parish Councils and the Rural Towns Forum (i.e. a consortium of parish level Community Partnerships). It is a leading partner within the Think Family Partnership, Community Safety and Health and Wellbeing Partnerships, linking statutory and non-statutory agencies to provide a co-ordinated approach to delivery of the programme across the District. The Council works with voluntary and community

sector partners to ensure effective provision of community engagement activities across the district. These partnerships share feedback from their own stakeholder consultation.

These groups help the Council to assess the priorities of different sections of the community that have different needs, particularly in areas such as Think Family Neighbourhoods, Grants and funding, Parish Councils where resources are being targeted. Compliments and feedback received are monitored and reported to the Overview and Scrutiny Committee as part of the quarterly performance management report.

9. DETAILS OF KEY GOVERNANCE MECHANISMS

Sources of assurance received for each of the core principles are set out in the Horsham District Council's Local Code of Corporate Governance. (See Appendix B).

10. REVIEW OF EFFECTIVENESS OF THE GOVERNANCE FRAMEWORK

The Council's governance framework includes decision-making processes set out in the Council's Constitution, together with rules and procedures. A review of governance focussing on political structure and the decision-making process at a high level was completed in April 2016. The Council continues to operate the Cabinet Executive Model. Since this date the only significant changes to the governance framework were the Overview and Scrutiny Committee deleting its sub-committees in favour of task and finish groups, the Council agreeing to the deletion of the CenSus Joint Committee from 1 April 2018 because the CenSus partnership will no longer exist from this date.

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

- The Council comprises 44 Members and, as a whole, takes decisions on budget and policy framework matters as defined by the Constitution, including deciding on the aims and objectives of the Council as set out in the Corporate Plan and other decisions that are reserved in law to be taken only by the Council
- The Overview and Scrutiny Committee is able to scrutinise the decisions of the Cabinet and maintains an overview of Council activities which includes monitoring performance management.
- The Cabinet is ultimately responsible for considering overall financial and performance management.
- The Standards Committee meets quarterly and at every meeting considers an update report on complaints against Councillors. The Committee also keeps under review the Council's policies and procedures for maintaining high ethical standards.
- The Audit Committee meets four times a year to review the Council's risk management and control arrangements. It also reviews the Council's Treasury Management and Investment Strategies and has delegated authority to review and approve the statutory financial statements and consider reports from the Council's external auditors.
- The role of the Director of Corporate Resources (as Chief Financial Officer) includes stewardship and probity in the use of resources and performance, extracting best value from the use of those resources. The Chief Financial Officer

complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government.

- An annual internal audit plan is developed, in consultation with senior managers, which outlines the assignments to be carried out and estimated resources. The audit plan is sufficiently flexible to enable the Orbis Partnership Internal Audit team to respond to changing risks and priorities of the organisation.
- The Head of Legal and Democratic Services (as Monitoring Officer) has a duty to ensure that operations are carried out lawfully.

11. IMPROVEMENTS DURING THE YEAR

The following improvements to the Governance Framework were recognised during 2018/19:

- An annual review of performance indicators has been undertaken by Heads of Service and the Senior Leadership Team to ensure that these are meaningful and useful in helping services to achieve their objectives.
- The Overview and Scrutiny Committee reviewed its effectiveness leading to it introducing five extra meetings a year and moving its meetings before each Cabinet to allow pre-scrutiny of items. The Committee agreed to introduce three working groups: Finance and Performance; Business Improvement and Community to build specialisms within their membership and to report back to the overall committee on items for public consideration.
- E-Learning training has continued for staff, enhanced by a corporate MindTools subscription. Learning and development has focused on helping to discharge the Council's statutory responsibilities in relation to health and safety, General Data Protection Regulation (GDPR), Equality and Discrimination, data security and cyber crime
- An instruction was given to all managers to ensure all staff have completed their compulsory governance e-learning courses. A follow up review shows many staff, especially those who have worked for the Council for a long time, have not completed this training. A failure from a service to report a money-laundering allegation correctly suggests not completing these courses is leading to governance issues. Work to remedy this will continue in 2019/20.
- Completed the rollout of the new financial management computer system allowing clearer budgetary control by managers, with less intervention by finance staff, a simplification of the chart of accounts and a review of approval levels by budget holders.
- A new HR system was procured which will replace existing databases and enable managers to self-serve and, as a Cloud based system, will reduce the risk of the loss of the system in the event of a disaster at the Parkside building.
- A new Legal Case Management system was rolled out allowing for more accurate recording of our legal cases and better control of work in the Legal Services team. Our technology team have put this system in the Cloud also reducing the risk of the loss of the system in the event of a disaster at the Parkside building.
- Roll out of Office 365 which will reduce the risk of the loss of the system in the event of a disaster at the Parkside building.
- Internal audit moved into the Orbis partnership from 1 April significantly increasing the resilience of this small team.
- The role of director of the Capitol pantomime has been incorporated in the role description for the Capitol's general manager. This removes the need to tender this work and procurement and conflict of interest issues previously identified surrounding this.

- A requirement for all senior managers to make an annual declaration of personal and financial interests was extended to all officers involved in procurement
- The Fire Risk Assessment for the Forum has been reviewed and the action plan has been updated for completion of the necessary works. The Fire Risk Assessment action plan for Swan Walk is in the process of being agreed.

12. SIGNIFICANT GOVERNANCE ISSUES

The 2017/18 Annual Governance Statement included an Action plan for 2018/19. Progress against the risks identified is reported in Appendix D

New significant governance issues are reported to the Audit Committee.

One significant issue will be reported to Audit Committee on 10 April 2019. A policy decision made by Council in December 2015 was not implemented by the CenSus Revenues and Benefits Partnership and was not corrected in the following two years.

Recommendations for improvements arising from this and other matters are included in the new action plan in Appendix E.

Certification

It is our opinion that Corporate Governance, along with supporting controls and procedures, remains strong for the Council.

Signed

.....

Leader of the Council

.....

Chief Executive

On behalf of the Members and senior officers of the Council.

Appendix B HDC Code of Corporate Governance

HORSHAM DISTRICT COUNCIL LOCAL CODE OF CORPORATE GOVERNANCE

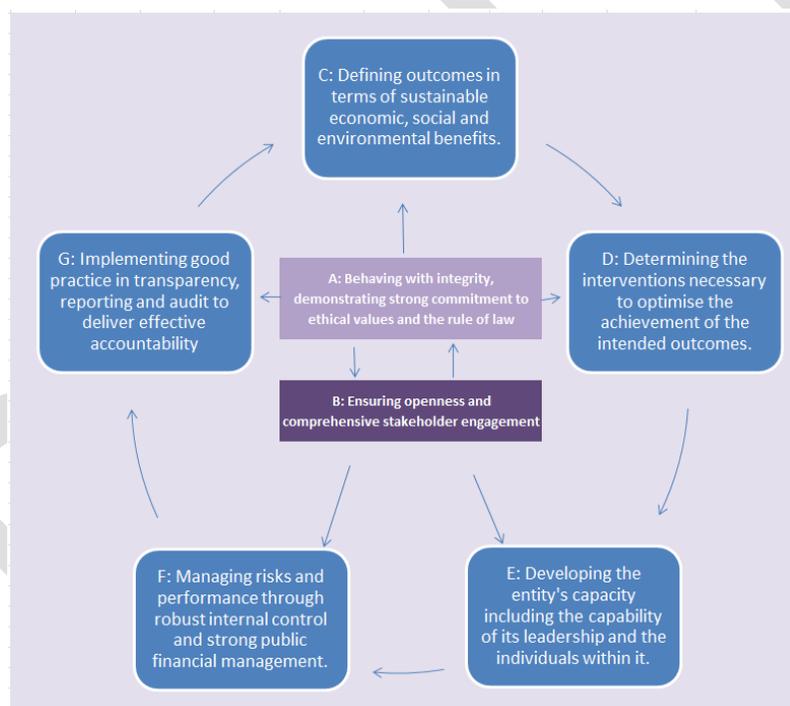
Corporate Governance comprises the systems, processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

To deliver good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their entity's objectives while acting in the public interest at all times.

The Council's behaviours and actions that demonstrate good governance are set out in response to the CIPFA core principles.

A: Integrity; Ethical Values: the Rule of Law

- Member and Officer Codes of Conduct are included in the Constitution setting out the values and behaviours that the Council requires Members and officers to adopt.
- Rules of Procedure govern the expected conduct at meetings of the Council and its committees.
- The Anti-fraud and Corruption Policy is designed to encourage and promote the prevention and detection of fraud.
- Member and Officer Registers of Interests, Gifts and Hospitality safeguard both Members and officers against conflicts of interest.
- The Whistleblowing Policy ensures anyone with a concern can have confidence that it will be dealt with appropriately.
- There are core competencies for officers and a performance appraisal process monitors officer behaviours.
- The Standards Committee considers complaints or allegations made against Councillors, as required by the Localism Act 2011.
- In accordance with 'Working Together to Safeguard Children 2015' and 'The Care Act 2014', we recognise the need to ensure the welfare of all individuals when they come into contact with services provided by the Council.



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

- The Constitution sets out how the Council operates, how decisions are made and the procedures and codes of conduct that are followed.
- The Overview and Scrutiny Committee reviews the Council's decision making processes and monitors the internal and external delivery of services.
- The Audit Committee is independent of Cabinet and Scrutiny functions. It receives reports on the work of External and Internal Audit and Risk Management.
- The Governance Committee meets to review the Council's Constitution when the need arises.
- The Council supports local communities that produce their own Neighbourhood Plans providing a vision for their area.
- The Council engages with the public in a number of public consultations. These are publicised on the Council's website and the feedback informs the Council's decision making process.
- The majority of the Council's meetings are open to the public. Agendas, papers and minutes are published on the Council's website.
- The Council recognises that supporting and engaging communities is a shared agenda with many partners including West Sussex County Council, the Police, Health and sports Services and the community and voluntary sector. Working together we are all committed to ensuring Horsham District remains a great area to live and work.
- Senior management communicates with staff by means of regular cascade meetings organised by the Senior Leadership Team: Director's meetings; Team meetings; Chief Executive Talks; the "Council Matters" publication; weekly SLT feedback and update messages on the Staff Intranet.
- Consultation takes place with Parish Councils and other Voluntary and Community groups throughout the District to ensure effective provision of community engagement activities. These groups help the Council to assess the priorities of different sections of the community that have different needs.

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

- The Corporate Plan for the period 2016-19 which is published on the Council's website identifies key priorities for the Council.
- Departmental Service Plans have been put in place in order to deliver the objectives of the Corporate Plan.
- The Council ensures objectives are deliverable by producing a Medium Term Financial Strategy and detailed financial budget plans.
- Progress against the Council's aims and objectives is monitored by means of its performance management framework and set of detailed performance management indicators.
- The Council Identifies and manages any corporate and departmental risks to achieving its objectives through its risk management process and issues regular reports to senior management and Members.
- Value for money is driven through the Council's Corporate Procurement Code.
- Information relating to Council plans and initiatives is published via its website and the Horsham District news magazine.

D: Determining and planning interventions; optimising achievement of intended outcomes.

- The Medium Term Financial Strategy is updated at least twice a year and takes into account changes in the financial outlook. It is used as a basis for the annual budget setting process in which all Service Managers reconsider their departmental budgets. The Annual Budget and Council Tax rate are approved by full Council before the commencement of each financial year.
- Progress against the budget is reviewed on a monthly basis
- Key performance targets for each service area are set and progress against these is monitored regularly.
- The Council continually investigates alternative models of service delivery to improve efficiency whilst meeting the needs of customers.
- The Council is working with Community and Voluntary sector partners to develop projects and deliver efficient and effective services.
- A review of the Council's IT Strategy has taken place to ensure service delivery is supported efficiently and flexibly.
- Benchmarking against others provides information that assists the Council to design services that are fit for purpose by looking at options to improve delivery.

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

- Decision making protocols are set out in the Council's Constitution.
- Agendas and minutes of Council/Committee meetings are published on the Council's website and include details of decisions taken.
- The Overview and Scrutiny Committee reviews the Council's decision making processes and monitors the internal and external delivery of services.
- Budget monitoring processes are in place and a summary of the Council's financial position is reported to senior management monthly and to Members quarterly.
- The Council has an established Risk Management Strategy and embedded Risk Management processes. Corporate and Departmental risks are formally reviewed quarterly.
- The Horsham Chief Internal Auditor reports to the Audit Committee. Audit work is planned to ensure there are robust systems of internal control in place to mitigate risks and provide assurance to senior management and Members.
- The Audit Committee meets four times a year to review the effectiveness of the control environment and risk management framework.
- A Corporate Governance Group has been introduced to oversee the Council's Governance arrangements.
- A complaints procedure is published on the Council's website. Quarterly monitoring reports are submitted to senior management and Members.
- The Council has a suite of policies covering information and data security and guidance is available for all staff on the Council's Intranet.

E: Developing the capacity of the entity through its leadership and other individuals.

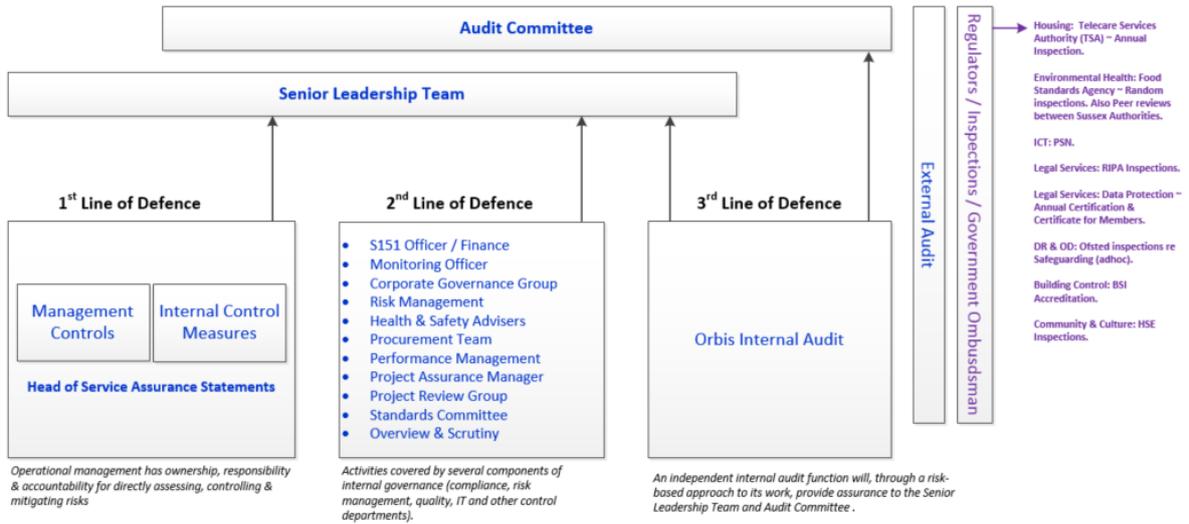
- The Constitution sets out how the Council operates; how decisions are made and which Codes of Conduct are followed. The roles of Members are clearly set out and a Member/Officer protocol is included.
- A Scheme of Delegation has been established that determines the levels at which decisions are taken.
- Detailed regulations (for example Financial Regulations and Contract Standing Orders) have been established which officers must follow when undertaking their roles.
- A performance management framework monitors employees' performance through the annual performance appraisal system and helps to aid workforce planning. The process also identifies an individual's training needs.
- The Standards Committee deals with issues relating to Member performance.
- Partnership agreements are in place for each of the Council's strategic partnerships and Joint Management Boards meet regularly to monitor the agreements.
- A health and wellbeing programme is available to all employees.
- An induction training programme is in place for both Members and employees.
- Regular Managers' conferences enable managers to meet to consider current issues affecting the Council and to work together to identify solutions.

