



To receive the report of the Chief Internal Auditor.

8. **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 JULY 2018**

Present: Councillors: Brian Donnelly, Paul Marshall, Godfrey Newman and Stuart Ritchie

Apologies: Councillors: John Chidlow, Paul Clarke and Tim Lloyd

Also Present: Paul King, Audit Director, Ernst & Young

AAG/1 **ELECTION OF CHAIRMAN**

RESOLVED

That Councillor Stuart Ritchie be elected Chairman of the Committee for the current Council year.

AAG/2 **APPOINTMENT OF VICE-CHAIRMAN**

RESOLVED

That Councillor Paul Marshall be appointed Vice-Chairman of the Committee for the current Council year.

AAG/3 **TO APPROVE THE TIME OF MEETINGS OF THE COMMITTEE FOR THE ENSUING YEAR**

RESOLVED

That meetings of the Committee be held at 5.30pm for the ensuing Council year.

AAG/4 **MINUTES**

The minutes of the meeting held on 11<sup>th</sup> April 2018 were approved as a correct record and signed by the Chairman.

AAG/5 **DECLARATIONS OF MEMBERS' INTERESTS**

There were no declarations of interest.

AAG/6 **ANNOUNCEMENTS**

The Chairman welcomed the Chief Executive to the meeting and announced that they would attend at least one Audit Committee meeting each year.

The Chairman would hold discussions with the Director of Corporate Resources relating to the business load of the committee relating to the number of committee meetings held per year.

AAG/7 **AUDIT RESULTS REPORT**

The external auditor presented the audit results report which proposed an unqualified opinion on the 2017/18 statement of accounts. The auditor was also satisfied that the Council has in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

AAG/8 **LETTER OF REPRESENTATION**

The Head of Finance reported that there was a change in the letter of representation as a late unadjusted misstatement was identified by the external auditor that was just above the reporting threshold.

Section A Financial Statement and Financial Records, paragraph 5 in the letter of representations was amended to reflect this, and stated:

We believe that the effects of the unadjusted audit difference, shown in the accompanying schedule, accumulated during the current audit and pertaining to the latest period presented is immaterial, to the financial statements. We have not corrected this difference identified by and brought to the attention from the auditor because it is immaterial and affects a number of places in the financial statements.

RESOLVED

That the letter and appendix of unadjusted misstatements be agreed by the Audit Committee and signed by the Director of Corporate Resources and the Chairman of the Audit Committee.

AAG/9 **ANNUAL GOVERNANCE STATEMENT 2017/18**

The Director of Corporate Resources reported that 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 2017/18.

RESOLVED

That the Annual Governance Statement for 2017/18 be approved.

REASON

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

AAG/10 **STATEMENT OF ACCOUNTS 2017/18**

The audit identified five amendments in the draft financial statements which had been adjusted in the Statement of Accounts 2017/18.

The number of amendments was slightly higher than previous years, but not significant in number in the context of a new financial system during the year and being without a systems accountant for key periods. The Finance team had also reduced in size.

Members' attention was drawn to the deficit on provision of services, however, it was noted that this is being addressed through the MTFS.

A surplus was recorded for the revaluation of Property, Plant and Equipment assets as well as actuarial gains on pensions assets while a small deficit was recorded for revaluation of financial assets.

The Chairman thanked the Finance team for their hard work and efforts in producing the statement of accounts to the earlier deadline.

RESOLVED

That the Statement of Accounts 2017/18 be approved.

REASONS

- i) It is a requirement of the Accounts and Audit (England) Regulations 2017 that the Statement of Accounts are Approved by 31 July 2018.
- ii) The external auditors plan to issue an unqualified audit opinion on the Statement of Accounts for 2017/18.

AAG/11 **TREASURY MANAGEMENT ACTIVITY AND PRUDENTIAL INDICATORS 2017/18**

The Group Accountant (Technical) reported that the overall balance of investments had reduced compared to last year due to expenditure on the large capital programme.

All indicators set were met except one breach of a bank deposit limit overnight during the year.

Pooled funds were contributing a large amount of income. The capital values of the pooled funds were fluctuating due to their volatility however the Council would not be cashing in these pooled funds in the near future.

Property investments would be included in the next set of indicators. Members commented on the additions in the Property Investment Fund and re-enforced the importance of investing in property locally in the district.

RESOLVED

That the Committee noted the following:

- i) The Treasury Management stewardship report for 2017/18
- ii) The actual prudential indicators for 2017/18

REASONS

- i) The annual treasury report is a requirement of the Council's reporting procedures.
- ii) This report also covers the actual prudential indicators for 2017/18 in accordance with the requirements of the relevant CIPFA codes of practice.

