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Audit Committee

Wednesday, 9th October, 2019 at 5.30 pm

Cowdray & Goodwood Room, Parkside, Chart Way, Horsham

Councillors: Stuart Ritchie (Chairman)
 Paul Marshall (Vice-Chairman)
 Tony Bevis Ruth Fletcher
 John Blackall Jack Saheid
 Paul Clarke

You are summoned to the meeting to transact the following business

Glen Chipp
Chief Executive

Agenda

	Page No.
1. Apologies for absence	
2. Minutes	3 - 8
To approve as correct the minutes of the meeting held on 11 th July 2019. (Note: If any Member wishes to propose an amendment to the minutes they should submit this in writing to committeeservices@horsham.gov.uk at least 24 hours before the meeting. Where applicable, the audio recording of the meeting will be checked to ensure the accuracy of the proposed amendment.)	
3. Declarations of Members' Interests	
To receive any declarations of interest from Members of the Committee	
4. Announcements	
To receive any announcements from the Chairman of the Committee or the Chief Executive	
5. Risk Management - Quarterly Update	9 - 22
To receive an update of the Council's risk register.	
6. Annual Audit Letter 2018 - 19	23 - 44
To receive the annual audit letter for 2018-19.	
7. Internal Audit and Internal Control Update Report	45 - 56

To receive the quarter 1 update on progress against the current year's Annual Audit Plan and progress report on follow ups from previous years.

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

To consider the following exempt or confidential information:

9. **Risk Management Quarterly Update - Appendix 2**

57 - 58

Audit Committee 11 JULY 2019

Present: Councillors: Stuart Ritchie (Chairman), Tony Bevis, John Blackall, Paul Clarke, Ruth Fletcher and Jack Saheid

Apologies: Councillors: Paul Marshall (Vice-Chairman)

Also Present: Frances Haigh

AAG/4 MINUTES

The minutes of the meeting held on 22 May 2019 were approved as a correct record and signed by the Chairman.

AAG/5 DECLARATIONS OF MEMBERS' INTERESTS

None.

AAG/6 ANNOUNCEMENTS

None.

AAG/7 AUDIT RESULTS REPORT

The External Auditor provided the Audit Results Report for the year ending 31st March 2019. It was noted that the audit of the Council's financial statements for the year ended 31 March 2019 had been substantially completed as had the procedures outlined in the Audit planning report, subject to the satisfactory completion of outstanding items. An updated report would be provided to the committee when the outstanding items had been finalised. Liaison with council officers would continue on the technical treatment of the accounts, arising from the IFRS 9 accounting standard. However, until the Guidance Notes were issued and any statutory overrides were confirmed there remains some uncertainty on the accounting treatment.

The External Auditor went on to say that a potential late change may be required to the Council's pension net asset which related to legal rulings regarding age discrimination known as the McCloud judgment. The draft accounts have recognised this matter as a contingent liability. Officers had requested that their actuary update their estimate of net pension scheme liability and any difference between actual and estimated return on pension scheme assets.

He added that external audit were required to provide a value for money opinion the Council's finances. For 2018/19 this was based on the overall evaluation

criterion. No significant risks around these criteria had been identified and an unqualified value for money conclusion would be provided.

In the ensuing discussion, the following issues were addressed:

The increase in technology meant that the audit fee had dropped. Increased use of technology, such as a portal that could be used by the council officers to input evidence directly into files. The flow of information was more efficient as a result. The increased use of data analytics, which allowed all of the transactions and journals to be analysed within the system. This ensured that all areas were being looked at, providing a more robust assurance.

RESOLVED

That the report be noted.

AAG/8 **STATEMENT OF ACCOUNTS**

The Chairman introduced the report and said that the Annual accounts had been considered at an informal meeting ahead of the Committee, where Members had an opportunity to pose questions on the detail. Issues had been followed up by email.

Sam Wells, Corporate Accountant, presented the accounts and said that at the time of the report there were three outstanding issues that needed to be resolved before the accounts could be approved. The actuary had re-run the IAS19 report to resolve the two issues relating to the pension fund. An amended set of accounts in relation to the pension fund had been emailed to Members. The third issue involved the technical treatment of the Council's pooled funds and officers were discussing this with the auditors. This issue was also being discussed at a national level.

The Accounts had closed with a balance sheet value of £163m, an increase in £3.1m in assets in the year 2018/19. The Pension Fund issues were a technical adjustment, and the IFRS 9 application would not affect the balance sheet.

The Chairman moved that the recommendation be altered to allow the Director of Corporate Resources latitude to ensure the appropriate changes were made. The motion was seconded by the Vice Chairman.

RESOLVED

That the Committee approve the 2018/19 Statement of Accounts, or should any of the three issues be unresolved at the date of the committee, delegate the approval to the Chairman of the Audit Committee, in consultation with the Director of Corporate Resources, to be done before 31 July 2019 or as soon as the unresolved matters are resolved.