G: Good practice in transparency, reporting and audit to deliver effective accountability.

- All committee agendas, papers and minutes are available to the public on the Council's website (and in hard copy on request from the Council's offices).
- The Council publishes its Audited Annual Accounts and Annual Governance Statement including an action plan for improvement for any areas of concern.
- All external audit reports are published and corrective action is taken to address any issues highlighted as necessary.
- The Council has an effective Internal Audit service (provided by Orbis) which reports to the Audit Committee. The work of Internal Audit is planned to ensure there are robust systems of internal control in place to mitigate risks and provide assurance to Members. Progress to implement agreed actions for improvement in control processes is monitored and reported to Members.
- Partnership arrangements are effectively monitored by Partnership Boards.

DRAFT

This page is intentionally left blank



Assurance Framework Documentation

- Constitution
- Code of Conduct
- Complaints Procedure
- Equalities Scheme
- Head of Service Assurance Statements
- Communications Strategy
- Financial Policies & Procedures
- Risk Management Strategy & Toolkit
- Risk Registers
- Performance Framework

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

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



This page is intentionally left blank

APPENDIX D: ANNUAL GOVERNANCE STATEMENT ~ ACTION PLAN 2018/19

No.	Area for Improvement	Actions	Responsible Officer	Target Date	Outcome
1	Information security policies	Review and rewrite information security policies	Head of Technology Services	30/9/18	Completed
2	S151 and Monitoring Officer sign off of decision reports	Roll out of tracking and sign off through Modern.gov	Democratic Services Manager	31/3/20	Target date has been moved to 31/3/20.
3	Officer/Member protocol	Reintroduce an officer/member protocol	Head of Legal & Democratic Services	30/6/18	Completed
4	Revenues and Benefits disaster recovery	Move of all Horsham and Mid Sussex based revenues and benefits systems to Milton Keynes Council	Head of Revenues and Benefits (LGSS)	31/05/19	Full migration date moved to 31 May 2019 due to external Tech provider being unable to meet earlier date.
5	Verto Project Management system	Review and redesign of the Verto Project Management system	Project Assurance Manager	31/7/18	Completed
6	Reliability of power supply at the depot	Purchase and implementation of a generator	Head of Property Services	1/12/18	Cost/benefit assessment decision taken not to purchase a generator as impact likelihood of power outages at Hop Oast are much reduced.
7	Horsham in-house technology disaster recovery plan	Complete the Disaster Recovery Plan for the in house technology	Head of Technology Services	31/3/19	Completed

8	Legal Services' case management & disaster recovery	Implement the new Legal Services Case Management System	Legal Services Business Manager	1/12/18	IKEN completed.
9	Plan for major power outage in the District	Prepare a plan for dealing with this type of emergency	Well-being/ Community Safety Manager	31/10/19	This is being investigated and a plan is to be produced by 31/10/19
10	Contract for the production of the Horsham Pantomime	Review of the arrangements for the Horsham Pantomime to ensure financial probity, value for money and transparency.	Head of Community Services	30/11/18	Completed
11	Software and technology support contracts	Review all software and technology support contracts ensuring their value for money and fitness for purpose	Head of Technology Services	31/12/18	The software and technology support contracts are continuously reviewed. Ongoing process
12	Access to HR records in a civil emergency, disaster recovery of HR and budgetary control of salaries information	Implementation of the HR module of Technology One (Cloud based finance system)	Head of HR and OD	01/04/19	On target for Live HR system
13	Mandatory governance training courses	Ensure all mandated governance courses are complete by the deadlines	Heads of Service	31/3/19	On target. Heads of Service will ensure all courses are completed by 31/3/19.
14	Improve disaster recovery and reliability of email systems	Roll out of office 365	Head of Technology Services	31/12/18	Completed

APPENDIX E: ANNUAL GOVERNANCE STATEMENT ~ ACTION PLAN FOR 2019/20

No.	Area for Improvement	Actions	Responsible Officer	Target Date
1	S151 and Monitoring Officer sign off of decision reports (JE)	Roll out of tracking and sign off through Modern.gov	Democratic Services Manager	31/03/20
2	Revenues and Benefits disaster recovery (JE)	Move of all Horsham and Mid Sussex based revenues and benefits systems to Milton Keynes Council	Head of Revenues and Benefits (LGSS)	31/05/19
3	Plan for major power outage in the District (JE)	Prepare a plan for dealing with this type of emergency	Well-being/ Community Safety Manager	31/10/19
4	Mandatory governance training courses (JE)	Ensure all mandated governance courses are completed by all staff Identify the courses needed, annual refresh and implement a refresh programme	Heads of Service Head of HR & OD	31/3/19 31/3/20
5	Review Council Tax Reduction Scheme non-implementation in 2015 (JE)	Report on the causes of the Governance Framework issue reported and improvements to the Audit Committee	Director of Corporate Resources	10/4/19
6	Review of departmental GDPR compliance (JM)	Quarterly meetings with GDPR/FOI reps. All Heads of Service to review and update their GDPR Assurance Checklist	All Heads of Service	30/04/19

This page is intentionally left blank

Report to Audit Committee

10th April 2019

By the Director of Corporate Resources

INFORMATION REPORT



**Horsham
District
Council**

Not Exempt

Risk Management ~ Quarterly Report

Executive Summary

This report includes an update on the Corporate Risk Register for consideration and provides an update on progress with the quarterly departmental risk register reviews.

Recommendations

That the Committee is recommended to:

- i) Note the contents of this report.

Reasons for Recommendations

As part of good governance, it is important that this document is considered by Members.

Background Papers

Covalent Performance Management System / Corporate Risk Register

Wards affected: All

Contact: Julie McKenzie, Project Assurance Manager 01403-215306

Background Information

1 Introduction and Background

- 1.1 The Audit Committee is charged with responsibility for monitoring the effectiveness of the Council's risk management arrangements.
- 1.2 The report provides details of key changes to the Council's Corporate Risk Register, and an update on progress regarding the departmental risk registers (see 3.1 and 3.2 below).

2 Relevant Council Policy

- 2.1 The Council's Risk Management Policy is detailed in the Council's Risk Management Toolkit. The Council's Risk Management Strategy is a component part of the Policy, and this document sets out to achieve the following objectives:
 - Fully integrate risk management into the culture of the Council and its strategic and service planning processes;
 - Ensure that the risk management framework is understood and that ownership and accountability for managing risks is clearly assigned;
 - Ensure the benefits of risk management are realised through maximising opportunities and minimising threats;
 - Ensure consistency throughout the Council in the management of risk.

3 Details

3.1 Corporate Risk Register

The Senior Leadership Team has reviewed the Corporate Risk Register and comments have been updated to reflect the current position for each risk (see Appendix1).

The Corporate Risk profile is shown in the following heat map which shows the total number of risks in each segment. The red / amber / green zones are in accordance with the Council's risk appetite.

	CRR01a CRR02 CRR03 CRR06	CRR01b CRR18	CRR30	
		CRR01c CRR05 CRR19 CRR25 CRR31		
		CRR17 CRR26		

There are three risks which are currently considered to be high, nine medium risks and two low risks. The high risk area relates to the following:

CRR01b	Funding from Government is less generous than assumed in the Medium Term Financial Strategy (MTFS) from 2020
CRR18	A malicious attacker exploits a known or unknown security weakness to penetrate the Council's ICT systems.
CRR30	Increase in costs of homelessness, housing services, recycling and transport.

One risk has now been mitigated and the Senior Leadership Team has confirmed that this should be removed. This is:

CRR01a	Failure to achieve the required level of savings and income in the MTFS to 2019/20
--------	--

Please see the risk register in Appendix 1 which provides full details of all risks on the "live" register together with details of the control actions and responsible officers.

3.2 Departmental Risk Register

Departmental risk registers have been reviewed and updated.

4 Outcome of Consultations

4.1 Officers who are responsible for control actions and the Senior Leadership Team have been consulted in updating the Corporate Risk Register.

5 Other Courses of Action Considered but Rejected

5.1 Not applicable.

6 Financial Consequences

6.1 There are no financial consequences.

7 Legal Consequences

7.1 There are no legal consequences.

8 Staffing Consequences

8.1 There are no staffing consequences.

9 Risk Assessment

9.1 The report provides an update on the Council's corporate risks and how these are being managed by the Senior Leadership Team. See Appendix 1 for the latest version of the Council's Corporate Risk Register.

10 Other Considerations

10.1 Risk management encompasses all risks within the organisation, including strategic, operational, and project/change risks. This includes consideration of Crime & Disorder; Human Rights; Equality & Diversity; and Sustainability as appropriate.

Appendix 1 Corporate Risk Report March 2019

Risks ordered by RAG not numerically

Generated on: 20 March 2019



Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
CRR30 Cause: WSCC have proposed some cuts to their budgets on the September 2018 forward plan. Risk: Increase in costs of homelessness, housing services, recycling and transport	Financial Service delivery in all services due to limited money	Glen Chipp		CRR.30.1 Work with other districts and voluntary organisations to seek ways to re-provide preventative services	Glen Chipp			<u>March 2019 Update:</u> A Countywide task and finish group has been created with reps from each D&B. This group is chaired by Natalie Brahma-Pearl (CE CBC). Two work streams have been created from this group which focus upon maintaining services post October 2019 and then a service redesign scoping piece of work for implementation April 2020. Feedback on the progress of this group is provided to the Chief Exec group by NBP. Separately internal plans are being considered to ensure service delivery given the prudent financial planning in the 2019/20 budget of £150k.
				CRR.30.2 Provide evidence to county to inform their decision making	Glen Chipp			
				CRR.30.3 Task and finish group set up with representatives from across Districts and Boroughs to feed into process	Glen Chipp			
CRR01b Financial Cause: The Council is reliant on Central Controlled Government funding (e.g. Business Rates). Risk: (ii) Funding from Government is less generous than assumed in the MTFS from 2020	Reductions in funding Adverse effect on morale Financial Failure to achieve agreed objectives	Jane Eaton		CRR.01b.1 Continue to keep a watching brief	Dominic Bradley			<u>March 2019 Update:</u> Uncertainty beyond 2019/20, especially with regards to the localisation (75%) retention of business rates and changes from the fair funding review remains a significant area of concern. Currently under consultation, that mention using excess Parking service income in the funding calculations, this will be reviewed as information and guidance on how the business rates scheme will work and results from the fair funding review are released.

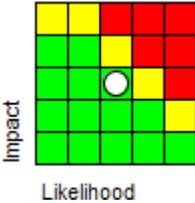
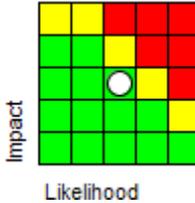
Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
								<p>The January 2019 Budget and MTFS forecasts near balanced budgets, providing that £1.3m of savings and new income are achieved over the three years from 2020/21 to 2022/23.</p> <p>An updated MTFS will be presented to Members during 2019.</p>
<p>CRR18 Technological Use: Council services are increasingly reliant on IT systems at a time when there are greater opportunities for malicious attackers to exploit security weaknesses.</p> <p>Risk 1: A malicious attacker exploits a known or unknown security weakness to penetrate the Council's ICT systems.</p> <p>Risk 2: IT not working due to environmental problems: fire, flood, power cut</p>	<p>Loss of key systems - disruption to Council services. Cost of investigation and recovery of systems. Fraud/theft. Loss of the integrity of Council Records. Penalties from the ICO. Adverse media coverage.</p>	Jane Eaton		CRR.18.1 Staff Member Training	Claire Oliver / Robert Laban			<p>March 2019 Update:</p> <p>Level of attack is so great. Remediation ongoing.</p> <p>CRR.18.1 - IT Security Training has been rolled out to all staff.</p> <p>CRR.18.2 – This work is ongoing.</p> <p>CRR.18.3 All work is ongoing.</p> <p>CRR.18.4 Patching of devices ongoing.</p> <p>CRR.18.5 Work is commencing on PSN accreditation for 2019/2020.</p> <p>CRR.18.6 – Work is ongoing.</p> <p>CRR.18.7 – Work is ongoing.</p> <p>CRR.18.8 – Work is ongoing.</p>
				CRR.18.2 Awareness of current threats	Andrea Curson			
				CRR.18.3 An effective ICT Service delivery team	Andrea Curson			
				CRR.18.4 Effective patching and updates to mitigate known vulnerabilities	Andrea Curson			
				CRR.18.5 Compliance with expected security standards. (PSN, PCI-DSS)	Andrea Curson			
				CRR.18.6 Effective policies in place which outline security requirements for users of ICT	Andrea Curson			
				CRR.18.7 Effective back-up and recovery processes in place for Council ICT systems.	Andrea Curson			
				CRR.18.8 The CenSus Cloud will transfer the risks to the cloud provider	Andrea Curson			
				CRR.18.9 LGA Cyber Security review plan developed, approved internally and now being carried out.	Andrea Curson			

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
<p>CRR01c Financial Cause: The Council is reliant on Central Controlled Government funding (e.g. Business Rates). Risk: (iii) Decrease in Rateable Value due to several large buildings being redeveloped and coming off the RV list, including Piries Place, Park North and North Point. This causes the Council to fall below the business rates baseline, resulting in loss of funding.</p>	Reductions in funding Financial	Jane Eaton		CRR.01c.1 Continue to keep a watching brief	Dominic Bradley	▶		<p>March 2019 Update:</p> <p>There was a £1.16m reduction in Rateable Value on the 2017 list during 2017/18.</p> <p>The 2017 list in 2018/19 has worsened by £380k at M11, but is still £1.5m lower than the position at 1 April 2017.</p> <p>This overall 'trend' remains a significant concern and risk to the Council's funding position should it continue.</p>
<p>Page 6 CRR05 Governance Cause: Managers are responsible for ensuring that controls to mitigate risks are consistently applied. Risk: Officers are either unaware of expected controls or do not comply with control procedures.</p>	Failure of business objectives	Jane Eaton		CRR.05.1 Officer training	Jane Eaton	▶		<p>March 2019 Update:</p> <p>CRR.05.3: The 2018/19 assurance statements are with Heads of Service for sign off.</p> <p>Ensure that new Heads of Leisure and Strategic Planning are given the appropriate training.</p>
	Health & Safety			CRR.05.2 Raise the profile of risk and control by incorporating them into the performance management framework (e.g. integrate into appraisal process).	Jane Eaton	✔		
	Financial Service Delivery Compliance with Regulations Personal Privacy Infringement Reputation damage			CRR.05.3 All Service Managers required to sign an Assurance Statement. (By 30th June Annually) (Cyclical)	Jane Eaton	▶		
<p>CRR19 Cause: Uncertainty in the UK and World economy. The Government has spoken about an additional 5% reduction in local government funding, and further cuts in years to come. Risk: The impact on the financial</p>	Financial Service Delivery Compliance with Regulations	Jane Eaton		CRR.19.2 Monitor the external environment	Dominic Bradley	▶		<p>March 2019 Update:</p> <p>The uncertain economic environment is being continually monitored and changes will be reported in any MTFS update and regular quarterly budget and</p>
			CRR.19.3 Monitor internal indicators, particularly income generation	Dominic Bradley	▶			

