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Audit Committee

Wednesday, 14th April, 2021 at 5.30 pm
via Remote Video Link

Councillors: Stuart Ritchie (Chairman)
 John Blackall (Vice-Chairman)
 Tony Bevis Jack Saheid
 Ruth Fletcher James Wright
 Richard Landeryou

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
<i>To approve as correct the minutes of the meeting held on 16 December 2020 (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.)</i>	
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. External Audit Progress Report and Audit Plan	9 - 48
To receive the report of the External Auditors	
6. Risk Management - Quarterly Update	49 - 62
To receive the report of the Director of Corporate Resources	

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| 7. | Draft Annual Governance Statement 2020/2021 | 63 - 84 |
| | To receive the report of the Director of Corporate Resources | |
| 8. | Internal Audit - Quarterly Update Report | 85 - 104 |
| | To receive the report of the Horsham Chief Internal Auditor | |
| 9. | Internal Audit Strategy 2021/22 and Annual Plan | 105 - 126 |
| | To receive the report of the Horsham Chief Internal Auditor | |
| 10. | 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
16 DECEMBER 2020

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

Also Present: Councillor James Wright

AAG/24 **MINUTES**

The minutes of the meeting held on 20 October were approved as an accurate record and would be signed by the Chairman at a later date.

AAG/25 **DECLARATIONS OF MEMBERS' INTERESTS**

There were no declarations of interest.

AAG/26 **ANNOUNCEMENTS**

The Chairman announced that Councillor Paul Clarke would resign from the Audit Committee at the end of this meeting as he had been appointed as the Cabinet Member for Finance & Assets.

The Chairman and Committee thanked Councillor Paul Clarke for his work on the Audit Committee.

AAG/27 **RISK MANAGEMENT - QUARTERLY UPDATE**

The Director of Corporate Resources presented the Risk Management Quarterly Update to the Committee. The report included an update on the Corporate Risk Register for consideration and provided an update on progress with the quarterly departmental risk register reviews.

It was reported that there were six high risks:

CRR35 - COVID-19 (i) The Council is unable to deliver statutory front line services to the community due to, for example, staff shortages or unavailability of key officers. (ii) Substantial financial loss to the Council.

CRR19 - Ongoing reduction in planning fees; reduced car parking income; increased homelessness; and increased housing benefit claims; leisure centres; property income; investment income.

CRR01c - Decrease in Rateable Value due to appeals and businesses going under. This may cause the Council to fall below the business rates baseline, resulting in loss of funding.

CRR18 - (i) A malicious attacker exploits a known or unknown security weakness to penetrate the Council's ICT systems. The level of threat has been raised by the Cabinet Office to amber. (ii) IT not working due to environmental problems: fire, flood, power cut.

CRR01b - Funding from Government is less generous than assumed in the Medium-Term Financial Strategy (MTFS) from 2021.

CRR05 - Officers are either unaware of expected controls or do not comply with control procedures.

Departmental risk registers had been reviewed and updated.

The Chairman decided that CRR18 part (ii) should be removed from the risk register as these are potential environmental issues that are beyond control.

The Committee noted the contents of the report.

AAG/28 **INTERNAL AUDIT - QUARTERLY UPDATE REPORT**

The Chief Internal Auditor provided Members with an update on all internal audit and counter-fraud activity completed during the quarter, with a summary of all key findings. There were also updates on the progress of delivery of the annual audit plan and the performance of the internal audit service.

Overall, of the four formal audits finalised during the quarter, one received an opinion of 'reasonable assurance', two received an opinion of "partial assurance", and one received an opinion of "minimal assurance".

Formal follow-up reviews would continue to be carried out for all audits that had received 'minimal assurance' and high-risk areas that had received 'partial assurance' opinions.

Internal Audit had continued to liaise with departments to identify any new or emerging risks.

As the audit of Travel Expenses had received 'minimal assurance' a follow-up review would be undertaken in 2021/22 to ensure that the agreed actions had been implemented. The Chairman asked that HR be consulted on whether or not third-party applications could be used to record the lengths of Officer journeys and used to populate internal e-forms.

Two new reviews had been added to the audit plan: Review of Community Hubs – Covid-19 red response; and Purchase Cards, including areas of spend.

Four reviews had been deferred from the audit plan: Capitol Bar and Catering Facility; Volunteers; Hop Oast (Cultural Compliance) follow-up; and Capital Grant Funding / External Funding.

The Committee noted the contents of the report.

AAG/29 **EXTERNAL AUDIT - PROGRESS REPORT**

The External Auditors presented the Annual Audit Letter for the year ended 31 March 2020 to the Committee.

The Committee noted the contents of the letter.

AAG/30 **ANNUAL GOVERNANCE STATEMENT**

The Director of Corporate Resources presented the report.