AAG/12 **RISK MANAGEMENT - QUARTERLY UPDATE**

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

It was reported that the only major (red) risk is around funding from central government.

One emerging risk was reported that WSCC would be undertaking electrical system maintenance to the Council offices later in the year that would need the power to the building turned off.

RESOLVED

That the report be noted.

REASON

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

AAG/13 **ANNUAL INTERNAL AUDIT REPORT AND OPINION**

The Chief Internal Auditor presented his annual report to Members for noting.

Five audits had been completed since the last meeting of the committee.

One audit received an opinion of substantial assurance, three had reasonable assurance and one had partial assurance. The partial assurance opinion related to the annual audit of payroll, and the new Payroll Controller had already implemented many of the agreed actions.

Internal Audit is required to conform to the Public Sector Internal Audit Standards, which includes being externally assessed every five years. An independent external assessment had recently been completed and the highest level of conformance was achieved.

The performance of internal audit had been compared against audit performance indicators with all targets being exceeded.

The Chief Internal Auditor gave an overall opinion of Satisfactory in terms of the Council's overall control environment, governance processes and risk management systems.

#### RESOLVED

- i) That the summary of audit and project work undertaken since March 2018 be noted
- ii) That the statement of compliance with the Public Sector Internal Audit Standards be noted
- iii) That the performance of internal audit against performance targets be noted
- iv) That the opinion of the Chief Internal Auditor on the overall adequacy and effectiveness of the Council's internal control environment, governance and risk management systems be noted

#### REASONS

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

#### AAG/14 **INDEPENDENT EXTERNAL ASSESSMENT OF INTERNAL AUDIT**

The Chief Internal Auditor presented the independent external assessment of internal audit to the committee.

The internal audit service was assessed against 45 points outlined in the report and was found to be in General Conformance with all but three.

For these three points the review team found the internal audit service was in Partial Conformance and none were significant enough to affect their overall opinion. Recommendations had been made in the report to address these areas for improvement.

RESOLVED

That the report be noted.

AAG/15 **URGENT BUSINESS**

There was no urgent business.

AAG/16 **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 items of business on the grounds that they involve 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/17 **INTERNAL AUDIT - QUARTERLY UPDATE ON AUDIT FOLLOW-UPS**

The Chief Internal Auditor summarised the progress on the implementation of agreed actions since April 2018.

RESOLVED

- i) That the progress in terms of agreed actions implemented since April 2018 be noted.
- ii) That any areas of particular concern highlighted by the Chief Internal Auditor be noted.

REASON

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

*The meeting closed at 6.45 pm having commenced at 5.30 pm*

CHAIRMAN

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# Horsham District Council

Annual Audit Letter for the year  
ended 31 March 2018

August 2018

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The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

Building a better  
working world

Agenda Item 5

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Audit Fees



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psa.co.uk](http://www.psa.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 23 February 2017)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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



01

# Executive Summary



# Executive Summary

We are required to issue an annual audit letter to Horsham District Council following completion of our audit procedures for the year ended 31 March 2018. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
<b>Opinion on the Council's</b>	Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2018 and of its expenditure and income for the year then ended
▶ Financial statements	
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
<b>Concluding on the Council's arrangements for securing economy, efficiency and effectiveness</b>	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

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Area of Work	Conclusion
<b>Reports by exception:</b>	
▶ Consistency of Annual Governance Statement	The Annual Governance Statement was consistent with our understanding of the Council.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
<b>Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).</b>	The Council is below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the consolidation pack.



## Executive Summary (cont'd)

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As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 12 July 2018.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 12 July 2018.

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In December 2018 will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

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Paul King

Associate Partner

For and on behalf of Ernst & Young LLP



# 02

# Purpose and Responsibilities

# Purpose and Responsibilities

## The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2017/18 Audit Results Report to the 12 July 2018 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

## Responsibilities of the Appointed Auditor

Our 2017/18 audit work has been undertaken in accordance with the Audit Plan that we issued on 31 January 2018 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

Expressing an opinion:

- ▶ On the 2017/18 financial statements, and
  - ▶ On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
    - ▶ If the Annual Governance Statement is misleading or not consistent with our understanding of the Council;
    - ▶ Any significant matters that are in the public interest;
    - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
    - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Council is below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the return.

## Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



**03**

**Financial Statement Audit**

## Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health. We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 12 July 2018. Our detailed findings were reported to the July 2018 Audit Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p data-bbox="91 734 145 893" style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 19</p> <p data-bbox="91 799 929 831"><b>Misstatements due to fraud or error</b></p> <p data-bbox="91 863 929 927">The financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p data-bbox="91 943 929 1080">As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p data-bbox="936 799 2148 863">Our audit work found no evidence that management had attempted to override internal controls. This conclusion is based on detailed testing of accounting entries susceptible to potential manipulation</p>



# Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Risk	Conclusion
<p><b>New financial management system</b></p> <p>The Council introduced its new Technology One financial management system with effect from 4 September 2017. It put in place measures to migrate data from the old to the new system.</p> <p>To ensure the Council prepares materially accurate and complete 2017/18 financial statements it is essential that the Council is assured that it has migrated all financial data to its new system.</p>	<p>Our procedures demonstrated that the migration of transactions and balances was materially correct.</p>
<p><b>Valuation of Land and Buildings</b></p> <p>The value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make significant judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p>	<p>Our review identified two valuation differences, relating to</p> <ul style="list-style-type: none"> <li>• an investment property where the rent for one of the units had been overstated by the valuer, causing the overall valuation to be overstated by £595,000.</li> <li>• Two car parks, where the income for both car parks was combined in error in the communication to the valuer and the second car park has been omitted entirely, the impact was to reduce the value of one car park by £64,000 and include a new car park at a value of £736,000.</li> </ul>
<p><b>Pension asset valuation</b></p> <p>The Council is required to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by West Sussex County Council.</p> <p>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. We are required to undertake procedures on the assumptions of the actuary.</p>	<p>The actuary uses the Fund value as at 31 December and estimates how Fund performance will affect the values as at 31 March. The Fund performance was significantly higher than the benchmark in Quarter 4 and this caused the difference between the actuary's estimation and the actual Fund value to be significant for 2017/18. The Council requested the actuary to re-issue their IAS 19 report, using the actual Fund value at 31 March 2018 and amended their financial statements to reflect the revised report. The effect of this was to increase the pension asset on the Balance Sheet by a further £2.5 million to £10.3 million.</p> <p>We are satisfied that the required IAS 19 disclosures have been reflected in the financial statements and are based on accurate supporting information.</p>
<p><b>Earlier deadline for production of the financial statements</b></p> <p>The timetable for the preparation and approval of accounts has been brought forward with draft accounts needing to be prepared by 31 May (one month earlier than in previous years) and the publication of the accounts by 31 July (two months earlier than in previous years).</p>	<p>The risk did not crystallise and we issued the audit opinion in advance of the 31 July deadline.</p>

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

## Financial Statement Audit (cont'd)

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### Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £1.6 million which is 2% of gross revenue expenditure in the accounts of £81.7 million We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £81,000.

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

Remuneration disclosures including any severance payments, exit packages and termination benefits: We selected judgemental samples to test the accuracy of these disclosures. We reviewed the disclosure for completeness on the basis of knowledge gained elsewhere in the audit.

Related party transactions: We reviewed declarations of interest from members to determine whether the disclosures are materially complete and accurate.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

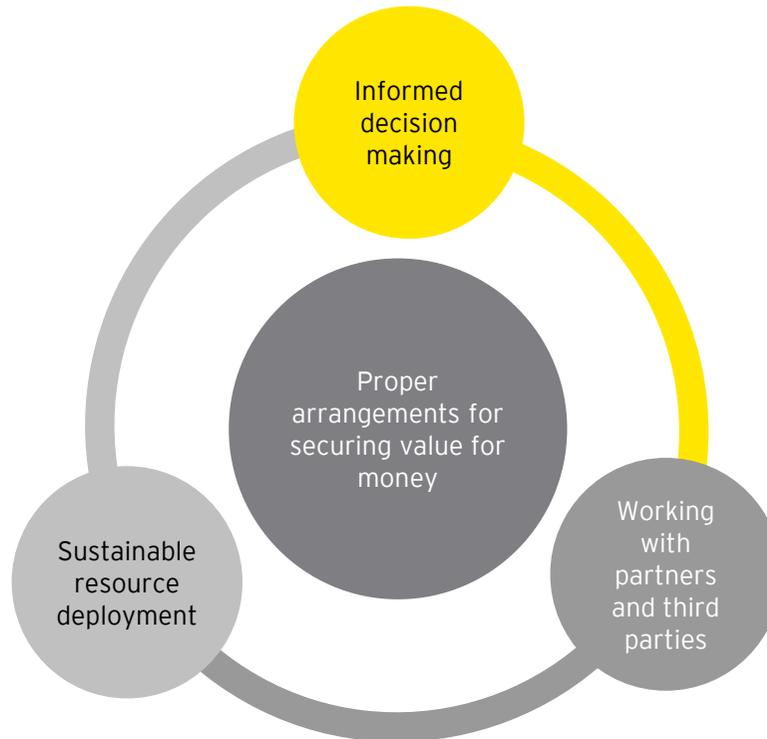


# 04 Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- ▶ Take informed decisions;
- ▶ Deploy resources in a sustainable manner; and
- ▶ Work with partners and other third parties.