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
markets and the pound could bring forward the next recession and cause a slowdown in the housing market. This may result in a reduction in planning fees; reduced car parking income; increased homelessness; and increased housing benefit claims.								performance monitoring to Overview and Scrutiny Committee. The Council is reviewing some areas of income generation activity.
<p>CRR25 Cause: The transition from Mid Sussex DC (who currently host the service for HDC residents) to the new provider (LGSS) is complex, with many inter-related dependencies including HR matters and potential data / and technology issues.</p> <p>Risk: The IT transition will not be fully completed by 1 April 2018 (extended to May 2019).</p>	Service Delivery Reputation	Jane Eaton		CRR.25.1 Effective project delivery teams at HDC and LGSS	Jane Eaton	✓		<p>March 2019 Update:</p> <p>CRR.25.1 and CRR.25.2 closed.</p> <p>CRR.25.3 is not complete. Issues coordinating between the 2 main system suppliers has led to a further delay to mid-May.</p>
				CRR.25.2 Continue to work collaboratively with MSDC to ensure each council has effective teams in place for the future delivery of their service	Jane Eaton	✓		
				CRR.25.3 Ensure successful transfer of customer data - HDC has good in-house skills and will benefit from LGSS's experience transferring other LA's data	Jane Eaton	▶		
<p>CRR31 Cause: The success of the election process is dependent upon adequate staffing, effective equipment (including IT) and proper processes (a separate risk assessment is undertaken to support the process).</p> <p>Risk: Unavailability of key officers, inadequate processes (including risk assessments and election project plan) leading to failure (including legal challenge).</p>	Election Petition (challenge through the courts). Election would need to be re-run - potential for significant financial & resource implications. Results of election delayed and associated reputation risk	Jane Eaton		CRR31.1 Review risks as part of project planning process prior to an election	Sharon Evans	▶		<p>March 2019 Update:</p> <p>Unforeseen difficulties with staffing and the potential unavailability of key officers had increased the likelihood of risk in the run up to the elections. However measures have been put in place to mitigate this.</p>
				CRR31.2 Training of staff	Sharon Evans	▶		
				CRR31.3 Review the adequacy of insurance cover for Returning Officers @ start of election process ~ ensure adequate protection against an Election Petition	Sharon Evans	▶		
				CRR31.4 Training of Elections staff to provide cover	Sharon Evans	▶		
				CRR31.5 Elections Officer temporary cover in place to lessen the risk	Sharon Evans	▶		

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
CRR01a Financial <u>Cause:</u> The Council is reliant on Central Controlled Government funding (e.g. Business Rates). <u>Risk:</u> (i) Failure to achieve the required level of savings and income in the MTFS to 2019/20 TO BE DELETED – BUDGET NOW ADOPTED BY COUNCIL Page 53	Reductions in funding Adverse effect on morale Financial Failure to achieve agreed objectives	Jane Eaton		CRR.01.1 Review current budgets in preparation for the 2019/20 budget (October Annually)	Dominic Bradley	▶		<u>March 2019 Update:</u> A £1.4m budget surplus for 2019/20 was set by Council on 13 February 2019, largely because Government did not take away £0.7m of (negative) RSG funding as expected. The remainder of surplus incorporated many of the efficiency and additional income plans worked on during the year. The MTFS was also updated which forecasts near balanced budgets over the three years from 2020/21 to 2022/23 provided the ideas being worked through to identify areas where further income and efficiencies can actually be delivered. Work on fees and charges and income generation areas has already started. TO BE DELETED – BUDGET NOW ADOPTED BY COUNCIL
				CRR.01.2 Develop options to deal with pressure for consideration by Members	Dominic Bradley	▶		
				CRR.01.3 Implement the Medium Term Plan	Dominic Bradley	▶		
				CRR.01.4 Ongoing monitoring under the Service Efficiency Board	Dominic Bradley	▶		
CRR02 Managerial / Professional <u>Cause:</u> The Council has a legal obligation to protect personal data. The Information Commissioners powers are much more far reaching when they change in May 2018. <u>Risk 1:</u> Major data breach or leak of sensitive information to a third party. <u>Risk 2:</u> Risk of significant ICO fine for non-compliance with new General Data Protection Regulations (GDPR).	People and businesses come to harm and suffer loss that might not otherwise have occurred Complaints / claims / litigation Resources consumed in defending claims Financial losses Fines from regulators Adverse publicity Reputation damage	Jane Eaton		CRR.02.1 Develop appropriate processes & procedures which underpin the IT Security Policy	Andrea Curson / Sharon Evans	▶		<u>March 2019 Update:</u> CRR.02.1 This work is ongoing. CRR02.3 GDPR on line training rolled out to all staff in February and briefing for Councillors arranged for March. CRR02.4 Work is commencing on PSN accreditation for 2019/2020.
				CRR.02.3 Provide a programme of Induction and at least annual training on Information Security to all staff.	Robert Laban	▶		
				CRR.02.4 Annual PSN Accreditation	Andrea Curson	▶		
				CRR.02.5 Representatives from each department meeting every other month to maintain compliance, updates and training	Sharon Evans	▶		

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
<p>CRR03 Legal <u>Cause:</u> The Civil Contingencies Act places a legal obligation upon the Council, with partners, to assess the risk of, plan, and exercise for emergencies, as well as undertaking emergency and business continuity management. The Council is also responsible for warning and informing the public in relation to emergencies, and for advising local businesses.</p> <p><u>Risk:</u> The Council is found to have failed to fulfil its obligations under the Act in the event of a civil contingency.</p>	<p>People and businesses come to harm and suffer loss that might not otherwise have occurred</p> <p>Complaints / claims / litigation</p> <p>Resources consumed in defending claims</p> <p>Financial losses</p> <p>Censure by regulators</p> <p>Reputation damaged</p>	Adam Chalmers		CRR.03.1 Update corporate business continuity plan and regular review.	Rob Jarvis			<p><u>March 2019 Update:</u></p> <p>CRR.03.1: Corporate Business Continuity plan reviewed and updated 28/11/2018. Next review date is 28/11/2020 (or in line with any changes or a BC incident).</p> <p>CRR.03.2: Managers responsible for departmental BC plans were asked (via e-mail) to complete an annual review by Friday 30th November 2018 as part of the annual review.</p> <p>Some managers have expressed difficulty in updating embedded excel tables so Tony Skelding will review the template and update the form to make it more user friendly (April 2019). Updated information will then be transferred onto new templates and ready for full review again in November 2019.</p> <p>CRR.03.4: Hop Oast being reconsidered to be the new warm site, as dark fibre to be installed there.</p> <p>CRR.03.5: Bitesize workshops on: Incident response (7th Nov) Business continuity (4th July) Recovery (7th March) Resilience Direct (6th June) are all scheduled in for 2019 as above.</p> <p>Departmental managers encouraged to attend as and when necessary. Plan to invite councillors after elections in May</p>
				CRR.03.2 Update departmental business continuity plans and regular review.	Rob Jarvis			
				CRR.03.4 Build IT disaster recovery procedure into new warm site. Further plan revision will be made to reflect changes.	Barbara Childs			
				CRR.03.5 Bitesize workshops in 2017 and 2018 to address new procedures and processes and all SLT and heads of service will be invited to attend.	Rob Jarvis			
<p>CRR06 Physical <u>Cause:</u> The Council is responsible for the health & safety of its clients, staff and other stakeholders, owns and maintains significant assets, and also has responsibility for H&S in some</p>	<p>People come to harm</p> <p>Complaints/claims/ litigation</p> <p>Financial losses</p> <p>Censure by audit /</p>	Glen Chipp		CRR.06.2 Develop and implement a corporate inspection strategy (By 30/06/16).	Robert Laban / Health & Safety Officer			<p><u>March 2019 Update:</u></p> <p>CRR.06.2: A self-inspections approach has been implemented. Monitoring details and reporting to be finalised by Sept 2019.</p> <p>CRR.06.3 – Completed</p>
				CRR.06.3 Clarity of responsibilities and implementation of a	Robert Laban			

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
partner organisations where it does not have operational control. <u>Risk:</u> A health & safety failure occurs.	inspection Reputation damage Adverse effect on morale Stress and absenteeism			training programme CRR.06.4 Implement a central repository for risk assessments	Robert Laban / Health & Safety Officer	▶		<ul style="list-style-type: none"> H&S responsibilities are set out in the Corporate H&S Policy and H&S subject policies. H&S Management Forum is responsible for implementing these policies and sharing best practice across the Council. Team self-audits in place. H&S Training matrix has been published. E-learning courses for H&S key topics are accessible via Horsham LAB. <p>CRR.06.4: The introduction of a central repository for risk assessments remains deferred until Technology One can be configured in this respect, or an alternative system can be developed/ purchased – assessments of suitability/ effective system in underway.</p> <p>Orbis audit of fire safety is currently underway. There have been some matters of concern identified which will be addressed by HDC.</p>
CRR17 <u>Cause:</u> The External Auditors audit the HDC Benefits Grant Subsidy return to the Department for Work and Pensions (DWP) on an annual basis to identify errors. <u>Risk:</u> The Benefit Subsidy claim may be qualified and/or financial losses. HDC has a case load with a particularly high number of working people with many changes of circumstances. Refer to new risk CRR25	Financial Service Delivery Compliance with regulations Reputation	Jane Eaton		CRR.17.1 Continuously monitor the level of quality control checking. CRR.17.6 Complete successful transfer to new provider	Beccy Salmon Jane Eaton	▶ ✔		<p><u>March 2019 Update:</u></p> <p>This is an ongoing risk. The risk remains until Universal Credit comes in for all working age cases.</p>

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
<p>CRR26 Cause: The combination of the original partnership agreement, the full integration of staff within CenSus Revenues and Benefits and MSDC's approach to disaggregation.</p> <p>Risk: That the cost of exiting the existing Revenues and Benefits agreement with MSDC may be high.</p>	Financial Reputation	Jane Eaton		CRR.26.1 Continue to work with MSDC to reduce costs	Jane Eaton	▶		<p>March 2019 Update:</p> <p>Horsham District Council has paid the sums it believes are reasonable redundancies. However Mid Sussex District Council have asked for a further £114k and this remains in dispute.</p>

Report to Audit Committee

10 April 2019

By the Director of Corporate Resources

INFORMATION REPORT



Not Exempt

Historic issue with the Council Tax Reduction Scheme

1. Executive Summary

This report tells the Committee about how the revenues and benefits service did not implement a Council decision in 2015. This issue was reported to Cabinet in January. It explains the reasons the Council's assurance framework did not pick up the error and the actions officers are taking to improve Horsham District Council's governance.

2. Recommendations

This report is for information only.

Background Papers

Report of the Cabinet Member for Finance and Assets to Council on 9 December 2015 on Changes to the Council Tax Reduction scheme and Council Tax discounts

Wards affected: all

Contact: Jane Eaton, Director of Corporate Resources, 01403 215300.

Background Information

1. Introduction and Background

- 1.1. Under 3.2.1 (j) of the Constitution the Director of Corporate Resources in her role as the statutory s151 officer for the Council has the authority to bring matters to the attention of the Audit Committee.
- 1.2. The Council's assurance framework, attached at appendix A, outlines how the Council controls risks in its services.
- 1.3. On 5 November 2018 the Operations Manager for Revenues and Benefits at Horsham District Council, an employee of our partner LGSS, presented her proposals for the 2019/20 Council Tax Reduction Scheme to the Senior Leadership Team. During this discussion it became clear the current Scheme operated by LGSS, and previously operated by the CenSus Partnership, was applying a different parameter for minimum contribution than that the Director understood to be the Council's policy.
- 1.4. The Director and Operations Manager investigated this difference. A decision reached by Council on 9 December 2015 was for the following changes:
 - (ii) That all non-protected Council Taxpayers entitled to Council Tax Reduction be required to pay at least 20% of their Council Tax bill, commencing on 1 April 2016.
 - (iii) That the Council Tax discounts for uninhabitable property and unfurnished and vacant properties be removed, with effect from 1 April 2016.
- 1.5. Recommendation (i) was for Council to note the outcome of the public consultation and is not relevant to this report.
- 1.6. The Operations Manager confirmed the minimum contribution in the Revenues and Benefits computer system is set at 10%. This means officers did not implement recommendation (ii) from Council. She also confirmed the uninhabitable property and unfurnished and vacant properties discounts no longer existed. This means officers did implement recommendation (iii).
- 1.7. This report looks at the controls detailed in our Assurance Framework (appendix A) and where the Council would expect them to have prevented or corrected this mistake.

2. Relevant Council policy

This report concerns the implementation of the Council's Council Tax Reduction Scheme. Council approved this scheme on 9 December 2015 for implementation from 1 April 2016. The scheme remained the same for 2017/18 and 2018/19. The Finance & Assets Policy Development Advisory Group discussed the policy on 5 November 2018 and advised the Cabinet Lead the policy should stay the same for 2019/20. Following Council on 24 January 2019, Council approved the 2019/20 policy at their meeting on 13 February 2019.

3. Details

3.1. First line of defence

3.1.1. Management Controls

The first line of defence in our Assurance Framework is Management Controls and Internal Control Measures within the relevant service. Responsibility for these controls lies with the Head of Service.

The Head of Finance wrote the report for Council in 2015. Because implementation needed a change to parameters in the background of the Revenues and Benefits IT system on 10 December 2015 the Head of Finance wrote to the Head of Revenues and Benefits (CenSus) and confirmed Council's decision. Responsibility then lay with the Head of Revenues and Benefits (CenSus) to make, and maintain, the changes.

At our request Mid Sussex District Council reviewed what happened on receipt of the email from Horsham District Council's Head of Finance. Because the managers from 2015 no longer work in the Council, Mid Sussex cannot tell how the error happened but said they assume it was human error by an employee of the CenSus Revenues and Benefits partnership.

3.1.2. Service Manager Assurance Statements

Under the Council's Assurance Framework for the first line of defence the Head of Revenues and Benefits should have submitted a "Service Manager Assurance Statement" as part of preparing the Annual Governance Statement. The Head of Revenues and Benefits (CenSus) declared he knew of no control failures in 2016/17 and his successor, the Business Unit Leader for Mid-Sussex, declared the only failure he knew of in 2017/18 was an issue around housing benefit subsidy.

3.2. Second line of defence

The second line of defence is individuals or groups that could have intervened if a decision was not implemented:

3.2.1. S151 officer

The s151 officer oversaw the delivery of the Revenues and Benefits Service from Director level. She undertook this work through a monthly one to one with the Head of Revenues and Benefits (CenSus). The s151 officer who oversaw the decision in December 2015 left Horsham District Council on 31 January 2016. The s151 officer of Mid Sussex District Council took over the role until the start of the next permanent s151 officer on 29 March 2016.

Annual billing took place in early March 2016. The normal second line of defence check from the s151 officer would be likely to be a reminder in a one to one meeting in February to confirm the change had taken place. However, the interim s151 did not hold monthly one to one meetings during his period of overseeing the service.

3.2.2. Finance

Finance manage the Collection Fund account. The Council report expected the change to increase Council Tax collected by £155,100 a year. The 2016/17 Collection Fund account shows £89.9m of Council Tax collected in year. £155,100 is 0.17% of the total collected. Given the values involved a check by Finance would be very unlikely to pick up this scale of variance.

3.2.3. Risk management

The Director of Corporate Resources reported the Corporate Risk Register to Audit Committee on 6 January 2016. This register included CRR005 a risk that managers are responsible for “controls to mitigate risks are consistently applied” and “officers are either unaware of expected controls or do not comply with control procedures”. The control action was to incorporate risk management into performance management and officer training. The evaluation of this risk was “low”. However, had the evaluation of the risk been higher there is nothing to suggest it could have prevented this oversight occurring.

One of any organisation’s solutions to risk is transferring the risk to others through insurance. Paragraph 7.4 of the Shared Services agreement covering CenSus Revenues and Benefits at the crucial period in January and February 2016 states:

“The Host Authority shall use its reasonable endeavours to effect policies of insurance with an insurer of repute against all such risks connected with the Shared Service Functions and the employment of staff in connection therewith as it is usual for a local authority to insure against upon such terms as the Joint Committee shall agree... and so far as possible shall procure in the interests of all Participating Authorities in relation to that Part of this agreement are noted on such policies.”