AAG/9 **INTERNAL AUDIT REVIEWS OF REVENUES AND BENEFITS 2018/19**

The Director of Corporate Resources reported that the report before the Committee provided an outcome of the internal audit reports of Revenues and Benefits completed by LGSS internal audit as part of the agreement in which LGSS manage Horsham District Council's Revenues and Benefits service. The service that had been procured was an audited service, as LGSS was a larger partnership, and their internal auditors would carry out the audit.

All three audits were completed in the fourth quarter of 2018/19. The one for the control environment achieved substantial assurance on all three elements, council tax, business rates and benefits. The Benefits audit showed substantial assurance for the system and compliance, whilst the Revenues audits had received a substantial opinion for the system and good assurance for compliance.

The changes that had been suggested by the auditors had already been implemented by the Revenues and Benefits Manager.

In reply to a question, the Director said that the definitions used across the audits were different, and varied from Orbis to LGSS

RESOLVED

That the Committee note the report.

AAG/10 **INTERNAL AUDIT - ANNUAL REPORT AND OPINION 2018/19**

The report before the Committee had been compiled by the Chief Internal Auditor which included an overall annual opinion on the adequacy of the Council's governance arrangements, risk management systems and control environment. It also provided an update on internal audit performance, and a summary of audit activity undertaken during Quarter four.

He went on to highlight Appendix B of the report which summarised the key audit findings for Quarter four. There had been two partial assurances, one reasonable and three substantial. A post implementation review had also been undertaken on the alternate weekly refuse collections.

He went on to highlight the audit that had been undertaken on Fire Safety. There was a portfolio of 27 council occupied properties. He had looked at the strategic aspect of these, but had also visited six properties. Overall, the main finding was a weakness in the reporting framework. Actions from some fire risk assessments had failed to be implemented, and issues arising were not being escalated to senior managers. A framework was now in place to ensure that this information was channelled to the appropriate level of management. In addition to this, at the time of the review, fire doors in Swan Walk Car Park were being locked after 6.30pm. This has now been changed. Fire drills were also a weak area, and there were agreed actions to deal with this.

The Chairman welcomed the opportunity to get consistency across the council. The Chief Internal Auditor went on to say that the other partial assurance was the cultural compliance audit at the Capitol, which was a high level review. The main issue was around the bar and catering facility. A decision had been made to bring the operation of this back in house, but there had been no business case and the decision had not been published on the Forward Plan. The Monitoring Officer had become involved to resolve the issue, and it had been decided to run the operation for a six month trial period to ensure the viability. Fire drills were an issue, and mandatory training and authorisation of purchase orders at the correct level.

In reply to a question about whether volunteers received mandatory training at the Capitol, it was agreed that a reply would be provided to the committee. It was further agreed that information regarding whether safety measures were provided to external contractors putting on performances with their own staff would be provided to the committee.

No assurance could be absolute; however, based on the internal audit work completed, the Chief Internal Auditor could provide reasonable assurance that Horsham District Council had in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2018 to 31 March 2019.

RESOLVED

The Committee noted

- i) the annual opinion of the Chief Internal Auditor on the overall adequacy and effectiveness of the Council's internal control environment, governance and risk management systems;
- ii) the summary of audit and project work undertaken during Quarter 4;
- iii) the performance of internal audit against performance targets.

AAG/11 **RISK MANAGEMENT - QUARTERLY UPDATE**

The Director of Corporate Resources presented the Corporate Risk Register to July 2019. She highlighted the three red risks that were in the report. The Medium Term Financial Strategy had been re-written twice, to include concerns about the revaluing and localisation of business rates and the fair funding review. No additional information had been forthcoming from Government on these issues. There was considerable uncertainty, and the council would actually be better off if the reviews did not go ahead for April 2020.

She went on to say that the second issue was uncertainty in the UK and global economy. The council's treasury advisors had indicated that there were signs that the country was heading towards a recession. Associated with this, is the

increase in cost of homelessness, housing services, recycling and transport arising from decisions made by the County Council.

RESOLVED

That the Committee note the report.

AAG/12 **ANNUAL GOVERNANCE STATEMENT**

The Director of Corporate Resources introduced the report and said that the annual review of the Council's governance, risk management and internal control arrangements had been undertaken to support the Annual Governance Statement for 2018/19. The review included information and assurance gathering processes as well as a review of the Council's Governance framework against the best practice framework devised by CIPFA/SOLACE. The aim was to ensure that the Council had effective governance, risk management and internal control processes in place to assist with accountability and the delivery of objectives. The review process had identified any shortfalls in these arrangements to enable them to be addressed.

RESOLVED

That the Annual Governance Statement for 2018/19 be approved.

AAG/13 **TREASURY MANAGEMENT ACTIVITY AND PRUDENTIAL INDICATORS 2018/19**

The Group Accountant (Technical) reported that the report covered treasury activity and prudential indicators for 2018/19. As at 31 March 2019, the Council's external debt was £4m (£4m in 2017/18) and investments totalled £36.1m (£37.7m in 2017/18) including call accounts and Money Market Funds. During 2018/19, the Council's cash balances had been invested in accordance with the Council's treasury management strategy. Interest of £0.887m (£0.911m in 2017/18) had been earned on investments, an average return of 2.1% (1.6% in 2017/18). There was one instance reported to this Committee on 12 December 2018 when the single institution limit of £2.5m had been breached overnight in the Council's own bank; otherwise all activity was within limits and in line with indicators.