We identified two significant risks in relation to these arrangements. The table below present the findings of our work in response to the risks identified and any other significant weaknesses or issues to bring to your attention.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

## Value for Money (cont'd)

We therefore issued an unqualified value for money conclusion on 12 July 2018.

Significant Risk	Conclusion
<p><b>Medium term financial position</b></p> <p>The current medium term financial plan to 2022 is predicting significant budget gaps in the final two years of £1.7m in 2020/21 and £2.3m in 2021/22 after assuming that income and efficiency actions being worked on are implemented.</p>	<p>We remain satisfied that the MTFS has been prudently updated in the light of the current economic climate and that the assumptions underpinning it remain reasonable. However, there is still significant uncertainty over future funding from Central Government. Therefore, the Council needs to continue to seek out methods to generate savings without impacting on services and retaining a sustainable financial position.</p>
<p><b>Page purchase of the Forum Shopping Centre and car park</b></p> <p>During the year the Council entered into the purchase of the Forum Shopping Centre and car park (the Forum) for some £15m.</p> <p>This is a significant transaction for the Council and requires a significant use of reserves and some external borrowing to manage cashflow.</p> <p>The purchase of the Centre has changed the way in which the Council manages its cashflow, requiring use of short term borrowing.</p>	<p>The Council considered the value for money of the purchase, including the beneficial impact of the purchase of the car park which was leased to the Council, considering the likely future revenue streams from the purchase and the way in which the purchase would fit with the Council's future aims.</p> <p>The Council sought external advice from tax and investment specialists. The Council kept members informed of progress and requested authorisation where necessary and received challenge from members through the process.</p> <p>The Council were able to fund this purchase from short term borrowing (which it has since repaid) and reserves, having taken advice regarding and achieving significantly lower borrowing rates than through the Public Works Loan Board.</p>

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Other matters to report

**The Hop Oast Waste site redevelopment:**

The Council has redeveloped its waste depot at Hop Oast, modernising it and consolidating down from the previous two depots; it will be closing the one at Hurston Lane, Storrington, once the side-loading waste vehicle fleet has been retired in April 2018.

Based on our review of board minutes, project timelines and finance trackers, we have concluded that the project does not indicate that there is a significant risk to our Value for Money Conclusion for 2017/18.

**The Broadbridge Heath Leisure Centre redevelopment:**

The Council has entered into a contract to provide a new leisure centre and associated facilities at Broadbridge Heath.

Based on our review of board minutes, project timelines and finance trackers, we have concluded that the project does not indicate that there is a significant risk to our Value for Money Conclusion for 2017/18.

**Changes to the waste collection:**

The Council has made changes to the operating model for its waste collection and recycling services, and procured a new fleet of vehicles. Principally these changes are a move to Alternate Weekly Collection (AWC) - collecting waste fortnightly rather than weekly as had previously been the case, alternating weeks between waste and recycling collections - and a shift from side-loading waste lorries, to rear-loading.

Based on our review of board minutes, project timelines and finance trackers, we have concluded that the project does not indicate that there is a significant risk to our Value for Money Conclusion for 2017/18.

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05

## Other Reporting Issues



## Other Reporting Issues

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### Whole of Government Accounts

The Council is below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the consolidation pack.

### Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

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### Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

### Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.



## Other Reporting Issues (cont'd)

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### Objections Received

We did not receive any objections to the 2017/18 financial statements from members of the public.

### Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

### Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 12 July 2018. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

### Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

Our audit did not identify any controls issues to bring to the attention of the Audit Committee.



# 06

# Data Analytics



# Use of Data Analytics in the Audit

## Analytics Driven Audit

### Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- ▶ Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2017/18, our use of these analysers in the Council's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

#### Journal Entry Analysis

We obtain downloads of all of the Council's financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

#### Payroll Analysis

We also use our general ledger analyser in our payroll testing. We analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.