Mid Sussex District Council let their insurance as part of a joint procurement with Horsham District Council in 2013. Both Councils’ insurance contracts started on 1 April 2014 and expire on 31 March 2019. The agreement contains “officials’ indemnity” for “negligent or accidental acts or omissions.” However, it excluded cover for partnership relationships.

3.2.4. Performance Management

The CenSus Shared Services’ agreement states the Joint Committee would agree service levels on an annual business plan and include national indicators and local performance improvement indicators. The nationally reported indicators of 2011, the date of the last CenSus agreement, were in-year council tax and business rate collection and housing benefit processing times for new claims and changes in circumstances. Of these only in year council tax collection could have detected this issue but sums involved were too small to make detection likely.

3.3. Third line of defence: Internal Audit

There were no internal audits of the Council Tax Reduction Scheme during the 3- year period from the decision to date. Horsham District Council’s “internal audit universe” includes council tax and business rate collection and recovery and housing benefit but does not include the Council Tax Reduction Scheme separate to these areas. The Chief Internal Auditor says the Council Tax Reduction Scheme was normally included in an audit of housing benefit. During this period most internal audits of housing benefit focussed on

the losses of housing benefit subsidy due to high error rates in working age working claims initially reported at the end of November 2015 and the end of November 2016.

3.4. External Audit

External Audit do not audit the Council Tax Reduction Scheme.

3.5. Regulators, Inspectors and Government Ombudsmen

There are no Government regulators or inspectors for the Council Tax Reduction Scheme. There were no complaints to the Government Ombudsman about Council Tax Reduction during the period.

4. Next Steps

4.1. The Head of Paid Service will:

- Avoid the use of other Councils' statutory officers on a part-time basis during interregnums between one statutory officer and the next.
- When there is no handover period between one senior officer and another, ask the exiting senior officer to prepare detailed handover notes for the next post holder.

4.2. The Director of Corporate Resources has:

- Increased the risk impact for human errors from level 3 to level 4, due to the potential size of this loss.

5. Outcome of Consultations

5.1. The Monitoring Officer, Head of Finance, Chief Internal Auditor and officers from Mid Sussex District Council have helped establish the facts of this situation.

6. Other Courses of Action Considered but Rejected

6.1. Because this report covers an issue from 2015 there are no options to consider.

7. Resource & Legal Consequences

7.1. This is an information not a decision report. There are, therefore, no legal or resource consequences arising from it. However, there could be higher costs in the interregnums between statutory officers if the Head of Paid Service uses alternatives to neighbouring Councils' statutory officers during interregnums.

8. Risk Assessment

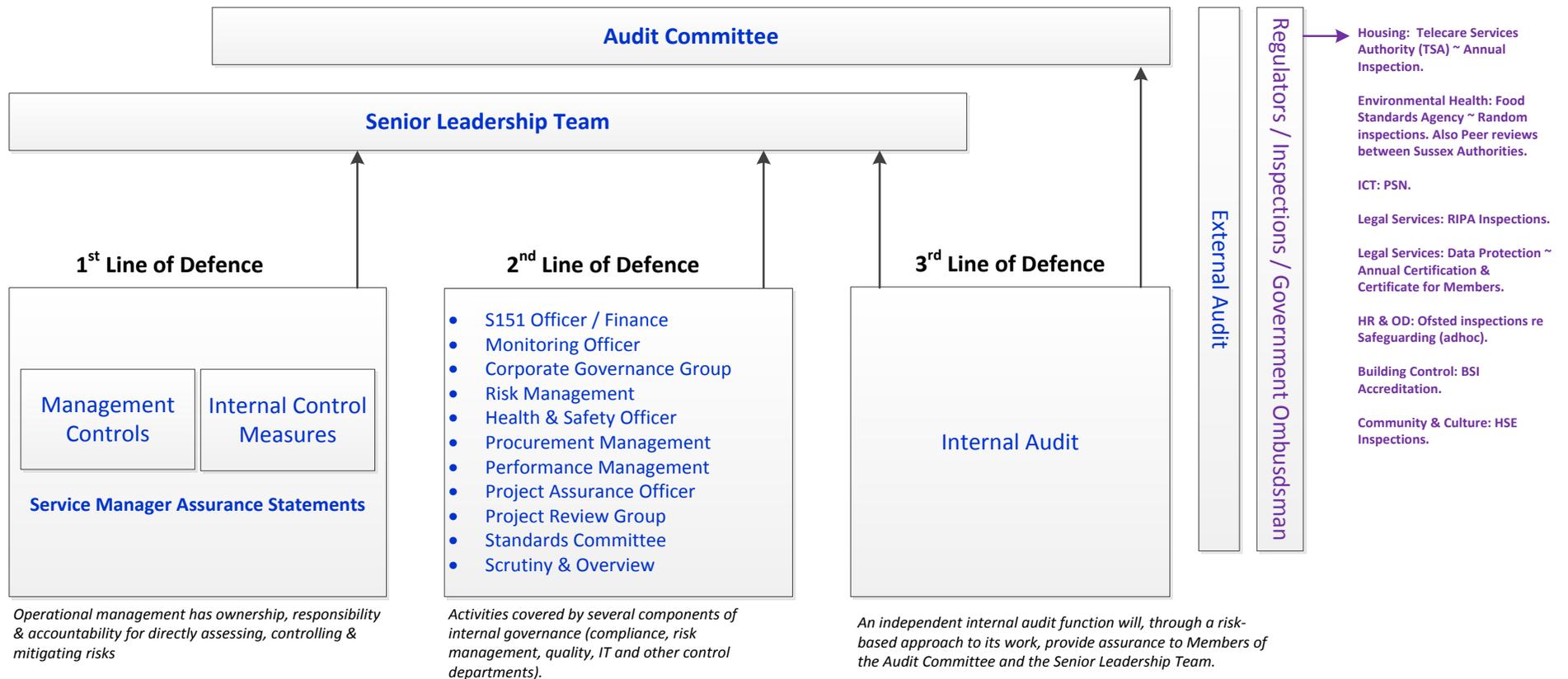
8.1. This report does not contain any decisions and therefore there is no additional risk.

9. Other Considerations

9.1. The residents not billed for the increase in Council Tax, based on a district mean Council Tax of £1,700, received a financial gain of around £500 across the 3 years. Management does not intend to invoice residents for these sums because of the financial situation of the customers involved and because this was a Council error.



ASSURANCE FRAMEWORK



Page 63

Assurance Framework Documentation

- Constitution
- Code of Conduct
- Complaints Procedure
- Equalities Scheme
- Service Manager Assurance Statements
- Communications Strategy
- Financial Policies & Procedures
- Risk Management Strategy & Toolkit
- Risk Registers
- Performance Framework

- Employee Policies
- Pay Policy
- Anti-Fraud & Corruption Policy
- Whistleblowing Policy
- Annual Internal Audit Report & Opinion
- Statement of Accounts
- Annual Audit Letters from EY
- Annual Complaints Report
- Report of Local Government Ombudsman
- Results of External Inspections

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

Report to Audit Committee

10 April 2019

By the Head of Finance

INFORMATION REPORT



Horsham
District
Council

Not Exempt

Accounting Policies, critical judgements and assumptions used in 2018/19

Executive Summary

The Statement of Accounts contains accounting policies under which the accounts are produced. The accounts comply with the Code of Practice on Local Authority Accounting, issued by CIPFA.

The purpose of the report is to sight Members of the Audit Committee on the accounting policies and critical judgements and assumptions used in 2018/19 prior to the audit and approval of the Statement of Accounts that will take place on 11 July 2019.

Recommendations

That the Committee reviews and then notes the contents of the report.

Background Papers

Appendix A – draft accounting policies and Notes 2 to 6

Wards affected: n/a

Contact: Dominic Bradley, Head of Finance, 01403 215302

Samantha Wells, Corporate Accountant, 01403 215309

Background Information

1 Introduction and Background

- 1.1 The Statement of Accounts contains accounting policies under which the accounts are produced. The accounts comply with the Code of Practice on Local Authority Accounting, issued by CIPFA.
- 1.2 In applying the accounting policies the Council makes critical judgements that have a significant effect on the accounts. These include assumptions made by the Council about the future or that are otherwise uncertain.

2 Relevant Council policy

- 2.1 The Statement of Accounts is a statutory requirement of the Council.

3 Details

- 3.1 The detailed accounting policies and notes are included in Appendix A:
 - Note 1 - accounting policies
 - Note 2 - accounting standards that have been issued by have not yet been adopted
 - Note 3 - critical judgements and assumptions
 - Note 4 - material items of income and expense
 - Note 5 - prior period adjustments
 - Note 6 – events after the balance sheet date
- 3.2 The percentage and £ value changes have yet to be fully calculated in the notes and are annotated by xxx. Some of this information is provided by third parties, such as the actuary information. Once calculated or received, this will be completed in time for the draft Statement of Accounts by 31 May 2019.
- 3.3 The most noteworthy change to the accounting policies is the adoption of IFRS9 Financial Instruments. The main changes include the reclassification of financial assets and the earlier recognition of the impairment of financial assets. The Council does not expect the reclassification changes to have a material impact upon the financial statements because the majority of its financial assets will retain the same measurement basis. To this end, on 1st April 2018 the Council irrevocably elected to present changes in the fair value of equity investments in other comprehensive income as permitted by the IFRS.
- 3.4 Note 3 critical judgements and assumptions are also updated for the end of the Census partnership arrangements in 2017/18 - which are now in the comparators.

4 Next Steps

- 4.1 The Committee is asked to provide any comments or feedback on the accounting policies and Notes 2 to 6 used in 2018/19, so that these can be included in the draft accounts that will be audited in June and brought back to the Committee for final approval on 11 July 2019.

5 Views of the Policy Development Advisory Group and Outcome of Consultations

- 5.1 The Audit Committee has delegated responsibility from the Council to approve the Statement of Accounts. The views of the Finance and Assets PDAG have not been consulted.
- 5.2 The Director of Corporate Resources has been consulted on the updated accounting policies and Notes 2 to 6.

6 Other Courses of Action Considered but Rejected

- 6.1 None. The accounting policies are required to be updated each year.

7 Resource Consequences

- 7.1 There are no financial or resourcing consequences.

8 Legal Consequences

- 8.1 The accounts comply with the Code of Practice on Local Authority Accounting, issued by CIPFA.

9 Risk Assessment

- 9.1 There are no risks.

10 Other Considerations

- 10.1 There are no consequences of any action proposed in respect of Crime & Disorder; Human Rights; Equality & Diversity and Sustainability.

This page is intentionally left blank

GENERAL PRINCIPLES

The accounts comply with the Code of Practice on Local Authority Accounting (the Code), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). Accounting policies and estimation techniques have been selected and used having regard to the accounting principles and concepts set out in International Financial Reporting Standards *Framework for the Preparation of Financial Statements*, specifically:

- The qualitative characteristics of financial information
- Relevance
- Reliability
- Comparability
- Understand ability
- Materiality
- Accruals
- Going concern

Where there is specific legislation this will have primacy over any other provision. The accounts have been prepared under the historical cost convention modified by the revaluation of certain categories of non-current assets.

ACCRUALS OF EXPENDITURE AND INCOME

The revenue accounts of the Council are maintained on an accruals basis in accordance with the Code. Any sums due to or payable by the Council at the end of each financial year that exceed £5,000 either individually, or as a class of expenditure are brought into account (irrespective of whether cash has been received or payment has been made). The exception to the £5,000 limit exists where the expenditure or part of it is to be recharged to a third party. Where a service is provided for a full year a full year's costs/income is reflected in the accounts. If any service is only provided for a proportion of the year a relevant proportion is included. If actual costs are not available accruals are made, in accordance with officer guidelines, on a best estimate basis.

At the end of each financial year, an estimate is made of doubtful debts - amounts due to the Council but unlikely to be received. The total value of these amounts is shown as a provision on the Balance Sheet.

Capital expenditure is also accounted for on an accrual basis in accordance with the capital accounting provisions of the Code.

Council tax income is accounted for on an accrual basis with the Horsham District Council share of income included within the debtors and creditors balances on the Balance Sheet, with the preceding authorities' accounting for their relevant share.

CASH AND CASH EQUIVALENTS

Cash equivalents are short-term, highly liquid investments that are repayable within one month of acquisition. They are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash equivalents include shares in constant net asset value money market funds.

EXCEPTIONAL ITEMS

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

PRIOR PERIOD ADJUSTMENTS

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively.

Changes in accounting policies are only made where required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. When a change is made, it is applied retrospectively (unless stated

otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material error discovered in prior periods figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

CHARGES TO REVENUE RELATED TO NON-CURRENT ASSETS

General Fund service revenue accounts have been charged with depreciation, amortisation and where required any relevant impairment loss. These charges are credited in the Movement in Reserves Statement so that they do not have an impact on the amounts required to be raised from local taxation.

Amounts required to be set aside from revenue for the reduction of its overall borrowing requirement to finance capital expenditure, or as transfers to other earmarked reserves, are disclosed separately in the Movement in Reserves Statement.

MINIMUM REVENUE PROVISION

The Council is not required to raise Council tax to fund depreciation, revaluation and impairment losses or amortisation of non-current assets. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to either an amount calculated on a prudent basis or as determined by the Council in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance (MRP or loans fund principal), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

EMPLOYEE BENEFITS

Officers Emoluments and Senior Officer Remuneration

In line with the Accounts and Audit Regulations 2015, a note disclosing officers' emoluments is required which includes all amounts paid to or receivable by an employee, including sums due by way of expenses allowances and the estimated money value of any other benefits received by an employee other than in cash.

There is also a requirement that local authorities include remuneration information of senior employees in the note accompanying their statement of accounts with previous year comparatives. This information can be found in note 26.

Benefits payable during employment are those that are due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and sick leave and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is charged to the provision of services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Exit Packages and Termination Costs

The Code requires disclosure of the details of exit packages agreed and the costs within bandings for the financial year with prior year comparatives. Information on termination costs together with prior year comparatives are provided in notes 26 and 27.

Post-Employment Benefits - Pensions

Horsham District Council employees have the right to membership of the Local Government Pension Scheme, administered by West Sussex County Council. This scheme is accounted for as a defined benefits scheme. Pension costs have been accounted for in accordance with IAS19 Retirement Benefits. The basic principle being that the Council accounts for retirement benefits when it is committed to give them, even if the actual payment is in the future. The estimated economic current costs are based on valuations provided by the Fund's actuaries.

Liabilities are measured on an actuarial basis discounted to present value, using the projected unit method. The discount rate to be used is determined in reference to market yields at balance sheet date of high quality corporate bonds

The assets of the scheme are included in the Balance Sheet at their fair value:

- Quoted securities - current bid price

- Unquoted securities - professional estimate
- Unitised securities - current bid price
- Property - market value

Any change in the net pension liability is analysed into six components:

- Current service cost – the increase in liabilities as a result of years of service earned this year are allocated in the Comprehensive Income and Expenditure Account to the revenue accounts of services for which the employees worked.
- Past service cost – the increase or decrease in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years. These are debited/credited to the Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- Net interest on the net defined benefit liability (asset), i.e. net interest expense for the council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- Re-measurement of the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions- recognised in Other Comprehensive Income and Expenditure.
- Contributions paid to the West Sussex County Council Pension Fund – cash paid as employer contributions to the pension fund.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end.

Discretionary Benefits

The Council provides post-employment benefits which arise from additional service awarded on a discretionary basis. These benefits are unfunded with costs met directly from the Council's revenue account.

West Sussex County Council's Annual Report on the Pension Fund is available from County Hall, Chichester.