RESOLVED

That the Committee note:

- a) the Treasury Management stewardship report for 2018/19.
- b) the actual prudential indicators for 2018/19.

- c) Recommend that Council approve an increase from £1m to £1.5m in the limit on lending to subsidiary companies in the 2019/20 Investment Strategy.
- d) Recommend that Council approve a £0.5m limit on shareholding in its subsidiary companies in the 2019/20 Investment Strategy

AAG/14 **AUDIT WORK PROGRAMME 2019**

RESOLVED

That the Committee note its Annual Work Programme.

AAG/15 **URGENT BUSINESS**

There was no urgent business.

The meeting closed at 7.10 pm having commenced at 5.30 pm

CHAIRMAN

Report to Audit Committee

9th October 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 Appendix 1).

Since the last report, three new risks have been added:

CRR32	Decrease in Rateable Value, and potentially backdated refunds to 2010
CRR33	Exempt under Paragraph 5 of Part 1 of Schedule 12A to the Local Government Act 1972
CRR34	Key contractor failure

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.

	CRR01c CRR02 CRR03 CRR06 CRR18 CRR33	CRR01b CRR19 CRR32	CRR30	
		CRR05 CRR25 CRR31		
		CRR17 CRR26		

There are four 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 2021
CRR19	Uncertainty in the UK and World economy – impact on financial markets and sterling leading to recession
CRR30	Increase in costs of homelessness, housing services, recycling and transport.
CRR32	Decrease in Rateable Value, and potentially backdated refunds to 2010.

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

CRR31	Unavailability of key officers, inadequate processes (including risk assessments and election project plan) leading to failure (including legal challenge) of the election process
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One risk has now been mitigated and the Senior Leadership Team has confirmed that this should be moved back to the Department Risk Register. This is:

CRR26	The cost of exiting the existing Revenues and Benefits agreement with MSDC may be high
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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 2019

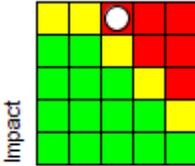
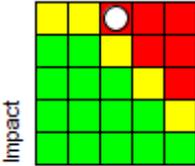
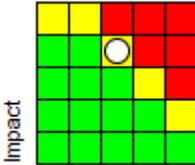
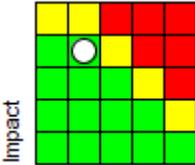
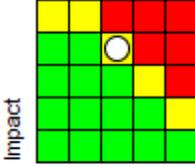
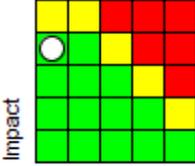
Risks ordered by RAG not numerically

Generated on: 11 September 2019



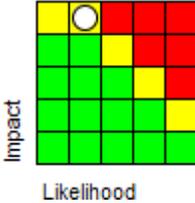
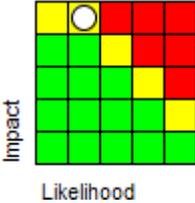
Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
CRR30 Cause: WSCC have proposed some cuts to their budgets on the September 2018 forward plan. Risk: Increase in costs of homelessness, housing services, recycling 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			September 2019 Update: <u>Waste</u> Work is still progressing on evaluating food waste collections. MSDC are so far the only Council agreeing to start in September. Disposal capacity still being negotiated by WSCC. Recycling credits reduction is still being modelled by WSCC – no confirmation yet whether this can be phased. WSCC’s highways contract with Balfour Beatty has reduced the frequency of grass cutting on all roads. <u>Housing</u> Work still progressing with cuts being managed in two phases. Phase One: reviewing the impact of funding changes from September 2019 – March 2020. Phase Two: designing a new approach to services commissioned collaboratively with WSCC in the future.
				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			
				CRR.30.4 Include on MTFS (Risk also relates to future cuts)	Glen Chipp			

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
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 2021.	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 2019 Update: Uncertainty beyond 2020, especially with regards to the localisation (75%) retention of business rates and changes from the fair funding review remains a significant area of concern. Government has consulted on both schemes. The Fair Funding consultation mentions potentially 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. Due to Government's focus on Brexit in 2019, this will not be available until the 2021/22 budget. An updated MTFS will be presented to Members during November 2019.
	Financial Service Delivery Compliance with Regulations			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 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.				
	Financial Service Delivery Compliance with Regulations	CRR.19.3 Monitor internal indicators, particularly income generation and respond appropriately to adverse trends	Dominic Bradley	▶				