07

Focused on your future



## Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
<b>IFRS 9 Financial Instruments</b>	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> <li>▶ How financial assets are classified and measured;</li> <li>▶ How the impairment of financial assets are calculated; and</li> <li>▶ The disclosure requirements for financial assets.</li> </ul> <p>There are transitional arrangements within the standard and the 2018/19 Accounting Code of Practice for Local Authorities has now been issued, providing guidance on the application of IFRS 9. In advance of the Guidance Notes being issued, CIPFA have issued some provisional information providing detail on the impact on local authority accounting of IFRS 9, however the key outstanding issue is whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although the Code has now been issued, providing guidance on the application of the standard, along with other provisional information issued by CIPFA on the approach to adopting IFRS 9, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to:</p> <ul style="list-style-type: none"> <li>▶ Reclassify existing financial instrument assets</li> <li>▶ Re-measure and recalculate potential impairments of those assets; and</li> <li>▶ Prepare additional disclosure notes for material items.</li> </ul>
<b>IFRS 15 Revenue from Contracts with Customers</b>	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"> <li>▶ Leases;</li> <li>▶ Financial instruments;</li> <li>▶ Insurance contracts; and</li> <li>▶ For local authorities; Council Tax and NDR income.</li> </ul> <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <p>Now that the 2018/19 Accounting Code of Practice for Local Authorities has been issued it is becoming clear what the impact on local authority accounting will be. As the vast majority of revenue streams of Local Authorities fall outside the scope of IFRS 15, the impact of this standard is likely to be limited.</p>	<p>As with IFRS 9, some provisional information on the approach to adopting IFRS 15 has been issued by CIPFA in advance of the Guidance Notes. Now that the Code has been issued, initial views have been confirmed; that due to the revenue streams of Local Authorities the impact of this standard is likely to be limited.</p> <p>The standard is far more likely to impact on Local Authority Trading Companies who will have material revenue streams arising from contracts with customers. The Council will need to consider the impact of this on their own group accounts when that trading company is consolidated.</p>



## Focused on your future (cont'd)

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Standard	Issue	Impact
<b>IFRS 16 Leases</b>	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard and although the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.</p>

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# 08 Audit Fees

## Audit Fees

Description	Final Fee 2017/18 £	Planned Fee 2017/18 £	Scale Fee 2017/18 £	Final Fee 2016/17 £
Total Audit Fee - Code work	TBC	50,094	50,094	50,094
Total Audit Fee - Certification of claims and returns	TBC	10,537	13,171	12,383
Total Audit Fee	TBC	60,631	63,265	62,477

We are discussing additional fees with officers in relation to the change in financial management system; the additional value for money areas that we reviewed and our work on the valuation of the Forum, which included the involvement of EY Real Estate as an auditor's expert.

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

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

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ED None

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## Report to Audit Committee

10<sup>th</sup> October 2018

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).

Since the last report two new risks have been added:

CRR28	Systems not fully operational on resumption of power supply forcing need for HDC Disaster Recovery implementation
CRR30	Increase in costs of homelessness, housing services, recycling, transport and anti-social behaviour

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 CRR18	CRR01b	CRR30		
		CRR01c CRR19 CRR25 CRR26 CRR28		
	CRR05	CRR17		

There are two risks which are currently considered to be high, ten 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
CRR30	Increase in costs of homelessness, housing services, recycling, transport and anti-social behaviour

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**

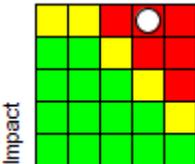
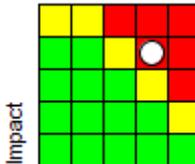
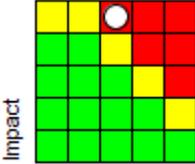
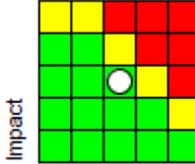
10.1 Risk management encompasses all risks within the organisation, including strategic, operational, and project/change risks. This includes consideration of Crime & Disorder; Human Rights; Equality & Diversity; and Sustainability as appropriate.

# Appendix 1 Corporate Risk Report September 2018

## Risks ordered by RAG not numerically

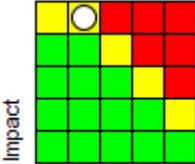
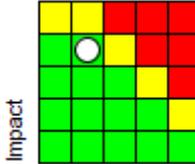
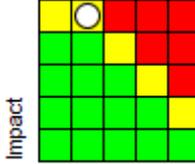
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Assigned & in progress	Completed

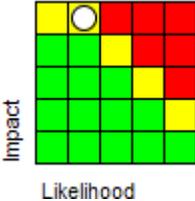
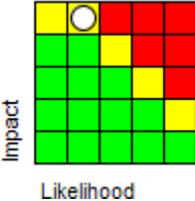
Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
CRR30 Cause: WSCC have proposed some cuts to their budgets on the September 2018 forward plan. Risk: Increase in costs of homelessness, housing services, recycling 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			September 2018 Update:  Ongoing work with groups to minimise and manage risks and fully understand the impact.
				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			September 2018 Update:  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. 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. The February 2018 MTFS forecasts deficits in the region of £1.6m in 2020/21 and £2.3m in 2021/22.  An updated MTFS will be brought back to Members as soon as more is known.