EVENTS AFTER THE BALANCE SHEET DATE

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts would be adjusted to reflect such events
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts are not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

FINANCIAL INSTRUMENTS

Financial Liabilities

Financial Liabilities and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure

Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. The amount presented in the Balance Sheet for borrowings is the outstanding principal repayable (plus accrued interest).

Where premiums and discounts have been charged to the CIES, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the CIES to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest.

Financial Assets Measured at Amortised Cost

Financial assets are initially measured at fair value. They are subsequently measured at their amortised cost. Annual income appears in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Expected Credit Loss Model

The authority recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Financial Assets Measured at Fair Value through Profit of Loss

Financial assets that are measured at FVPL are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. Statutory arrangements protect the General Fund Balance from this charge and this is therefore reversed out of the General Fund Balance to a reserve in the Movement in Reserves Statement.

Financial Assets Measured at Fair Value through other comprehensive income

The Council designates specific financial assets as measured at Fair Value through other comprehensive income. This designation is specific and irrevocable. These assets are initially measured and carried at fair value. Fair value gains and losses are recognised in the Financial Instrument Revaluation Reserve and in the 'Surplus or deficit from investments in equity instruments designated at fair value through other comprehensive income' line in the Comprehensive Income and Expenditure Statement.

On the de-recognition of an asset any gains and losses that arise are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. Any accumulated gains or losses relating to the asset previously recognised in the Financial Instrument Revaluation Reserve are transferred to the General Fund in the Movement in Reserves Statement.

GRANTS AND CONTRIBUTIONS

Whether paid on account, by instalments or in arrears, Government grants and third party Contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- The Council will comply with the conditions attached to the payments, and
- The grants or contributions will be received.

Grants and contributions for capital purposes are recognised as income on receipt as long as there is no condition for their use that has not been satisfied. Where there is a condition the amount will be held as a receipt in advance until the condition is satisfied at which point the amount is recognised as income. Where capital grants are recognised as income they are reversed out of the General Fund in the Movement in Reserves Statement and held as unapplied reserve until used to finance capital expenditure.

COLLECTION FUND

The Collection Fund Statement is an agent's statement which reflects the statutory obligation in accordance with section 89 of the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992) for billing authorities to maintain a separate Collection Fund. The Collection Fund shows the transactions of the billing authority in relation to the collection from taxpayers and the distribution to local authorities and the Government of council tax and non-domestic rates. There is no requirement for a separate Collection Fund Balance Sheet since the assets and liabilities arising from collecting non-domestic rates and council tax belong to the bodies (i.e. major preceptors, the billing authority and the Government).

COUNCIL TAX INCOME

Council tax income included in the Comprehensive Income and Expenditure Statement for the year shall be the accrued income for that year. Each major preceptor's share of the accrued council tax income is available from the information required to be produced in order to prepare the Collection Fund Statement.

Since the collection of council tax is in substance an agency arrangement, the cash collected by the billing authority from council tax debtors belongs proportionately to the billing authority and the major preceptors. There will therefore be a debtor/creditor position between the billing authority and each major preceptor to be recognised since the net cash paid to each major preceptor in the year will not be its share of cash collected from Council taxpayers. If the net cash paid to a major preceptor in the year is more than its proportionate share of net cash collected from council tax debtors/creditors in the year, there is a debit adjustment. If the cash paid to a major preceptor is less than its proportionate share of net cash collected in the year from council tax debtors/creditors, the billing authority shall recognise a credit adjustment for the amount underpaid to the major preceptor in the year.

The Cash Flow Statement of the billing authority shall include within operating activities only its own share of council tax net cash collected from council tax debtors in the year; and the amount included for precepts paid shall exclude amounts paid to major preceptors. The difference between the major preceptors' share of the net cash collected from

council tax debtors and net cash paid to major preceptors as precepts and settlement of the previous year's surplus or deficit on the Collection Fund shall be included within financing activities in the Cash Flow Statement.

NATIONAL NON-DOMESTIC RATES (NDR)

Following the introduction of business rate localisation in April 2013, local authorities are responsible for collecting and distributing income from the business rates they collect.

The Council is responsible for any refunds relating to backdated appeals although a significant element of refunds relate to 2014/15 or prior years and in accordance with CIPFA Guidance (LAAP Bulletin 96) such liabilities are formally recognised in the accounts.

Safety net arrangements are in place to protect the Council from the impact of any reductions below 7.5% of its baseline funding level.

HERITAGE ASSETS

A tangible heritage asset is a tangible asset intended to be preserved in trust for future generations with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

Operational heritage assets (i.e. those that, in addition to being held for their heritage characteristics, are also used by the Council for other activities or to provide other services) shall be accounted for as operational assets rather than heritage assets, and shall be valued in the same way as other assets of that general type.

Heritage assets shall normally be measured at valuation in accordance with Financial Reporting Standard 102 but the Standard states that valuations may be made by any method that is appropriate and relevant. Where it is not practicable to obtain a valuation at a cost which is commensurate with the benefits to users of the financial statements, heritage assets can be measured at historical cost (less any accumulated depreciation, amortisation and impairment losses). The museum collections have not been valued as the cost of valuation is not seen as commensurate with benefits to users; historic cost information is not available for collection. The artworks are valued using historic costs where records are available while the war memorial, due to its special nature, is valued at its depreciated replacement cost.

Depreciation will be charged where the asset does not have an indefinite life. If there is evidence of impairment the carrying amount of the asset shall be reviewed. The holdings of the Council currently have indefinite lives and hence are not charged depreciation.

Where heritage assets are revalued the treatment would be the same as for normal properties using the Revaluation Reserve where appropriate and reporting impairments if necessary.

The Council does not recognise any intangible heritage assets.

INTANGIBLE ASSETS

Intangible assets such as software and licences give an economic benefit over more than one year. They are initially recognised at cost and then amortised over their useful lives. The gain or loss on disposal of intangible assets is recognised in the Comprehensive Income and Expenditure Account. To comply with statute the gain or loss is reversed out in the Movement in Reserves Statement (MiRS).

INVENTORIES & WORK IN PROGRESS

Stocks are valued at the lower of actual cost or net realisable value.

INVESTMENT PROPERTY

Investment properties are held to earn return rather than to provide services. The Council holds a number of commercial properties that it categorises as Investment Properties on the basis that the properties are rented to commercial entities using standard commercial terms of the rental rather than concessionary terms to specific classes of commercial tenants.

Investment properties are valued initially at cost and then at fair value which is defined as the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. The valuation is based on highest and best use of any asset and so should take into account the highest price in the most advantageous market for that asset.

Investment properties are not depreciated but valued annually. When a value is changed any gain or loss is recognised in the Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure

Statement but is reversed out of the General Fund in the Movement in Reserves Statement as required by statutory regulation. Gains and losses on disposal are treated similarly.

JOINTLY CONTROLLED OPERATIONS AND JOINTLY CONTROLLED ASSETS

Jointly controlled operations are activities undertaken by the Council in conjunction with other ventures that involve the use of the assets and resources of the joint ventures rather than the establishment of a separate entity. The Council recognises on its Balance Sheet only its share of the jointly controlled assets and related liabilities; whilst on its Comprehensive Income and Expenditure Statement it recognises those expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

LEASES

Leases are classified as finance or operating leases based on the extent that the risks and rewards associated with a leased asset lie with the lessor or lessee. If substantially all the risks and rewards of the lease transfer to the lessee it is a finance lease, otherwise an operating lease. For purpose of classification land and buildings are considered separately. The Council has no material investment in finance leases as lessee or lessor.

The Council as a Lessee

Operating Leases

Rentals paid are recognised in Comprehensive Income and Expenditure Statement as an expense. Charges should be made on a straight line basis over life of lease if actual pattern of payments are significantly different from a straight line basis.

The Council as a Lessor

Operating Leases

Rental income is recognised in Comprehensive Income and Expenditure Statement. Charges should be made on a straight line basis over life of lease if actual pattern of income diverges significantly from a straight line basis.

OVERHEADS AND SUPPORT SERVICES

Central support services are allocated to revenue and capital accounts. The Council has adopted the general principle of allocating the costs of central administrative departments based on operational data or where this is not present on the estimated time spent by officers on the various services. The cost of corporate management is charged to the Corporate and Democratic Core.

PROPERTY, PLANT AND EQUIPMENT

Expenditure on the acquisition, creation or enhancement of property, plant and equipment (PPE) is capitalised on an accrual basis in the accounts. Expenditure on PPE over the de minimis limit of £20,000 is capitalised, provided that the PPE yields benefits to the Council and the services it provides, for a period of more than one year. This excludes expenditure on routine repairs and maintenance of PPE assets which is charged direct to service revenue accounts.

Property, plant and equipment are valued on the basis recommended by CIPFA and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors (RICS). Assets are valued on the following basis:

- Initially at cost including any costs attributable to bringing the asset into use and subsequently at market value for the existing use except for assets which are rarely subject to an open market where depreciated replacement cost is used.
- Assets under construction and community assets are held at depreciated historic cost.
- Surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective

Where the value of an asset is to be recovered by sale it is classified as an asset held for sale. It is held at its value before reclassification or the fair value less costs to sell, whichever is the lower. Any consequential loss is posted to the Comprehensive Income and Expenditure Statement. Gains in fair value would be recognised up to the amount of any previously recognised losses.

In order to account properly for valuation changes the Revaluation Reserve was set up with a zero balance at 1 April 2007. Any revaluation upward results in a credit to the reserve. A downward revaluation can be set against the

Revaluation Reserve if there is a balance referring to the devalued asset. As the reserve was set at zero many downwards revaluation of assets could appear as an impairment in the Comprehensive Income and Expenditure Statement (CIES). Revaluation of property, plant and equipment is planned at five-yearly intervals, although material changes to asset valuations will be adjusted in the interim period, as an assessment is made at the end of each year for any indication that assets may be impaired in addition to cyclical revaluations. Any impairment would be written off against any revaluation gain for that asset in the Revaluation Reserve or otherwise recognised in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed the reversal is credited back in the CIES up to the amount of the original loss adjusted for the depreciation that would have been charged if the loss had not been recognised.

Income from the disposal of property, plant and equipment is accounted for on an accruals basis and is credited to the CIES as a part of the gains and losses on disposal. Such income that has not been used to finance capital expenditure is included in the balance sheet as usable capital receipts.

The carrying amount of an asset shall be derecognised on disposal or when no future economic benefits or service potential is expected and written off to CIES in the gains and losses on disposal.

Where a significant component part of an asset has a different useful life to other parts it will be depreciated separately. Where a component is replaced or restored the carrying amount of the old component shall be derecognised.

DEPRECIATION

Depreciation is provided for on all property, plant and equipment with a finite useful life (which can be determined at the time of acquisition or revaluation) according to the following policy:

- No assets are depreciated in the year of acquisition, but they are depreciated in the year of disposal. Assets in the course of construction are not depreciated until the year following the one in which they are first brought into use. In the exceptional case of part year depreciation being material a charge may be made.
- Operational assets are depreciated using a straight line method over the useful life of the asset, taking into account any residual value.

The expected useful life of assets is not necessarily revised at each revaluation but is reviewed annually. In line with the value's judgment we reduce the useful life of most of our assets by one year; the remaining assets' lives are reviewed by the value for reasonableness. Investment properties are not depreciated.

PROVISIONS & RESERVES

The Council establishes provisions for specific expenses that are certain to be incurred but the amount of which cannot yet be determined accurately.

Provisions are charged to the appropriate service revenue account in the year that the council becomes aware of the obligation, based on the estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes more likely than not that a transfer of economic benefits will not now be required or a lower settlement is made, the provision is reversed and credited back to the relevant service revenue account.

The Council maintains earmarked reserves to meet future spending programmes. Reserves are created by appropriating amounts in the Movement in Reserves Statement. When expenditure to be financed from the reserve is incurred, it is charged to the appropriate service revenue account in that year to go against the Cost of Services in the Comprehensive Income and Expenditure Statement (CIES). The reserve is then appropriated back to the General Fund Balance so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for property, plant and equipment and retirement benefits and do not represent usable resources for the council.

CONTINGENT LIABILITIES

IAS 37 *Provisions, Contingent Liabilities and Contingent assets* requires the Council to disclose contingent liabilities. These arise from past events and their existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control that may result in an obligation on the Council.

Material contingent liabilities are not recognised as an item of expenditure within the accounts but are disclosed within the notes to the accounts unless the possibility of a transfer of economic benefits in settlement is remote.

CONTINGENT ASSETS

IAS 37 *Provisions, Contingent Liabilities and Contingent assets* requires the Council to disclose contingent assets. These arise from past events and their existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control that may result in an asset to the Council.

Contingent assets are not accrued in the accounting statements, in conformity with the concept of prudence. Material contingent assets are disclosed within the notes to the accounts if the inflow of a receipt or economic benefit is probable.

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of property, plant or equipment has been charged as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged in the Movement in Reserves Statement so there is no impact on the level of Council Tax.

VALUE ADDED TAX

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from it.

2 ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

The Code of Practice on Local Council Accounting in the United Kingdom 2018/19 (the Code) requires the Council to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued, but not yet adopted by the Code for the relevant financial year. For the 2018/19 Statement of Accounts there are a number of accounting changes that need to be reported. These relate to:

- Annual Improvements to IFRS Standards 2014-16 cycle
- IFRS 15 Revenue from contracts with customers
- Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation

These amendments are minor, and they are not expected to have a material impact on the Statement of Accounts.

3 CRITICAL JUDGEMENTS AND ASSUMPTIONS

Critical Judgements

In applying the accounting policies the Council has made the following critical judgements that have a significant effect on the statements:

- Future levels of local authority funding are uncertain, however based on its medium term planning using prudent assumptions on funding and based on announcements made by central government the Council judges that its assets will not be impaired as a result of a need to close facilities, reduce service provision or ongoing maintenance.
- The Councils holds a significant portfolio of investment property and although general economic growth is still fragile, the Council judges that its portfolio in the context of the local economy is robust and healthy enough that its assets will not be impaired as a result of a decrease in economic activity.
- The Council judges that, on balance, the banking system will not be subject to major disruption to the extent that historic estimates of defaults are no longer tenable.
- The Council does not expect the tax gathering mechanisms for Council Tax and Business Rates to fundamentally alter the Council's financial stability. The risk within the rates retention scheme is assumed to be the safety net which has been set by the government at 7.5% of the Council spending baseline which equates to £xxxk.
- IFRS 12 requires that the accounts disclose the judgements made to assess the type of Joint Arrangement to determine the Council's correct accounting treatment. The Council was previously contracted into a shared arrangement for its ICT and Revenues and Benefits functions, called CenSus Shared Services Partnership during 2017/18.

The Partnerships met the definition of a Joint Operation as these functions were discharged to the Census Joint Committee, comprising of Members of each of the participating authorities, each with joint control.

As such we recognised our proportional share of assets, liabilities, revenues and expenses of the arrangement in our accounts. These are now in some comparator notes.

Assumptions

The Statement of Accounts contains estimated figures that are based on assumption made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the Council's Balance Sheet at 31 March 2019 for which there is a significant risk of material adjustments in the forthcoming financial year are as follows:

Pension Liability

Estimation of the liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. However the interaction of these assumptions is complex.

During 2017/18 the actuaries advised that the pension liability had been affected as follows:

<u>Change in assumptions year ended 31 March 2019</u>	Horsham	
	Approximate % increase in Employi	Approximate moneta amou £00
0.5% decrease in Real Discount Rate	x'	x)
1 year increase in member life expectancy	x')
0.5% increase in Salary Increase Rate	x')
0.5% increase in the Pension Increase Rate	x'	x)

Provisions

The provision for doubtful debt is based on estimates of default. The estimated default rates used which range from 3% to 100% may be sensitive to economic circumstances. An increase of 10% in default rates would have the effect of increasing the required provision by £xxxk.