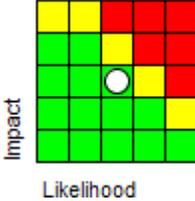
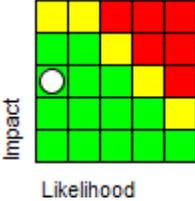
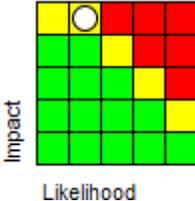
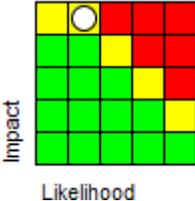
Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
<p>NEW RISK CRR32 Cause: Nationally, NHS Foundation Trusts (and some NHS Trusts) have applied for mandatory charitable relief on their business rates, on the basis that they should be treated as charities. Risk: Decrease in Rateable Value, and potentially backdated refunds to 2010.</p>	Reductions in funding Financial	Jane Eaton	 <p>Impact</p> <p>Likelihood</p>	CRR.32.1 Continue to keep a watching brief	Dominic Bradley		 <p>Impact</p> <p>Likelihood</p>	<p>September 2019 Update:</p> <p>A High Court judicial review date has been set for 4 Nov 2019.</p> <p>One NHS FT appeal in the district has been received and was included in the business rates appeals provision at 31 March 2019.</p> <p>No separate provision has been created for appeals that have not yet been received.</p>
<p>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	 <p>Impact</p> <p>Likelihood</p>	CRR.05.1 Officer training	Jane Eaton		 <p>Impact</p> <p>Likelihood</p>	<p>September 2019 Update:</p> <p>Both 2019/20 cultural compliance audits received a less than satisfactory assurance from Internal Audit. Action plans are being developed to resolve the specific issues found.</p> <p>Two issues related to procurement and financial compliance arose in Economic Development. The team have had further briefings from Finance and Procurement about these issues.</p> <p>Compliance with monthly financial forecasting across the council has improved.</p>
	Health & Safety			CRR.05.3 All Service Managers required to sign an Assurance Statement. (By 30th June Annually) (Cyclical)	Jane Eaton			
	Financial			CRR.05.4 "Cultural compliance" Internal Audits identify service based issues and help managers to resolve these.	Jane Eaton			
<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. Risk: The IT transition will not be fully completed by 1 April 2018 (extended to July 2019).</p>	Service Delivery	Jane Eaton	 <p>Impact</p> <p>Likelihood</p>	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>Impact</p> <p>Likelihood</p>	<p>September 2019 Update:</p> <p>Transfer successfully completed.</p> <p>Risk to be deleted next time.</p>
	Reputation							

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
<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. Risk: Unavailability of key officers, inadequate processes (including risk assessments and election project plan) leading to failure (including legal challenge).</p>	<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</p>	Jane Eaton		CRR31.1 Review risks as part of project planning process prior to an election	Sharon Evans			<p>September 2019 Update: Have secured an Elections Officer in case a General Election is called.</p>
				CRR31.2 Training of staff	Sharon Evans			
				CRR31.3 Review the adequacy of insurance cover for Returning Officers at the start of election process. Ensure adequate protection against an Election Petition	Sharon Evans			
				CRR31.4 Training of Elections staff to provide cover	Sharon Evans			
<p>CRR01c 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>September 2019 Update: The 2017 Rateable Value list has fallen by £1.9m since 1 April 2017, although has remained relatively stable to date in 2019/20. This overall downward 'trend' remains a significant concern and risk to the Council's funding position should it continue.</p>
<p>CRR02 Cause: The Council has a legal obligation to protect personal data. The Information Commissioners powers are much more far reaching following May 2018 legislation changes.</p>	<p>People and businesses come to harm and suffer loss that might not otherwise have occurred Complaints /</p>	Jane Eaton		CRR.02.1 Develop appropriate processes & procedures which underpin the IT Security Policy	Andrea Curson / Sharon Evans			<p>September 2019 Update: CRR.02.1 This work is ongoing. CRR02.3 This work is ongoing CRR02.4 Work is in progress on PSN accreditation for 2019/2020.</p>
				CRR.02.3 Provide a programme of Induction and at least annual training on Information Security to all staff.	Robert Laban			

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
<p>Risk 1: Major data breach or leak of sensitive information to a third party.</p> <p>Risk 2: Risk of significant ICO fine for non-compliance with new General Data Protection Regulations (GDPR).</p>	<p>claims / litigation Resources consumed in defending claims Financial losses Fines from regulators Adverse publicity Reputation damage</p>			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			
<p>CRR03 Legal Cause: 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>Risk: The Council is found to have failed to fulfil its obligations under the Act in the event of a civil emergency.</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>September 2019 Update:</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 will be asked to review and update their department plans using the new simpler template this month (sept) and will be reviewed by the EPO in October. The Brexit risk will feature and consideration of this risk by each head shall be required.</p> <p>CRR.03.4: Rob Jarvis to give an update.</p> <p>CRR.03.5: Bitesize workshops have been ongoing through 2019 and 2020 and some councillor awareness sessions will be scheduled in late 2019/2020.</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.	Rob Jarvis			
				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 Cause: The Council is responsible for the health & safety of its clients, staff and other stakeholders, owns and maintains significant assets, and also has</p>	<p>People come to harm Complaints/claims/ litigation Financial losses Censure by</p>	Glen Chipp		CRR.06.2 Develop and implement a corporate inspection strategy (By 30/06/16).	Robert Laban / Health & Safety Officer			<p>September 2019 Update:</p> <p>CRR.06.2: A self-inspections policy has been implemented and is being monitored by the H&S Forum.</p> <p>CRR.06.3 – Completed</p>
				CRR.06.3 Clarity of responsibilities and	Robert Laban			