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
<p>CRR01c Financial <u>Cause:</u> The Council is reliant on Central Controlled Government funding (e.g. Business Rates). <u>Risk:</u> (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><u>September 2018 Update:</u></p> <p>There was a £1.16m reduction in Rateable Value on the 2017 list and £2.07m reduction against the 2010 list in 2017/18.</p> <p>On the 2010 list specifically, the resolution of appeals over the GP surgeries has been settled and the removal of the former Novartis site from the 2010 ratings also lost a further significant RV.</p> <p>The 2017 list in 2018/19 has recovered by £290k at M4, but is £860k 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>CRR19 <u>Cause:</u> 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.</p> <p><u>Risk:</u> The impact on the financial 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.</p>	Financial Service Delivery Compliance with Regulations	Jane Eaton		<p>CRR.19.2 Monitor the external environment</p> <p>CRR.19.3 Monitor internal indicators, particularly income generation</p> <p>CRR.19.4 Productivity and commercialisation reviews will provide recommendations going forward. (Programme of reviews to be completed by 30.09.2018)</p>	Dominic Bradley Dominic Bradley Adam Chalmers	▶ ▶ ▶		<p><u>September 2018 update:</u></p> <p>The uncertain economic environment is being continually monitored and changes will be reported in any MTFs update and regular quarterly budget and performance monitoring to Overview and Scrutiny Committee.</p> <p>19.4: Focus of Productivity and Commercialisation reviews have changed to look at specific projects going forward, such as fees and charges.</p>

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
<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: That transfer of Revenues and Benefits service cannot be completed and / or does not go smoothly by 1 April 2018 (extended to November 2018).</p>	Service Delivery Reputation	Jane Eaton		CRR.25.1 Effective project delivery teams at HDC and LGSS	Jane Eaton			<p>September 2018 Update:</p> <p>The sharing of staff resource between Mid Sussex and LGSS ended in July. Horsham's business is now solely staffed by LGSS employees. Difficulties with 3rd party technology suppliers have continued and Horsham and Mid Sussex continue to support each other's technology until the final data transfer. The planned date to complete this is November. This date could be delayed further if any more unexpected complications arise.</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>CRR26 Cause: The combination of the original partnership agreement, the full integration of staff within CenSus Revenues and Benefits and MSDC's approach to aggregation.</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>September 2018 Update:</p> <p>Mid Sussex's request for final payment is now known. Agreement for payment of part of this sum under the original partnership has not yet been reached.</p>
<p>CRR28 Cause: WSCC informed us that there will be a complete shutdown of all power to the whole building on 15/16th September</p> <p>Risk: Systems not fully operational on resumption of power supply forcing need for HDC Disaster Recovery implementation</p>	Financial Service Delivery Health & Safety	Jane Eaton		CRR.28.1 Project Team set up who are monitoring very closely the power shutdown programme	Jane Eaton			<p>September 2018 Update:</p> <p>Shut down took place, systems fully operational on resumption of power supply.</p> <p>Remove risk in October.</p>
				CRR.28.2 All staff made aware and prepared for the weekend works including Emergency Planning Team	Jane Eaton			
				CRR.28.3 Alternative IT arrangements will be put in place at The Capitol	Jane Eaton			

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
CRR01a Financial Cause: The Council is reliant on Central Controlled Government funding (e.g. Business Rates). Risk: (i) Failure to achieve the required level of savings and income in the MTFS to 2019/20	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>September 2018 update:</u> A balanced budget with a £0.5m surplus for 2018/19 was approved by Council on 21 February 2018. This incorporated many of the efficiency and additional income plans worked on during the year. The MTFS was also updated which forecasts a small surplus in 2019/20 on the expectation that central funding from the government's four year settlement is delivered and that the proposed plans to deliver further efficiencies and income are implemented. Ideas are being worked through to identify areas where further income and efficiencies can be generated. This is being done across a number of work streams. 01.5: Focus of Productivity & Commercialisation reviews have changed to look at specific projects going forward, such as fees and charges. To be revisited at November review of MTFS.
				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			
				CRR.01.5 Productivity & commercialisation projects reviews being undertaken, each of which will provide recommendations (programme of reviews to be completed by 30/09/18)	Adam Chalmers			
CRR02 Managerial / Professional Cause: 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. Risk 1: Major data breach or leak of sensitive information to a third party. Risk 2: Risk of significant ICO fine for non-compliance with new General Data Protection	People and businesses come to harm and suffer loss that might not otherwise have occurred Complaints / claims / litigation Resources consumed in defending claims	Jane Eaton		CRR.02.1 Develop appropriate processes & procedures which underpin the IT Security Policy	Andrea Curson / Sharon Evans			<u>September 2018 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 PSN accreditation has been gained for 2018/2019.
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				Sharon Evans				