Property, plant and equipment

The depreciation of buildings is based on estimated useful life and residual value which is based on the present use and level of maintenance which in turn depends on the continued level of funding. For every year that the remaining lives of buildings were to decrease the extra depreciation would be £xxk.

Business Rates

The Business Rates Retention Scheme became effective from 1 April 2013 and as a result local authorities are liable for any successful appeals against business rates by businesses in 2012/13 and earlier financial years in their proportional share. The Council has a total provision of £x.xm as an estimate of potential successful appeals up to 31 March 2019, the Council's proportion (40%) reflected in the Balance Sheet is £x.xxxm. This estimate is calculated using Valuation Office ratings list of appeals and an analysis of successful appeals to date.

4 MATERIAL ITEMS OF INCOME AND EXPENSE

Material items in terms of the Council's overall net expenditure, which are derived from events or transactions that are not expected regularly, that fall within the ordinary activities of the Council. They are required to be disclosed separately by virtue of their size or incidence to give a fair presentation of the accounts. There were no material items of income or expenditure in 2017/18 or 2018/19 other than disclosed on the face of the Comprehensive Income and Expenditure Statement.

5 PRIOR PERIOD ADJUSTMENTS - None.

6 EVENTS AFTER THE BALANCE SHEET DATE – None to date.

Report to Audit Committee

10th April 2019

By the Horsham Chief Internal Auditor (Orbis)



INFORMATION REPORT

Not Exempt

Internal Audit Progress Report – Quarter 3 (30/09/18 to 31/12/18)

Executive Summary

To provide Members with an update on all internal audit and counter fraud activity completed during the quarter, including a summary of all key findings. The report also includes details of progress on delivery of the annual audit plan along with an update on the performance of the internal audit service during the period.

Recommendations

The Committee is recommended to:

- Note the report and consider any further action required in response to the issues raised; and
- Identify any new or emerging risks for consideration for inclusion in the internal audit plan.

Reasons for Recommendations

- i) To comply with the requirements set out in the Public Sector Internal Audit Standards 2013 (amended April 2017).
- ii) The Audit Committee is responsible for reviewing the effectiveness of the Council's systems of internal control.

Background Papers

Internal Audit Strategy and Annual Plan 2018-19

Wards affected: All.

Report Author: Paul Miller, Horsham Chief Internal Auditor

Contact Details: Russell Banks, Orbis Chief Internal Auditor

Tel No. 01273 481447

Background Information

1 Introduction and Background

Background

- 1.1 This progress report covers work completed between 1 October 2018 and 31 December 2018.

Supporting Information

- 1.2 The current annual plan for internal audit is contained within the Internal Audit Strategy and Annual Plan 2018-19 which was approved by the Audit Committee on 11 April 2018.

2 Relevant Policy / Professional Standards

- 2.1 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.
- 2.2 Internal Audit is conducted in accordance with the Council's Constitution. Financial Procedure Rule 4e 27 states that, in accordance with legislation, the Council should "make arrangements for the proper administration of their financial affairs". The terms of reference for Internal Audit are detailed in the Council's Internal Audit Charter which is approved and reviewed by the Audit Committee.

3 Conclusion and Reasons for Recommendation

- 3.1 Key audit findings from final reports are summarised in Appendix A.
- 3.2 Overall, of the six formal audits finalised during Quarter 3, two received 'substantial assurance' opinions, and four received opinions of 'reasonable assurance'. There were no opinions of 'partial' or 'minimal assurance'.
- 3.3 Although the same range of internal audit opinions are issued for all audit assignments, it is necessary to also consider the level of risk associated with each area under review when drawing an opinion on the Council's overall control environment. Taking into account these considerations, the Chief Internal Auditor is able to provide 'reasonable assurance' that the Council has in place an effective framework of governance, risk management and internal control.
- 3.4 The overall conclusion has been drawn based on all audit work completed in the year to date and takes into account the management response to audit findings and the level of progress in subsequent implementation. This is something which will continue to be monitored and reported on by Internal Audit throughout the year.
- 3.5 Formal follow up reviews continue to be carried out for all audits where 'minimal assurance' opinions have been given and for higher risk areas receiving 'partial assurance'. Progress on action tracking is provided in Section 3 of Appendix A, and details of outstanding high and medium actions are provided in Section 3.4.

- 3.6 Members will recall that flexibility was built into the audit plan to allow resources to be directed to any new and emerging risks. We continue to liaise with departments to identify these but would also welcome input from Members. Details of those reviews added and removed from the plan so far this year are set out in section 4 of Appendix A.
- 3.7 Progress against our performance targets (focussing on a range of areas relating to our service) can be found in section 5 of Appendix A. All targets have been assessed as on target (green).

4 Next Steps

- 4.1 The Committee will be kept informed about progress in terms of the delivery of the audit plan for 2018/19, with final overall position summarised within the Annual Internal Audit Report and Opinion which will be reported to the committee in July.

5 Outcome of Consultations

- 5.1 Heads of Service / Service managers are consulted during each audit. At the end of each review, audit findings and draft reports are discussed with the Heads of Service at a final meeting, and actions are agreed. An action plan is incorporated into the final report including details of responsible officers and agreed implementation dates. There are occasions when a director may also be consulted, particularly for audits which span a number of departments.

6 Other Courses of Action Considered but Rejected

- 6.1 Not applicable.

7 Resource Consequences

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

8 Legal Consequences

- 8.1 There are no legal consequences. Where compliance issues are identified during audit fieldwork, the Head of Legal & Democratic Services (or relevant legal specialist) will be consulted.

9 Risk Assessment

- 9.1 All Internal Audit work is undertaken using a risk based approach.

10 Other Considerations

- 10.1 Internal Audit is a reporting function and there are no consequences in respect of Crime & Disorder; Human Rights; Equality & Diversity; or Sustainability. However these areas are considered where appropriate during audit fieldwork.

Internal Audit and Counter Fraud Quarter 3 Progress Report 2018/19

CONTENTS

1. Summary of Completed Audits
2. Counter Fraud and Investigation Activities
3. Action Tracking
4. Amendments to the Audit Plan
5. Internal Audit Performance

1. Summary of Completed Audits

Accounts Payable

- 1.1 This is the first occasion that the Technology One system has been in operation for a full year and officers now have a clearer understanding of how the system operates.
- 1.2 The purpose of the audit was to provide assurance that:
- Orders are raised for goods, works and services for bona fide services in accordance with standard financial procedures.
 - All payments (including non-order invoices, cheque requisitions and urgent payments where appropriate) are subject to review and approval to ensure payments are valid and goods, works or services have been received and are correctly processed.
 - Payment runs are subject to appropriate review and authorisation.
 - Only creditors that meet the needs of the Council and that do not already exist in the Financial Information System (FIS) are set up. All creditors' details are maintained accurately within the FIS.
 - Transactions in the Accounts Payable system are completely and accurately transferred to (or reflected in) the General Ledger
- 1.3 As a result of this work, we were able to provide **substantial assurance** over the controls operating within the area under review. The Technology One system has effective processes in place for logging any changes that are made to requisitions, orders, and invoices. The workflow system allowed the auditor to obtain evidence from the system as required. There is a clear "audit trail" of who has entered, amended or authorised orders and invoices within the system.
- 1.4 Only one minor area for improvement was identified and agreed, which was for the purpose of improving efficiency.

Performance Management

- 1.5 At the time of the audit, a new basket of indicators was being developed to measure strategic performance in key areas. The audit reviewed the performance management framework and a sample of key performance indicators was tested for accuracy.
- 1.6 The purpose of the review was to provide assurance that:
- There is an effective framework for performance management, including the development of a set of SMART key performance measures based on strategic and departmental objectives.
 - Key performance indicators (KPIs) are calculated consistently and correctly on the basis of clear definitions and that the information is recorded on the corporate 'Pentana' system in a timely manner.
 - Effective systems are in place for monitoring and reporting on performance management and that actions are taken as necessary to deal with any deteriorating performance.
 - Managers are fully engaged and accountable in the monitoring and use of KPIs.

- 1.7 Overall, we were able to provide **reasonable assurance** over the controls operating within the area under review. The Council has a well-established performance management framework that covers the annual agreement of a 'basket' of KPIs that are linked to the Council's strategic objectives. A quarterly report is submitted to the Overview and Scrutiny Committee for consideration by Members.
- 1.8 Area for improvement:
- A few areas for improvement were identified in relation to key performance indicators and how they are used to support service improvement.

Cyber Security

- 1.9 This audit was carried out to review the effectiveness of the Council's control processes that have been designed to mitigate cyber security attacks. It is widely recognised that even with the most effective control processes in place an organisation cannot prevent cyber-attacks. It is important, therefore, that robust control processes are introduced to minimise the impact and damage caused by such an attack on the operations of the Council.
- 1.10 The purpose of the review was to ensure:
- The Council has a communicated "Information Risk Management Regime" that is central to its overall cyber security strategy.
 - The Council applies secure configuration of all IT systems.
 - The Council employs appropriate protection to the perimeter to reduce the threat of unauthorised remote access to the Council's network.
 - The Council has effective management processes in place to limit the number of privileged accounts, control user privileges and monitor user activity.
 - User security policies are in place and all officers and councillors have received cyber-security training and are aware of their role in supporting the authority in managing cyber security threats.
 - Anti-malware defences have been introduced, including filtering web access and scanning for malware across Council systems, designed to discover remove and reduce the possibility of damage to Council systems.
 - A secure baseline build has been introduced for all devices to protect data both in transit and at rest.
 - Arrangements are in place to identify developing trends and emerging threats, ensuring that the information is obtained from respected national sources.
- 1.11 Overall, we were able to provide **reasonable assurance** over the controls operating within the area under review. Reliance was placed upon the testing carried out by third party specialists, SureCloud, which demonstrated that the Council met the specific security requirements for the Code of Connection for PSN¹. The IT Health Check (ITHC) report produced by SureCloud provides assurance, upon which we could rely, for key areas within the scope of this audit, including firewall security; patch management; network controls; and the secure configuration of Council Desktop PCs & Laptop computers.

¹ PSN = Public Services Network, the government's high performance network which helps public sector organisations work together and share resources. In order to connect to this network, organisations must provide evidence that they have effective security controls in place to meet the "Code of Connection" (CoCo).

- 1.12 Internal Audit focused its work on the areas that are outside of the remit of the PSN Code of Connection and the ITHC report. The auditor identified that whilst the IT Technical Services team has carried out significant work in securing the IT infrastructure, the Council has placed less emphasis on identifying and mitigating risks posed by the actions of users. Action is now being taken to address these particular weaknesses. The Head of Technology Services has updated and revised the Council's Information Security Policies and work is also being carried out to promote awareness of cyber security threats and to introduce mandatory training for staff.

Health and Safety

- 1.13 The Council has a statutory duty under the Health and Safety at Work Act 1974 (the Act) to secure, as far as is reasonably practicable, the health and safety of employees and others who may be affected by the Council's activities. Serious harm to an employee or a service user can result in significant costs to the Council as well as the possibility of reputational damage. There are also individual responsibilities under the Act. Failure of individuals and organisations to comply can lead to unlimited fines and possible imprisonment. The importance of effective health and safety management has become even more crucial with the introduction of the offence of corporate manslaughter.
- 1.14 The Health and Safety Executive (HSE) has developed a framework (Health and Safety Guidance 65: Successful Health and Safety Management) to help organisations understand the actions that they need to take to comply with health and safety legislation. The requirements set out in the HSE framework are expected to be tailored to individual organisation's circumstances, and the HSE advocates a practical approach that seeks a balance between the unachievable aim of absolute safety, and poor management of safety that puts people at risk
- 1.15 The objectives of the review were as follows:
- To ensure there is effective management to help protect the health and safety of employees, service users, suppliers and members of the public who interact with the Council, so far as is reasonably practicable.
 - To ensure that there are effective arrangements in place that makes the Council a safe and healthy place for employees, service users, suppliers and members of the public who interact with the Council.
 - To ensure that there is sufficient evidence in place to demonstrate that the Council is doing what it needs to do to manage health and safety in accordance with legislation.
- 1.16 Overall, we were able to provide **reasonable assurance** over the controls operating within the area under review. A corporate health and safety policy is in place; roles and responsibilities for relevant aspects of health and safety have been defined and allocated appropriately; the Council has adopted a risk based approach to managing health and safety; there are arrangements in place (i.e. routine safety audits and inspections) to actively check to ensure that safety control measures are working properly; a wide range of health and safety training courses have been made available to staff; and SLT receives an update on health and safety matters on a regular basis.
- 1.17 The following areas for improvement have also been identified and agreed with management as part of the audit:
- Plans to continuously improve health and safety will be developed.

- Senior Management and staff will be encouraged to improve their uptake of mandatory health and safety training.
- The policy for the management of health and safety when selecting and managing contractors will be reviewed.
- The Corporate Health and Safety Management Forum will monitor and review risk assessments relating to activities that it considers to be of priority and/or exposes the Council to the greatest health and safety risks/issues.
- IT solutions for recording risk assessments will be explored.
- Performance indicators will be developed to improve health and safety performance monitoring.

Treasury Management

- 1.18 This routine review has been undertaken to ensure that the Treasury function is operating within the confines of the Treasury Management Strategy and Prudential Code.
- 1.19 Horsham DC had a balance of £44 million in investments at the time of the audit. No short term borrowing has been entered into during the financial year to date.
- 1.20 The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
- The Council has established an appropriate Treasury Management Policy & Investment Strategy;
 - All lending and borrowing decisions are based on robust cash flow forecasting over the short, medium and long term;
 - Investments are made with approved counterparties within approved limits, are correctly paid, authorised, and are repaid by counterparties with the correct amount of interest;
 - Borrowings are made only from approved organisations, are correctly authorised and repaid to counterparties with the correct amount of interest;
 - There is regular and independent reconciliation between the Treasury Management record, the Bank Account and the General Ledger;
 - Officers and elected Members receive regular and informative training and performance monitoring information.
- 1.21 Overall, we were able to provide **reasonable assurance** over the controls operating within the area under review. This is demonstrated by the following points:
- The Council's Cash Flow is reviewed and updated daily. The forecast is used to enable sensible investment decisions to be made so that funds are available when needed and investments are placed appropriately.
 - Monthly meetings are held between the Director of Corporate Resources, the Head of Finance and the Group Accountant (Technical) to review Treasury Management performance for the period, consider risk areas and discuss any major proposed transactions. These meetings provide strategic management and are routinely minuted. Plans are being made to produce a Capital Strategy document for consideration by Members in accordance with the new CIPFA Treasury Management Code 2017.

- Day to day transactions are mainly undertaken by a single experienced officer, supported by senior officer oversight at an appropriate level. Monthly reconciliations are carried out, and these are reviewed and verified by the Group Accountant (Technical).
- The Group Accountant (Technical) regularly attends briefings provided by CIPFA and by the Council's Treasury Management Advisors (Arlingclose) in order to keep up to date on emerging issues.

1.22 There was only one area for improvement identified. Audit testing of a sample of ten investment decisions showed that in one instance the audit trail for the CHAPS payment was not complete. Because the current system requires that the audit trail is recorded on paper documents that are then copied and filed electronically, care is needed to ensure that the record is complete. The monthly reconciliations are also complex and it would not be easy for another member of staff to undertake these duties if the regular post holder were absent. Senior Management has agreed to make plans to provide cover arrangements for this area.