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
responsibility for H&S in some partner organisations where it does not have operational control. Risk: A health & safety failure occurs.	audit / inspection Reputation damage Adverse effect on morale Stress and absenteeism			implementation of a training programme				<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. 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 and is an agenda item for the H&S Management Forum until resolved.
				CRR.06.4 Implement a central repository for risk assessments	Robert Laban / Health & Safety Officer	▶		
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. <u>Risk 1:</u> A malicious attacker exploits a known or unknown security weakness to penetrate the Council's ICT systems. <u>Risk 2:</u> IT not working due to	Loss of key systems-disruption to Council services. Cost of investigation and recovery of systems. Fraud/theft. Loss of the integrity of Council Records.	Jane Eaton		CRR.18.1 Staff Member Training	Claire Oliver / Robert Laban	▶		<u>September 2019 Update:</u> Level of attack is great. Remediation ongoing. CRR.18.1 - IT Security Training has been rolled out to all staff. CRR.18.2 – This work is ongoing. CRR.18.3 All work is ongoing. CRR.18.4 Patching of devices ongoing.
				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	▶		

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
environmental problems: fire, flood, power cut	Penalties from the ICO. Adverse media coverage.			CRR.18.5 Compliance with expected security standards. (PSN, PCI-DSS)	Andrea Curson			CRR.18.5 Work is in progress on PSN accreditation for 2019/2020. CRR.18.6 – Info security policies published. CRR.18.7 – Work is ongoing. CRR.18.8 – Work is ongoing.
				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 Transferring 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			
NEW CRR34 Cause: Uncertainty in the UK and World economy. Instability and recent high profile failures, eg Carillion Risk: Key contractor failure	Financial Reputation Service Delivery	Jane Eaton		CRR34.1 Regularly check accounts of key suppliers CRR34.2 Check public liability insurance of key suppliers CRR34.3 Ask for key suppliers' business continuity plans CRR34.4 Consider whether the failure of a key supplier needs to go in service business continuity plans.	Heads of Service			<u>September 2019 update:</u> New risk proposed
CRR17 Cause: 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. Risk: 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.	Financial Service Delivery Compliance with regulations Reputation	Jane Eaton		CRR.17.1 Continuously monitor the level of quality control checking.	Beccy Salmon			<u>September 2019 Update:</u> This is an ongoing risk. The risk remains until Universal Credit comes in for all working age cases. Figures submitted for 2018/19 had reasonable headroom for the auditors finding more error but this does not guarantee that there won't be losses in future years. In- year monitoring of performance suggests error rates are well within threshold in 2019/20.

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
Refer to new risk CRR25								
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. Risk: That the cost of exiting the existing Revenues and Benefits agreement with MSDC may be high.	Financial Reputation	Jane Eaton		CRR.26.1 Continue to work with MSDC to reduce costs	Jane Eaton	▶		<u>September 2019 Update:</u> 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. A contingent liability was allowed in the 2018/19 accounts for this sum. To Be back to the Department Risk Register as this is now a green risk.
Key contractor failure	Financial Reputation Service Delivery	Jane Eaton		Regularly check accounts of key suppliers Check public liability insurance of key suppliers Ask for key suppliers' business continuity plans Consider whether the failure of a key supplier needs to go in service business continuity plans.	Heads of Service			<u>September 2019 update:</u> New risk proposed