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
Regulations (GDPR).	Financial losses Fines from regulators Adverse publicity Reputation damage			meeting every other month to maintain compliance, updates and training				
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. <u>Risk:</u> The Council is found to have failed to fulfil its obligations under the Act in the event of a civil contingency.	People and businesses come to harm and suffer loss that might not otherwise have occurred	Adam Chalmers		CRR.03.1 Update corporate business continuity plan and regular review.	Trevor Beadle	▶		<u>September 2018 Update:</u>  CRR.03.1 – Full review currently taking place in line with the new IT DR plan.  CRR.03.2 – All departmental managers to be contacted in September to update as audit will take place in October/November 2018 as per annual programme.  CRR.03.4 – Hop Oast is no longer being considered in the medium term. WSCC has been asked by HDC CE to look at options for providing us with a warm site alongside theirs.  CRR.03.5 – Bitesize programmes are ongoing.
	Complaints / claims / litigation			CRR.03.2 Update departmental business continuity plans and regular review.	Trevor Beadle	▶		
	Resources consumed in defending claims			CRR.03.4 Build IT disaster recovery procedure into new warm site. Further plan revision will be made to reflect changes.	Adam Chalmers	▶		
	Financial losses			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.	Trevor Beadle	▶		
	Censure by regulators							
Reputation damaged								
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 partner organisations where it does not have operational control. <u>Risk:</u> A health & safety failure occurs.	People come to harm	Glen Chipp		CRR.06.2 Develop and implement a corporate inspection strategy (By 30/06/16).	Robert Laban / Health & Safety Officer	▶		<u>September 2018 Update:</u>  CRR.06.2: Corporate H&S Adviser continues to inspect HDC premises. A self-inspections approach is being developed throughout 2018/19.  CRR.06.3 - H&S responsibilities are set out in the Corporate H&S Policy and H&S subject policies.  Directorate H&S Working Groups are responsible for implementing these policies. The H&S Management Framework is currently under review; this will
	Complaints/claims/ litigation			CRR.06.3 Clarity of responsibilities and implementation of a training programme	Robert Laban	▶		
	Financial losses			CRR.06.4 Implement a central repository for risk assessments	Robert Laban / Health & Safety Officer	▶		
	Censure by audit / inspection							
Reputation damage								
Adverse effect on morale								
Stress and absenteeism								

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
								<p>dissolve the Directorate H&amp;S Working Groups and create a single H&amp;S Management Forum in their place.</p> <p>Team self-audits to commence from 2018/19.</p> <p>H&amp;S Training matrix has been published as part of the corporate competencies framework.</p> <p>E-learning courses for H&amp;S key topics are accessible via Horsham LAB.</p> <p>CRR.06.4: The introduction of a central repository for risk assessments remains deferred until the roll-out of Office 365 is completed or Technology One can be configured in this respect - this is not likely before Dec 2018.</p>
<p>CRR18 Technological <u>Cause:</u> 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><u>Risk 1:</u> A malicious attacker exploits a known or unknown security weakness to penetrate the Council's ICT systems.</p> <p><u>Risk 2:</u> IT not working due to environmental problems: fire, flood, power cut</p>	<p>Loss of key systems resulting in disruption to Council services. Cost of investigation and recovery of systems. Fraud/theft. Loss of the integrity of Council Records. Exposure of sensitive/personal data resulting in penalties from the ICO. Reputational or</p>	Jane Eaton		CRR.18.1 Staff Training	Claire Oliver / Robert Laban			<p><u>September 2018 Update:</u></p> <p>Remediation ongoing.</p> <p>IT Security Training being looked into.</p> <p>Patching of devices ongoing.</p> <p>All work is ongoing.</p> <p>CRR.18.5 PSN accreditation has been gained for 2018/2019.</p> <p>Cyber Security training for all Managers taking place at the forthcoming Managers Conference.</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			

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
	political damage from adverse media coverage.			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			
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. <b>Refer to risk CRR25</b>	Financial Service Delivery Compliance with regulations Reputation	Jane Eaton		CRR.17.1 Continuously monitor the level of quality control checking.	Beccy Salmon			September 2018 Update: This is an ongoing risk. The risk remains until Universal Credit comes in for all working age cases. Risk actions complete, retained on register to keep in view.
				CRR.17.6 Complete successful transfer to new provider	Jane Eaton			
CRR05 Governance <u>Cause:</u> Managers are responsible for ensuring that controls to mitigate risks are consistently applied. <u>Risk:</u> Officers are either unaware of expected controls or do not comply with control procedures.	Failure of business objectives	Jane Eaton		CRR.05.1 Officer training	Jane Eaton			September 2018 Update: Ongoing
	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			CRR.05.3 All Service Managers required to sign an Assurance Statement. (By 30th June Annually) (Cyclical)	Jane Eaton			
	Service Delivery							
	Compliance with Regulations							
	Personal Privacy Infringement							
	Reputation damage							

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## Report to Audit Committee

10<sup>th</sup> October 2018

By the Horsham Chief Internal Auditor



**Horsham  
District  
Council**

### INFORMATION REPORT

Not Exempt

## Internal Audit Progress Report – Quarter 1 (01/04/18 - 30/06/18)

### 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  
Paul Miller, Horsham Chief Internal Auditor

Tel No. 01273 481447  
Tel No. 01403 215319

## **Background Information**

### **1 Introduction and Background**

#### **Background**

- 1.1 This progress report covers work completed between 1 April 2018 and 30 June 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 32 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 approved and reviewed by the Audit Committee.