IR35 (Off-Payroll Engagement)

1.23 The tax year that began on 6th April 2017 saw changes to intermediaries' legislation, known as IR35, for off-payroll working in the public sector. Where IR35 rules apply, people who work through an intermediary (such as a personal service company) will pay employment taxes in a similar way to employees. One notable change is that responsibility for deciding whether or not IR35 rules apply to off-payroll engagements has shifted on to the public authority itself. Consequently, the Council has decided that all engagements should be paid for through payroll unless it can be justified or evidenced otherwise. This message has been communicated to service managers and processes have been put in place to identify the correct IR35 status for off-payroll workers.

1.24 The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:

- The correct IR35 tax status is determined for all off-payroll engagements, either engaged directly by the council or through an agency;
- Off payroll engagements made by the council are readily identifiable and paid in compliance with IR35 legislation and council policy;
- Off payroll engagements are made in line with procurement processes to ensure value for money is achieved.

1.25 Overall, we were able to provide **substantial assurance** over the controls operating within the area under review because:

- The Council has responded pro-actively to the changes made to IR35 legislation, engaging extensively with service managers and introducing a number of controls to manage the risks associated with IR35 and off-payroll engagements.
- Effective leadership has been demonstrated through the adoption of a clear position, which has been well communicated to all key stakeholders.
- Processes are in place and operating effectively to ensure the correct IR35 tax arrangements are in place for off-payroll engagements before any payment is released.

- 1.26 A few areas for improvement were identified, including that IR35 requirements should be made available on the Council's Intranet site to help to further raise awareness of IR35 rules for off-payroll engagements.

2. Counter Fraud and Investigation Activities

Proactive Counter Fraud Work

- 2.1 The Orbis Internal Audit structure came into effect from 1st April 2018. The integrated structure was designed to deliver resilience, flexibility and quality, along with specific specialisms. A key strand of the structure was the formation of a counter fraud team that would deliver both reactive and proactive fraud services across the partnership. Work to date has focussed on the following areas:

National Fraud Initiative Exercise

- 2.2 The results from this exercise were received on 31 January 2018 and will be prioritised for review over the coming months.

Fraud Risk Assessments

- 2.3 A Fraud risk assessment has been undertaken to ensure that the current fraud threat for the Council has been considered and appropriate mitigating actions identified.

Fraud Response Plans

- 2.4 Fraud Response Plans take into consideration the fraud risk assessments and emerging trends across the public sector in order to provide a proactive counter fraud programme. These are being reviewed and aligned to deliver an efficient and effective programme of work across the Orbis partners. This will include an increased emphasis on data analytics. The Fraud Response Plans will set out the proactive work plan for the team in 2019/20.

3. Action Tracking

- 3.1 All high and medium priority actions agreed with management as part of individual audit reviews are subject to action tracking. As at the end of quarter 3, 97% of high priority actions due had been implemented within agreed timescales.

- 3.2 Implementation of high and medium priority agreed audit actions (based on a 12 month rolling period):

Period to:	High & Medium Priority Agreed Actions Due	Not implemented	Implemented	% Implemented
31/12/18	35	1	34	97%

- 3.3 Internal Audit will continue to work with senior management to ensure that sufficient attention is given to actions that remain overdue and an update on progress will continue to be reported to this committee.

3.4 Details of outstanding priority agreed action:

Audit / Agreed Action	Directorate	Due Date	Revised Date	Progress to date
<p>Medium Priority <i>Creditors:</i></p> <p>Purchase Orders raised as a percentage of invoices received:</p> <p>A target of 60% has been re-introduced for 2017/18 and will be reported within the performance indicators to the Finance and Performance Committee on a quarterly basis.</p>	<p>Corporate Resources</p>	<p>31/12/17</p>	<p>31/03/19</p>	<p><u>March 2019 Management Update:</u></p> <p>This has not been addressed as other areas of work within Finance have taken a higher priority (for example, Green Waste income collection, the automation of revenue and capital accounting, and accounts receivable).</p> <p>The current process of using Purchase Orders is cumbersome and inefficient. It does not encourage users to do this, especially for 'multiple' deliveries. This needs a lot of time spending to redesign.</p> <p>The Finance team is also planning to review the functionality within AP for intelligent processing software once other priority closedown and accounts work has completed.</p>

4. Amendments to the Audit Plan

4.1 In accordance with proper professional practice, the internal audit plan for the year remains under regular review to ensure that the service continues to focus its resources in the highest priority areas based on an assessment of risk. Through discussions with management, the following reviews have been added to the audit plan during the year:

- Housing Benefits Subsidy – Lessons Learnt
- Review of bomb / lockdown procedures for Parkside and buildings owned by Horsham D.C.
- Input to the review of the Council’s Constitution
- Review of Housing Company Business Case
- Review of Information Security Policy Suite
- Advice and data analytics work to support the implementation of the new Technology One HR system

4.2 Through the same process, the following audits have been removed or deferred from the audit plan and, where appropriate, will be considered for inclusion in the 2019/20 plan as part of the overall risk assessment completed during the annual audit planning process:

- Contracts - Procurement (as reported in October).
- ICT Service Desk (as reported in December)
- General Data Protection Regulations (GDPR) – postponed until May 2019 following the resignation of the Information Governance Officer.

5. Internal Audit Performance

5.1 In addition to the annual assessment of internal audit effectiveness against Public Sector Internal Audit Standards (PSIAS), the performance of the service is monitored on an ongoing basis against a set up agreed key performance indicators as set out in the following table:

Aspect of Service	Orbis IA KPI	Target	RAG score	Actual Performance
Quality	Annual Audit Plan agreed by Audit Committee	By end April	G	Approved by Audit Committee on 11 April 2018
	Annual Audit Report and Opinion	By end July	G	2017/18 report approved by Committee on 12/07/18
	Customer Satisfaction levels	90% satisfied	G	100%
Productivity and process efficiency	Audit Plan – completion to draft report stage	90%	G	78% completed to draft report stage by end of Q3 (against a Q3 target of 67.5%)
Compliance with professional standards	Public Sector Internal Audit Standards complied with	Conforms	G	January 2018 - External assessment by the South West Audit Partnership gave an opinion of 'Generally Conforms' – the highest of three possible rankings
	Relevant legislation such as the Police And Criminal Evidence Act, Criminal Procedures and Investigations Act	Conforms	G	No evidence of non-compliance identified
Outcome and degree of influence	Implementation of management actions agreed in response to audit findings	95% for high & Medium priority agreed actions	G	97%
Our staff	Professionally qualified / accredited	80%	G	85% ²

² Includes part-qualified staff

Audit Opinions and Definitions

Opinion	Definition
Substantial Assurance	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Reasonable Assurance	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Partial Assurance	There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.
Minimal Assurance	Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.

Report to Audit Committee

10th April 2019

By the Horsham Chief Internal Auditor (Orbis)



INFORMATION REPORT

Not Exempt

Internal Audit Strategy 2019/20 and Annual Plan

Executive Summary

The purpose of this report is to present the Council's Internal Audit Strategy 2019/20 and Annual Plan.

Recommendations

The Committee is recommended to:

- i) To approve the Council's Internal Audit Strategy 2019/20 and Annual Plan.

Reasons for Recommendations

- i) To comply with the requirements set out in the Public Sector Internal Audit Standards 2013 (amended April 2017).
- ii) The Audit Committee is responsible for reviewing the effectiveness of the Council's system of internal control.

Background Papers

Corporate Plan; Risk Registers; Horizon Scanning documents; and supporting audit working papers.

Wards affected: All.

Contact: Paul Miller, Horsham Chief Internal Auditor, 01403-215319

Background Information

1 Introduction and Background

- 1.1 The Council's Internal Audit Strategy 2019/20 and Annual Plan (Annexe A) sets out how the Council will meet its statutory requirements for internal audit, as defined within the Accounts and Audit Regulations 2015. The Strategy proposes an approach based on focusing audit resources in those areas where the highest risk to the achievement of the Council's objectives lies. These areas have been identified and prioritised based on the Council's own risk assessment processes (including corporate and departmental risk registers) and following consultation with senior officers and Members.

2 Relevant Policy / Professional Standards

- 2.1 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.
- 2.2 Internal Audit is conducted in accordance with the Council's Constitution. Financial Procedure Rule 4e 27 states that: "the Chief Finance Officer, as determined by the Council, will ensure that the Council has appropriate arrangements in place to maintain an adequate and effective internal audit". The terms of reference for Internal Audit are detailed in the Council's Internal Audit Charter which is reviewed and approved by the Audit Committee.

3 Next Steps

- 3.1 The Committee will be kept informed about progress in terms of the audit plan.

4 Outcome of Consultations

- 4.1 As with the previous year, we have sought to focus our audit and assurance activity on supporting the delivery of the Council's four overarching priority outcomes, namely:
- Support our Communities;
 - Improve and Support the Local Economy;
 - Great Value Services; and
 - Manage our Natural and Built Environment.

5 Other Courses of Action Considered but Rejected

- 5.1 Not applicable.

6 Resource Consequences

- 6.1 This report summarises information about the work that will be undertaken by Orbis Internal Audit on behalf of Horsham District Council, and therefore there are no direct financial or HR consequences.

7 Legal Consequences

7.1 There are no legal consequences.

8 Risk Assessment

8.1 The audit plan is a risk-based plan.

9 Other Considerations

9.1 Internal Audit is a reporting function and there are no consequences in respect of Crime & Disorder; Human Rights; Equality & Diversity; or Sustainability. However these areas are considered where appropriate during audit fieldwork.

This page is intentionally left blank

Horsham District Council

Internal Audit Strategy and Annual Audit Plan 2019-2020

1. Role of Internal Audit

1.1 The full role and scope of the Council's Internal Audit Service is set out within the Internal Audit Charter and Terms of Reference, the latest version of which is attached to this Strategy as Appendix B.

1.2 The mission of Internal Audit, as defined by the Chartered Institute of Internal Auditors (CIIA), is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight. Internal Audit is defined as *"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."*

2. Risk Assessment and Audit Planning

2.1 Horsham District Council's Internal Audit Strategy and Annual Audit Plan is updated annually and is based on a number of factors, especially management's assessment of risk (including that set out within the departmental and corporate risk registers) and our own risk assessment of the Council's major systems and other auditable areas. This allows us to prioritise those areas to be included within the audit plan on the basis of risk.

2.2 The update of the annual plan for 2019/20 has involved extensive consultation with a range of stakeholders, to ensure that their views on risks and current issues, within individual directorates and corporately, are identified and considered. In order to ensure that the most effective use is made of available resources, to avoid duplication and to minimise service disruption, efforts continue to be made to identify, and where possible, rely upon, other sources of assurance available. The following diagram sets out the various sources of information used to inform our 2019/20 audit planning process:



2.3 In producing the audit plan (which is set out in Appendix A to this report) the following key principles continue to be applied:

- All key financial systems are subject to a cyclical programme of audits covering, as a minimum, compliance against key controls;
- Previous reviews which resulted in ‘minimal assurance’ audit opinions will be subject to a specific follow-up review to assess the effective implementation by management of agreed recommendations. This will also include a number of previous reviews with a ‘partial assurance’ opinion where deemed necessary or where the area under review is considered to be of a higher risk nature.

2.4 In addition, formal action tracking arrangements are in place to monitor the implementation by management of all individual high and medium risk agreed actions, with the results of this work reported to the Audit Committee on a quarterly basis.

2.5 With effect from 1 April 2018, internal audit services to Horsham District Council have been delivered through Orbis Internal Audit, a partnership between Surrey County Council, East Sussex County Council and Brighton and Hove City Council. Orbis provides the Council with greater resilience as well as access to a far wider range of skills and experience, including specialist ICT audit and counter fraud resources.

3. Key Issues

3.1 In times of significant transformation, organisations must both manage change effectively and ensure that core controls remain in place. In order to respond to the continued reduction in financial resources and the increased demand for services, the Council needs to consider changes to its service offer in many areas.

3.2 Internal Audit must therefore be in a position to give an opinion and assurance that covers the control environment in relation to both existing systems and these new developments. It is also essential that this work is undertaken in a flexible and supportive manner, in conjunction with management, to ensure that both risks and opportunities are properly considered. During 2019/20, a number of major organisational and new system initiatives are featured within the audit plan, with the intention that Internal Audit is able to provide proactive advice, support and assurance as these programmes progress. These include:

- Formation of a new Housing Company
- Year of Culture
- Implementation of a new HR System

3.3 In recognition that in some cases, sufficient information regarding the full extent of future changes and associated risks may not yet be known, the 2019/20 audit plan includes a proportion of time classified as ‘Emerging Risks’. This approach has been adopted to enable Internal Audit to react appropriately throughout the year as new risks materialise and to ensure that expertise in governance, risk and internal control can be utilised early in the change process.

3.4 In view of the above, Internal Audit will continue to work closely with senior management and Members throughout the year to identify any new risks and to agree how and where audit resources can be utilised to best effect.

3.5 Other priority areas identified for inclusion within the audit plan include:

- Homelessness Reduction Act 2017
- Repairs and Maintenance Contract (Procurement)
- Capital Programme
- Emergency Planning
- Data Backup and Recovery

3.6 The results of all audit work undertaken will be summarised within quarterly update reports along with any common themes and findings arising from our work.

4. Counter Fraud

4.1 Managing the risk of fraud and corruption is the responsibility of management. Internal Audit will, however, be alert in all its work to risks and exposures that could allow fraud or corruption and will investigate allegations of fraud and corruption in line with the Council's Anti-Fraud and Corruption Strategy.

4.2 The Chief Internal Auditor should be informed of all suspected or detected fraud, corruption or irregularity in order to consider the adequacy of the relevant controls and evaluate the implication for their opinion on the control environment.

4.3 In addition, Internal Audit will promote an anti-fraud and corruption culture within the Council to aid the prevention and detection of fraud. Through the work of the Counter Fraud Team, Internal Audit will maintain a fraud risk assessment and deliver a programme of proactive and reactive counter fraud services to help ensure that the Council continues to protect its services from fraud loss.

5. Matching Audit Needs to Resources

5.1 The overall aim of the Internal Audit Strategy is to allocate available internal audit resources so as to focus on the highest risk areas and to enable an annual opinion to be given on the adequacy and effectiveness of the Council's framework of governance, risk management and control.

5.2 Internal audit activities will be delivered by a range of staff from across the Orbis Internal Audit Service, maximising the value from a wide range of skills and experience available. In the small number of instances where sufficient expertise is not available from within the team, mainly in highly technical areas, externally provided specialist resources will continue to be utilised.

5.3 The following table summarises the level of audit resources expected to be available for Horsham District Council in 2019/20 (expressed in days), compared to the equivalent number of planned days in previous years. Whilst the overall level of resource was reduced for 2018/19, as part of the Internal Audit contribution towards planned organisational savings, it is still considered to be sufficient to allow Internal Audit to deliver its risk based plan in accordance with professional

¹standards and to enable the Chief Internal Auditor to provide his annual audit opinion. It should also be noted that the impacts of the previous year's reduction in resources have been mitigated as far as possible through resilience offered from the Orbis partnership.

Table 1: Annual Internal Audit Plan

	2015/16	2016/17	2017/18	2018/19	2019/20
Plan Days	598	600	492	400	400

6. Audit Approach

6.1 The approach of Internal Audit is to use risk based reviews, supplemented in some areas by the use of compliance audits and themed reviews. All audits have regard to management's arrangements for:

- 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.

6.2 In addition to these audits, and the advice on controls given on specific development areas which are separately identified within the plan, there are a number of generic areas where demands upon Internal Audit cannot be planned in advance. For this reason, time is built into the plan to cover the following:

- Contingency – an allowance of days to provide capacity for unplanned work, including special audits and management investigations. This contingency also allows for the completion of work in progress from the 2018/19 plan;
- Advice, Management, Liaison and Planning - an allowance to cover provision of ad hoc advice on risk, audit and control issues, audit planning and annual reporting, ongoing liaison with service management and Members, and audit management time in support of the delivery of all audit work, planned and unplanned.