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Horsham District Council

Annual Audit Letter for the year
ended 31 March 2019

September 2019

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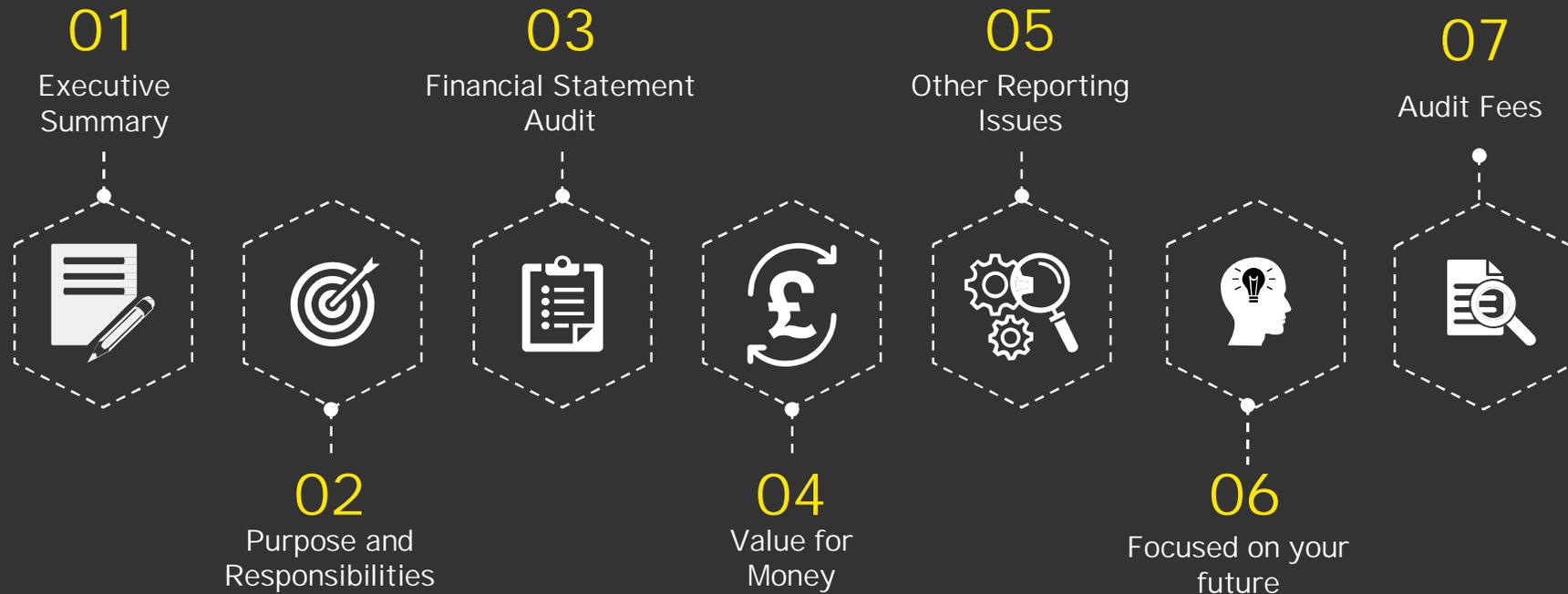
The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letter.

Building a better
working world

Agenda Item 6

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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).

This 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 April 2018)' issued by PSAA set 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 and Terms of Appointment. 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 2019. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's: ▶ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2019 and of its expenditure and income for the year then ended.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception: ▶ Consistency of Governance Statement	The 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
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	The Council is below the specified audit threshold of £500m. Therefore, we did not perform any audit procedures on the consolidation pack.

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Executive Summary (cont'd)

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 13 September 2019.
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 13 September 2019.

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

Andrew Brittain
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 2018/19 Audit Results Report to the 11 July 2019 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 2018/19 audit work has been undertaken in accordance with the Audit Plan that we issued on 12 December 2018 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

Expressing an opinion:

- ▶ On the 2018/19 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 £500m. 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 (AGS). 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 Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on 13 September 2019.

Our detailed findings were reported to the 11 July 2019 Audit Committee..

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

Significant Risk	Conclusion
<p>Misstatements due to fraud or error</p> <p>The financial statements as a whole are not free of material misstatements whether caused by fraud or error. 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 to 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>To address the risk we:</p> <ul style="list-style-type: none"> • Inquired of management about risks of fraud and the controls put in place to address those risks. • Gained an understanding of the oversight given by those charged with governance of management's processes over fraud. • Considered of the effectiveness of management's controls designed to address the risk of fraud. <p>As part of our work we focused on the key judgemental areas of financial statements, such as accounting policies, the model applied to the minimum revenue provision and unusual transactions. We reviewed accounting estimates for evidence of management bias, and specifically focused on the following:</p> <ul style="list-style-type: none"> • IAS 19 disclosures. • NDR appeals provision. • Valuation of land and buildings in Property, Plant and Equipment and Investment Properties. 	<p>Our audit work found no evidence that management had attempted to override internal controls based on detailed testing of accounts entries susceptible to potential manipulation.</p> <p>We did not identify any instances of inappropriate judgements being applied. We also did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business.</p> <p>Our work to review IAS 19 disclosures, identified the need for some adjustments to the financial statements which were correctly made. Our findings did not, however, identify any indication of management override or fraud.</p>

Financial Statement Audit (cont'd)

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

Significant Risk	Conclusion
<p data-bbox="91 347 1361 383">Risk of fraud in revenue recognition - inappropriate capitalisation of revenue expenditure</p> <p data-bbox="91 406 1361 534">Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p data-bbox="91 550 1361 614">Linked to the risk of 'misstatements due to fraud and error', inappropriate revenue or expenditure recognition would most likely be affected through the override of controls.</p> <p data-bbox="91 630 1361 726">This risk manifests itself in areas where management makes judgements that impact the general fund balance through determining whether items of expenditure are financed from capital or revenue resources. As such we associate this risk with capital additions.</p> <p data-bbox="91 742 1361 774">To gain assurance in this area we:</p> <p data-bbox="91 790 1361 885">Examined invoices for significant additions, capital expenditure authorisations, leases and other data that support the additions. We reviewed the sample selected against the definition of capital expenditure in IAS 16.</p> <p data-bbox="91 901 1361 997">To gain the required level of assurance in relation to the risk we extended our testing of items by lowering our testing threshold. We also reviewed a larger random sample of capital additions below our testing threshold.</p>	<p data-bbox="1361 347 2152 414">We did not identify any instances of inappropriate capitalisation of revenue expenditure</p>

Financial Statement Audit (cont'd)

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 £1.6m, which is 2% of gross revenue expenditure reported in the accounts. 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 £80,000.