### **3 Conclusion and Reasons for Recommendation**

- 3.1 Key audit findings from final reports issued will, in future, be summarised in Appendix A. A number of audits were completed during Quarter 1. However, these related to the previous financial year (2017/18), and the outcomes were included in the annual audit report which was presented to the Committee on 12th July 2018.
- 3.2 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.
- 3.3 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.
- 3.4 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.

## **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.

## **5 Outcome of Consultations**

- 5.1 Heads of Service / Service managers are consulted during each audit. At the end of each review, audit findings 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 Internal Audit, 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 and as part of this process, audit findings are risk assessed prior to being reported. The risk assessment then determines the order in which control weaknesses are reported and informs the overall audit assurance opinion. See Appendix B for the Orbis audit report assurance definitions.

## **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.

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# Internal Audit and Counter Fraud Quarter 1 Progress Report 2018/19

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## 1. Summary of Completed Audits

- 1.1 A number of audits were completed during Quarter 1. However, these related to the previous financial year (2017/18), and the outcomes were included in the annual audit report which was presented to the Committee on 12<sup>th</sup> July 2018.
- 1.2 The audit plan for 2018/19 is progressing well, and a range of audits are in progress and will be reported in December. These include Incident Management, Community Infrastructure Levy and Parking Enforcement.

## 2. Counter Fraud and Investigation Activities

### Proactive Counter Fraud Work

- 2.1 Following the establishment of the Orbis Counter Fraud Team in April 2018, focus in the first quarter has been on aligning investigative practices and procedures between the sovereign authorities to ensure a consistent approach is adopted across the Orbis partnership in line with best practice and relevant guidance. Quarter 2 will see the implementation of an integrated Fighting Fraud Plan across Orbis partners that will strengthen our ability to prevent and detect fraud.
- 2.2 Internal audit is currently liaising with departments in preparation for the forthcoming National Fraud Initiative (NFI) data matching exercise. This exercise is mandatory, and data sets are due to be submitted during the week commencing 8th October 2018. Data matching reports will then be made available for review at the end of January 2019.

### Summary of Completed Investigations

- 2.3 None to report.

## 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 1, 95% 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
30/06/18	56	2	54	96

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

3.4 Details of outstanding priority agreed actions:

Audit / Agreed Action	Directorate	Due Date	Revised Date	Progress to date
<p><b>Medium Priority</b> <u>Debtors:</u> The documented process for debt recovery will be revised to provide clarity to responsibilities.</p>	Corporate Resources	31/08/17	31/12/18	<p><u>September 2018 Update:</u> Better reports including those on debt are in the pipeline to be reviewed and designed once the budget setting and budget monitoring and forecasting elements of the T1 module are fully up and running.</p>
<p><b>Medium Priority</b> <u>Creditors:</u> Orders raised as a percentage of invoices received:  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>	Corporate Resources	31/12/17	30/11/18	<p><u>September 2018 Update:</u> We still anticipate this information being available by the end of November. Attention has been on improving the budget setting and monitoring and forecasting modules within T1.</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

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)

The Procurement Manager has been under significant pressure to deliver the procurement work programme due to significant staff shortages within her team. The review of Contracts (Procurement) has therefore been deferred until 2019/20 with the agreement of the Director of Corporate Resources.

## 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 11/04/18
	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	N/A. No surveys received.
Productivity and process efficiency	Audit Plan – completion to draft report stage	90%	G	29 % completed to draft reports stage by end of Q1 (against a Q1 target of 25%)
Compliance with professional standards	Public Sector Internal Audit Standards complied with	Conforms	G	Based on external assessment undertaken on 08/02/18
	Relevant legislation such as the Police And Criminal Evidence Act, Criminal Procedures and Investigations Act	Conforms	G	No evidence of non-conformance identified
Outcome and degree of influence	Implementation of management actions agreed in response to audit findings	95% for high & Medium priority agreed actions	G	95%
Our staff	Professionally qualified / accredited	80%	G	85%

## Audit Opinions and Definitions

Opinion	Definition
<b>Substantial Assurance</b>	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
<b>Reasonable Assurance</b>	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
<b>Partial Assurance</b>	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.
<b>Minimal Assurance</b>	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.

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