6.3 In delivering this Strategy, liaison will take place with the Council's external auditors, Ernst & Young, to ensure that the use of audit resources is maximised, duplication of work is avoided, and statutory requirements are met.

7. Training and Development

7.1 The effectiveness of the Internal Audit Service depends significantly on the quality, training and experience of its staff. Training needs of individual staff members are identified through a formal performance and development process and are delivered and monitored through on-going management supervision.

¹ Public Sector Internal Audit Standards (PSIAS)

7.2 The team is also committed to coaching and mentoring its staff, and to providing opportunities for appropriate professional development. This is reflected in the high proportion of staff within Orbis Internal Audit holding a professional internal audit or accountancy qualification, as well as several new members of the team embarking on new apprenticeship training during 2019/20.

8. Quality and Performance

8.1 With effect from 1 April 2013, all of the relevant internal audit standard setting bodies, including CIPFA, adopted a common set of Public Sector Internal Audit Standards (PSIAS). These are based on the Institute of Internal Auditors International Professional Practices Framework and replace the previous Code of Practice for Internal Audit in Local Government.

8.2 Included within the new Standards is the requirement for the organisation to define the terms 'Board' and 'senior management' in the context of audit activity. This has been set out within the Internal Audit Charter, which confirms the Audit Committee's role as the Board.

8.3 The PSIAS require each internal audit service to maintain an ongoing quality assurance and improvement programme based on an annual self-assessment against the Standards, supplemented at least every five years by a full independent external assessment. The outcomes from these assessments, including any improvement actions arising, will be reported to the Audit Committee, usually as part of the annual internal audit report. For clarity, the Standards specify that the following core principles underpin an effective internal audit service:

- Demonstrates integrity;
- Demonstrates competence and due professional care;
- Is objective and free from undue influence (independent);
- Aligns with the strategies, objectives, and risks of the organisation;
- Is appropriately positioned and adequately resourced;
- Demonstrates quality and continuous improvement;
- Communicates effectively;
- Provides risk-based assurance;
- Is insightful, proactive, and future-focused;
- Promotes organisational improvement.

8.4 In addition, the performance of Orbis Internal Audit continues to be measured against key service targets focussing on service quality, productivity and efficiency, compliance with professional standards, influence and our staff. These are all underpinned by appropriate key performance indicators as set out in Table 2 below.

8.5 At a detailed level each audit assignment is monitored and customer feedback sought. There is also ongoing performance appraisals and supervision for all Internal Audit staff during the year to support them in achieving their personal targets.

8.6 In addition to the individual reports to management for each audit assignment, reports on key audit findings and the delivery of the audit plan are made to the Audit Committee on a quarterly basis. An Annual Internal Audit Opinion is also produced each year.

8.7 Whilst Orbis Internal Audit liaises closely with other internal audit services through the Sussex and Surrey audit and counter fraud groups, the Home Counties Chief Internal Auditors' Group and the County and Local Authority's Chief Auditors' Network, we are continuing to develop joint working arrangements with other local authority audit teams to help improve resilience and make better use of our collective resources.

Table 2: Performance Indicators

Aspect of Service	Orbis IA Performance Indicators	Target
Quality	<ul style="list-style-type: none"> Annual Audit Plan agreed by Audit Committee Annual Audit Report and Opinion Satisfaction levels 	<p>By end of April</p> <p>To inform AGS 90% satisfied</p>
Productivity and Process Efficiency	<ul style="list-style-type: none"> Audit Plan – completion to draft report stage by 31 March 2019 	90%
Compliance with Professional Standards	<ul style="list-style-type: none"> Public Sector Internal Audit Standards Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act 	<p>Conforms</p> <p>Conforms</p>
Outcomes and degree of influence	<ul style="list-style-type: none"> Implementation of management actions agreed in response to audit findings 	95% for high and medium priority
Our Staff	<ul style="list-style-type: none"> Professionally Qualified/Accredited 	80%

Paul Miller
Horsham Chief Internal Auditor

This page is intentionally left blank

INTERNAL AUDIT PLAN

2019-20



**Horsham
District
Council**

Planned Audit Reviews

Review Name	Outline Objective
Capital Programme	To review processes and key financial controls across the Council. The review will include capital expenditure monitoring, funding, receipts, borrowing and capital accounting.
Cash & Bank	The main focus of the audit will be to review the bank reconciliation process and sources of income and expenditure.
Accounts Payable	To review the processes and key controls relating to the accounts payable system, including those in place for ensuring the accuracy of vendor details, the processing of invoices, goods receipting and promptness of payments.
Accounts Receivable	To review the processes and key controls relating to the accounts receivable system, including those in place for ensuring the accuracy of customer details, completeness, accuracy and timeliness of invoicing, recording and matching payments to invoices, and debt recovery.
Payroll	To review controls in relation to the staff payment system, including those relating to starters, leavers, temporary and permanent payments, variations of pay, and pre-employment checks.
Technology One Application Controls	This review will evaluate the controls operating within the Council's accounting system. The audit will review all major input, processing and output controls and will review the controls in place to interface with the other key financial systems.
Treasury Management	A review to assess the adequacy of key controls and procedures across the council's Treasury Management arrangements, including cash flow forecasting, segregation of duties, financial investments and use of treasury advisers.
Parking Services	Review of income management of on and off street parking including key reconciliations and income monitoring controls.
Purchase Cards	To review the purchase card process and ensure compliance with management controls. The audit will include a review of how the cards are being used and the appropriateness of spend.

INTERNAL AUDIT PLAN 2019-20



**Horsham
District
Council**

GDPR	GDPR was implemented in May 2018, and is a significant area of risk for the Council. The Information Commissioner has the power to levy considerable fines in the event of (i) a major data breach and (ii) lack of appropriate corporate processes. The objective is to provide assurance that effective controls have been implemented.
HR System	Advice and support on controls associated with the new Technology One HR system.
Data Backup & Recovery	The objective of the review is to evaluate the arrangements for backing up and recovering the data of critical systems, ensuring arrangements are fit for purpose, subject to regular testing and that all data is stored securely and in accordance with Data Protection principles.
Asset Management (ICT Equipment)	This audit will review the arrangements for tagging, locating and making the best use of assets including laptops, desktops, tablets, mobile phones & network infrastructure, ensuring they are robustly disposed of at the end of their usable life.
Server Room	This audit will review the physical, security and environmental controls in place for the Server Room.
Housing Company	To review the Governance arrangements, ensuring that the companies are set up in accordance with external legal advice.
Year of Culture	To review the project governance and financial control arrangements for the project. The review will include budgetary control, external funding and sponsorship.
Governance / Cultural Compliance (Hop Oast Depot)	Culture and ethical behaviour are an important aspect of the Council's control environment. The audit will include a review of roles and responsibilities, standards, awareness, and compliance with corporate control requirements.
Homelessness Reduction Act 2017	To review the new ways of working that have resulted from the Homelessness Reduction Act 2017, ensuring that the Council is complying with the new provisions.
Emergency Planning	To review the work undertaken by the emergency planning team, including civil contingency arrangements and counter-terrorism.
Contract Management - Supplier Resilience	To review the extent to which the organisation understands the risks associated with its critical contracts, and ensure that appropriate controls are in place.

INTERNAL AUDIT PLAN 2019-20



**Horsham
District
Council**

Governance / Cultural Compliance (Property)	Culture and ethical behaviour are an important aspect of the Council's control environment. The audit will include a review of roles and responsibilities, standards, awareness, and compliance with corporate control requirements.
Fire Safety (Follow up)	A follow-up review of the Fire Safety audit that was completed in 2018/19.
Print Procurement	To review the process for procuring external print work ensuring that proper governance controls are in place to prevent favouritism towards any particular supplier.
Anti-Fraud and Corruption	To cover the investigation of fraud and irregularities, as well as proactive work, including the National Fraud Initiative (NFI) data matching exercise.

Internal Audit Service Management and Delivery

Review Name	Outline Objective
Action Tracking	Ongoing action tracking and reporting of agreed medium and high priority actions.
Annual Internal Audit Report and Opinion	Creation of Annual Report and Opinion.
Audit and Fraud Management	Overall management of all audit and counter fraud activity, including work allocation, work scheduling and Orbis Audit Manager meetings.
Audit and Fraud Reporting	Production of periodic reports to management and the Audit Committee covering the results of all audit and anti-fraud activity.
Audit Committee and other Member Support	Ongoing liaison with Members on internal audit matters and attending Audit Committee meetings and associated pre-meetings as appropriate.
Client Service Liaison	Liaison with clients and departmental management teams throughout the year.
Client Support and Advice	Ad hoc advice, guidance and support on risk, internal control and governance matters provided to clients and services throughout the year.
External Liaison	Liaison with external auditors and other external bodies, including attendance at regional and national audit groups and counter fraud hubs.

**INTERNAL AUDIT PLAN
2019-20**



**Horsham
District
Council**

Organisational Management Support	Corporate Governance Group; Project Review Group; Risk Management; and Horsham Management meetings (e.g. Departmental Team Meetings; Manager's Forums; Conferences).
Strategy and Annual Audit Planning	Development and production of the Internal Audit Strategy and Annual Audit Plan, including consultation with management and Members.

INTERNAL AUDIT CHARTER

1. Introduction

This Charter describes for the Council the purpose, authority and responsibilities of the Internal Audit function in accordance with the UK Public Sector Internal Audit Standards (PSIAS).

The PSIAS require that the Charter must be reviewed periodically and presented to “senior management” and “the board” for approval. For the purposes of this charter “senior management” will be the Senior Leadership Team and the board will be the Audit Committee.

The Charter shall be reviewed annually and approved by the Senior Leadership Team and the Audit Committee. The Chief Internal Auditor for Horsham is responsible for applying this Charter and keeping it up to date.

2. Internal Audit Purpose

The mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Internal Audit is defined in the PSIAS as “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.”

Internal Audit supports the whole Council to deliver economic, efficient and effective services and achieve the Council’s vision, priorities and values.

3. Statutory Requirement

Internal Audit is a statutory service in the context of the Accounts and Audit Regulations 2015, which require every local authority to maintain an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account public sector internal auditing standards or guidance.

These regulations require any officer or Member of the Council to

- make available such documents and records; and

- supply such information and explanations;

as are considered necessary by those conducting the audit.

This statutory role is recognised and endorsed within the Council's Financial Procedure Rules.

In addition, the Council's S151 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 financial affairs. To perform that duty the Section 151 Officer relies, amongst other things, upon the work of Internal Audit in reviewing the operation of systems of internal control and financial management.

4. Internal Audit Responsibilities and Scope

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

Internal Audit is not responsible for control systems. Responsibility for effective internal control and risk management rests with the management of the Council.

Internal Audit activity must be free from interference in determining the scope of activity, performing work and communicating results.

The scope of Internal Audit includes the entire control environment and therefore all of the Council's operations, resources, services and responsibilities in relation to other bodies. In order to identify audit coverage, activities are prioritised based on risk, using a combination of Internal Audit and management risk assessment (as set out within Council risk registers). Extensive consultation also takes place with key stakeholders and horizon scanning is undertaken to ensure audit activity is proactive and future focussed.

Internal audit activity will include an evaluation of the effectiveness of the organisation's risk management arrangements and risk exposures relating to:

- Achievement of the organisation's strategic objectives;
- Reliability and integrity of financial and operational information;
- Efficiency and effectiveness of operations and activities;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts

5. Independence

Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgements and recommendations. Internal auditors should have no operational responsibilities.

Internal Audit is involved in the determination of its priorities in consultation with those charged with governance. The Chief Internal Auditor has direct access to, and freedom to report in their own name and without fear of favour to, all officers and Members and particularly those charged with governance.

All Internal Audit staff are required to make an annual declaration of interest to ensure that objectivity is not impaired and that any potential conflicts of interest are appropriately managed.

6. Reporting Lines

Regardless of line management arrangements, the Chief Internal Auditor has free and unfettered access to report to the S151 Officer; the Monitoring Officer; the Chief Executive; the Audit Committee Chairman; the Leader of the Council and the Council's External Auditor.

The Audit Committee will receive reports on a periodic basis – as agreed with the Chairman of the Audit Committee – on the results of audit activity and details of Internal Audit performance including progress on delivering the audit plan.

7. Fraud & Corruption

Managing the risk of fraud and corruption is the responsibility of management. Internal Audit will however be alert in all its work to risks and exposures that could allow fraud or corruption and will investigate allegations of fraud and corruption in line with the Council's Anti Fraud and Corruption Strategy.

The Chief Internal Auditor should be informed of all suspected or detected fraud, corruption or irregularity in order to consider the adequacy of the relevant controls and evaluate the implication for their opinion on the control environment.

Internal Audit will promote an anti-fraud and corruption culture within the Council to aid the prevention and detection of fraud.

8. Consultancy Work

Internal Audit may also provide consultancy services, generally advisory in nature, at the request of the organisation. In such circumstances, appropriate arrangements will be put in place to safeguard

the independence of Internal Audit and, where this work is not already included within the approved audit plan and may affect the level of assurance work undertaken; this will be reported to the Audit Committee.

In order to help services to develop greater understanding of audit work and have a point of contact in relation to any support they may need, Internal Audit has put in place a set of service liaison arrangements that provide a specific named contact for each service; and, regular liaison meetings. The arrangements also enable Internal Audit to keep in touch with key developments within services that may impact on its work.

9. Resources

The work of Internal Audit is driven by the annual Internal Audit Plan, which is approved each year by the Audit Committee. The Chief Internal Auditor is responsible for ensuring that Internal Audit resources are sufficient to meet its responsibilities and achieve its objectives.

Internal Audit must be appropriately staffed in terms of numbers, grades, qualifications and experience, having regard to its objectives and to professional standards. Internal Auditors need to be properly trained to fulfil their responsibilities and should maintain their professional competence through an appropriate ongoing development programme.

The Chief Internal Auditor is responsible for appointing Internal Audit staff and will ensure that appointments are made in order to achieve the appropriate mix of qualifications, experience and audit skills. The Chief Internal Auditor may engage the use of external resources where it is considered appropriate, including the use of specialist providers.

10. Due Professional Care

The work of Internal Audit will be performed with due professional care and in accordance with the UK Public Sector Internal Audit Standards (PSIAS), the Accounts and Audit Regulations (2015) and with any other relevant statutory obligations and regulations.

In carrying out their work, Internal Auditors must exercise due professional care by considering:

- (i) The extent of work needed to achieve the required objectives;
- (ii) The relative complexity, materiality or significance of matters to which assurance procedures should be applied; and
- (iii) The adequacy and effectiveness of governance, risk management and control processes;
- (iv) The probability of significant errors, fraud or non-compliance; and
- (v) The cost of assurance in proportion to the potential benefits.

Internal Auditors will also have due regard to the Seven Principles of Public Life – Selflessness; Integrity, Objectivity; Accountability; Openness; Honesty; and Leadership.

11. Quality Assurance

The Chief Internal Auditor will control the work of Internal Audit at each level of operation to ensure that a continuously effective level of performance – compliant with the PSIAS is maintained.

A Quality Assurance Improvement Programme (QAIP) is in place which is designed to provide reasonable assurance to its key stakeholders that Internal Audit:

- Performs its work in accordance with its charter
- Operates in an effective and efficient manner; and,
- Is adding value and continually improving the service that it provides

The QAIP requires an annual review of the effectiveness of the system of Internal Audit to be conducted. Instances of non-conformance with the PSIAS, including the impact of any such non-conformance, must be disclosed to the Audit Committee. Any significant deviations must be considered for inclusion in the council's Annual Governance Statement.

February 2018

This page is intentionally left blank