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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 audit these fully given their inherent sensitive nature.
- ▶ Related party transactions. We consider any related parties in terms of the underlying relationship and potential influence, and not simply the overall values disclosed.

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 in 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 did not identify any significant risks in relation to these criteria



05

Other Reporting Issues



Other Reporting Issues

Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

The Council is below the specified audit threshold of £500m. Therefore, we were not required to 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.

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)

Objections Received

We did not receive any objections to the 2018/19 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 11 July 2019 Audit Committee. 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 audit approach and have therefore not tested the operation of controls. Our audit did not otherwise identify any significant controls issues to bring to the attention of the Audit Committee.



06 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
IFRS 16 Leases	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2020/21 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 2020/21 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 2020/21 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>
IASB Conceptual Framework	<p>The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework) will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>This introduces;</p> <ul style="list-style-type: none"> - new definitions of assets, liabilities, income and expenses - updates for the inclusion of the recognition process and criteria and new provisions on derecognition - enhanced guidance on accounting measurement bases - enhanced objectives for financial reporting and the qualitative aspects of financial information. <p>The conceptual frameworks is not in itself an accounting standard and as such it cannot be used to override or disapply the requirements of any applicable accounting standards.</p> <p>However, an understanding of concepts and principles can be helpful to preparers of local authority financial statements when considering the treatment of transactions or events where standards do not provide specific guidance, or where a choice of accounting policies is available.</p>	<p>It is not anticipated that this change to the Code will have a material impact on Local Authority financial statements.</p> <p>However, Authorities will need to undertake a review to determine whether current classifications and accounting remains valid under the revised definitions.</p>



07 Audit Fees

Audit Fees

Our fee for 2018/19 is in line with the scale fee set by the PSAA / as agreed with your in our Engagement Letter and reported in our Audit Results Report to the 11 July 2019 Audit Committee.

	Final Fee 2018/19	Planned Fee 2018/19	Scale Fee 2018/19	Final Fee 2017/18
	£	£	£	£
Total Audit Fee – Code work	38,572	38,572	38,572	50,094
Additional code audit work	2,888	-	n/a	7,000
Total audit services	41,460	38,572	38,572	57,094
Non-audit work - Grant claims	5,942	5,942	n/a	12,383
Total non-audit services	5,942	5,942	n/a	12,383

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The variation to the scale fee relates to additional work for the treatment of collective investment vehicles under IFRS 9, and the change to the pension liability following the 'McCloud' ruling. We have agreed the variation with officers, but requires approval from PSAA
All fees exclude VAT.

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Report to Audit Committee

9th October 2019

By the Horsham Chief Internal Auditor



INFORMATION REPORT

Not Exempt

Internal Audit Progress Report – Quarter 1 (01/04/19 - 30/06/19)

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 2019-20

Wards affected: All.

Report Author: Paul Miller, Horsham Chief Internal Auditor

Contact Details: Russell Banks, Orbis Chief Internal Auditor
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Background Information

1 Introduction and Background

Background

- 1.1 This progress report covers work completed between 1 April 2019 and 30 June 2019.

Supporting Information

- 1.2 The current annual plan for internal audit is contained within the Internal Audit Strategy and Annual Plan 2019-20 which was approved by the Audit Committee on 10 April 2019.

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 The Council's Constitution supports the statutory requirements outlined above. 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 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 three formal audits finalised during the quarter, two received 'substantial assurance', and one received an opinion of 'reasonable assurance'. There were no opinions of 'partial' or 'minimal assurance'.
- 3.3 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.
- 3.4 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.
- 3.5 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 2019/20.

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.

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 2019/20

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

Homelessness Reduction Act 2017

- 1.1 The Homelessness Reduction Bill was passed and became an Act of Parliament on 27th April 2017. The primary objective of this audit was to test compliance with the new legislation and ensure that appropriate controls are in place to meet the Council's statutory duties.
- 1.2 The purpose of the audit was to provide assurance that:
- Suitable policies, procedures and working practices are in place to comply with legislation.
 - Temporary accommodation needs are appropriately assessed and suitable arrangements are in place to help meet demand.
 - Budget monitoring, forecasting and bids for funding from central government are analysed and assessed.
 - Personal data is managed and stored securely, adhering to GDPR requirements.
- 1.3 As a result of this work, we were able to provide **substantial assurance** over the controls operating within the area under review.
- 1.4 Established procedures and controls are operating as intended regarding the Homelessness Reduction Act (HRA) (2017). Robust procedures are in place to monitor temporary accommodation, bed and breakfast provision and needs of the individuals. Established controls are also in place and operating as intended for budget monitoring. It was also noted that the Homeless team actively apply for central government funding and grants, securing over £180k in 2018/19. The Homeless team was compliant with the Council's GDPR procedure as personal data is held securely.
- 1.5 A few minor areas for improvement were identified for which remedial actions have been agreed.

Print Procurement

- 1.6 Following the closure of the Council's Print Room in 2015, printing is now carried out under contract by external printers, with printing requests processed by the Communications Team. Officers are required to complete and submit an e-form with full details of their requirements together with the expenditure code where the work will be charged.
- 1.7 The purpose of the review was to provide assurance that:
- Printing work is only allocated to suppliers who can deliver the work within the timescale required, to an acceptable quality and at a competitive price.
 - Payments are only made to suppliers if the printing is supplied in accordance with the order and quality expectations.
 - Printing is only carried out in order to support the services provided by the Council.
- 1.8 Overall, we were able to provide **substantial assurance** over the controls operating within the area under review. The procurement of external printing is administered in accordance with best practice and in compliance with the Council's Procurement Code. From the print jobs that were examined, clear evidence was found that quotations are being sought for each printing request. The introduction of an e-form for

officers to submit printing requests has helped to ensure that full details of the department's requirements are being received by the Communications team. This helps to ensure that requests for quotations sent to suppliers accurately reflect the requirements of the department. It was confirmed that payment is only made to a supplier if print work is supplied in accordance with the order. From a sample of print jobs, there was no evidence found of any print work being commissioned that did not relate to services provided by the Council.

1.9 There were no actions arising from this audit.

Purchase Cards

1.10 Purchase cards are a flexible way for staff to buy goods and services. Since the previous audit was carried out in 2015, a new system has been introduced. All purchase card transactions are now recorded and approved within the TechnologyOne (T1) Financial Information System.

1.11 As a result of this work, we were able to provide **reasonable assurance** over the controls operating within the area under review. However, our work has highlighted a number of opportunities for improvement which, once addressed, will improve the overall control framework for this area. These are outlined below:

- Further adjustments and improvements will be made to purchase card workflows in T1 to ensure that card holders are not able to authorise their own transactions.
- Exception reporting will be developed to report on split transactions. Split transactions can be used by cardholders to exceed the single transaction limit, therefore circumventing the control.
- Ad hoc training will be provided to purchase card approvers to help ensure that cards are being used appropriately.
- Purchase card holders have been reminded that they must obtain and retain a copy of the VAT receipt for all transactions.
- The Head of Finance will liaise with the Head of Technology services to incorporate the recovery of purchase cards as part of the corporate leaver's process.

1.12 On examining the purchase card expenditure reports we found that three purchase card holders had purchased goods with a value greater than the £1,000 single transaction limit. The Council's bankers investigated this and discovered that when they had moved to a new system last November they didn't transfer the single transaction limits, although the monthly limits were in place. All the single transaction limits have now been re-entered with any liabilities arising from this incident resting with the bank. The transactions concerned were examined and whilst higher than the limit, they were not considered inappropriate.

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 Work is underway to review the results of the NFI data matching exercise, and this work is ongoing.

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. A proactive review of an area included in the risk assessment will be undertaken later in the year.

Counter-Fraud Strategy and Framework

2.4 The Orbis Counter Fraud team has developed a Counter-Fraud Strategy and Framework for Horsham. This will be submitted to the Council's Senior Leadership Team for approval once the wording has been finalised.

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, 98% of high and medium priority actions due had been implemented within agreed timescales.

3.2 The implementation of high and medium priority agreed audit actions (based on a 12 month rolling period) is summarised in the following table:

Period to:	High & Medium Priority Agreed Actions Due	Not implemented	Implemented	% Implemented
30/06/19	53	1	52	98%

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><i>(Original Audit Recommendation:</i></p> <p><i>The Council should implement a policy which requires the Creditor Controller to reject any invoices for goods and services that do not display an official order number (with the exception of payments relating to contracts, utility payments or payments for goods or services where it would be impractical to place an order).</i></p>	<p>Corporate Resources</p>	<p>31/12/17</p>	<p>31/03/2020</p>	<p><u>September 2019</u> <u>Management Update:</u></p> <p>The Senior Leadership Team (SLT) has agreed that services will be encouraged to review their processes and use purchase orders where possible.</p> <p>Finance will hold some training sessions over the next few weeks to help services understand the process involved and also the benefits of using a purchase order.</p> <p>SLT has also acknowledged that there are occasions and instances where the use of a purchase order is not favourable.</p> <p>The take up of purchase orders is being reviewed and the issue will be revisited, but for now, the expectation is that the use of PO's will increase over the next few weeks.</p> <p>The Council's Financial Regulations will be reviewed to ensure that the wording is consistent with the SLT decision.</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:

- Review of HDC-LGSS File Transfer Process

4.2 Through the same process, audits may be removed or deferred from the audit plan and, where appropriate, will be considered for inclusion in the 2020/21 plan as part of the overall risk assessment completed during the annual audit planning process. However, the audit plan is on track, and it is anticipated that all reviews included on the 2019/20 audit plan will be delivered.

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 10 April 2019
	Annual Audit Report and Opinion	By end July	G	2018/19 report presented to the Audit Committee on 11 July 2019
	Customer Satisfaction levels	90% satisfied	G	100%
Productivity and process efficiency	Audit Plan – completion to draft report stage	90%	G	22.7% completed to draft report stage at the end of Quarter 1, against a target of 22.5%
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	98%
Our staff	Professionally qualified / accredited	80%	G	85% ¹

¹ 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.

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