The annual review of the Council's governance, risk management and internal control arrangements had been completed in the spring leading to the production of the Annual Governance Statement for 2019/20. This review included information and assurance gathering processes to ensure that the published Annual Governance Statement was correct as well as a review of the Council's Governance Framework against the best practice framework devised by CIPFA/SOLACE. The Annual Governance Statement was approved at the Audit Committee on 15th July 2020.

This reported reviewed progress against the action plan.

The Committee noted the contents of the report.

AAG/31 **TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS - MID-YEAR REPORT**

The Group Accountant (Technical) presented the mid-year report.

During the period the Council had complied with its legislative and regulatory requirements and the statutory borrowing limit, the Authorised Limit, was not breached.

At 30 September 2020, the Council had no external debt and its investments totalled £53.6m.

During the first half of 2020/21, the Council's cash balances were invested in accordance with the Council's treasury management strategy apart from one breach of the limit for a single local authority. Interest of £0.43m was earned on investments at an average return of 1.7%.

Treasury investment income for the full year would likely be significantly below the budget as the pandemic kept interest rates and dividend yields low. Commercial property income would also likely underperform as some tenants were affected by the pandemic.

The Committee noted the report.

AAG/32 **CAPITAL STRATEGY 2021/22**

The Group Accountant (Technical) reported that the Capital Strategy for 2021/22 remained largely unchanged except for changes to the limits for money market funds and local authorities. Limits on money market funds would increase from £30m to £50m and the limit on individual local authority would increase from £4m to £5m

The investment strategy would also remain largely unchanged apart from increases in the service loans and overall commercial property portfolio limits. The limit on service loans would increase from £1.5m to £3m and the limit on overall commercial property would increase from £60m to £70m

The increase in loan value would enable lending to the Council's own Housing Company and the overall portfolio limit increase would help to cover the development of existing assets and provide headroom for possible upward revaluations of property values.

RESOLVED

That the Audit Committee approve the Capital Strategy as an appropriate overarching strategy for the Council while leaving the full Council to approve the updated capital strategy that will accompany the 2021/22 budget to Council.

RECOMMENDED TO FULL COUNCIL

- i) that the full Council approve the Treasury Management Strategy for 2021/22 and the associated limits and specific indicators included in section 4 and appendix B of the Capital Strategy 2021/22 incorporating Investment and Treasury Management Strategy report.
- ii) that the full Council approve the Investment Strategy for 2021/22 and the associated limits and specific indicators included in section 5 and appendix C of the Capital Strategy 2021/22 incorporating Investment and Treasury Management Strategy report.

AAG/33 **URGENT BUSINESS**

There was no urgent business.

To consider reports or appendices containing exempt or confidential information

RESOLVED

That, under Section 100A of the Local Government Act 1972, the press and public be excluded from the meeting for the following three items of business, on the grounds that they involved the likely disclosure of exempt information, as defined in Part I of Schedule 12A of the Local Government Act 1972, by virtue of paragraph 5 regarding information in respect of which a claim to legal professional privilege could be maintained in legal proceedings.

AAG/34 **APPENDIX 2 OF THE CORPORATE RISK REPORT DECEMBER 2020**

The Committee noted the contents of the appendix.

The meeting closed at 7.11 pm having commenced at 5.30 pm

CHAIRMAN

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**Horsham District
Council**
Audit planning report
Year ended 31 March 2021

April 2021



Members of the Audit Committee
Horsham District Council
Parkside
Chart Way
Horsham
West Sussex
RH12 1RL

April 2021

Dear Audit Committee Members

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2020/21 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

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

This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 14 April 2021 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Andrew Brittain

For and on behalf of Ernst & Young LLP

Contents



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). 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 and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit Committee and management of Horsham District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Horsham District Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Horsham District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Overview of our 2020/21 audit strategy



Overview of our 2020/21 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	No change in risk of focus	As identified in ISA 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 would otherwise appear to be operating effectively. In addition to our overall response, we consider where these risks may manifest themselves and identify separate fraud risks as necessary below.
Risk of fraud in revenue recognition inappropriate capitalisation of revenue expenditure	Fraud risk	No change in risk of focus	Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. 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. Our judgement is the significant risk at the Council relates to the improper capitalisation of revenue expenditure.
Risk of fraud in revenue recognition - sales, fees and charges income grant	Fraud risk	New risk identified this year	As one of the responses to the Covid-19 pandemic and its impact on Local Authority finances, the Government introduced a reimbursement scheme for lost fees and charges income. After an initial 5% reduction for annual variability, local authorities are funded for 75% of their claimed losses. There is both incentive and opportunity for local authorities to inflate the returns to Central Government, and claim for funds that they are not entitled to under the scheme. There is also the potential for error.

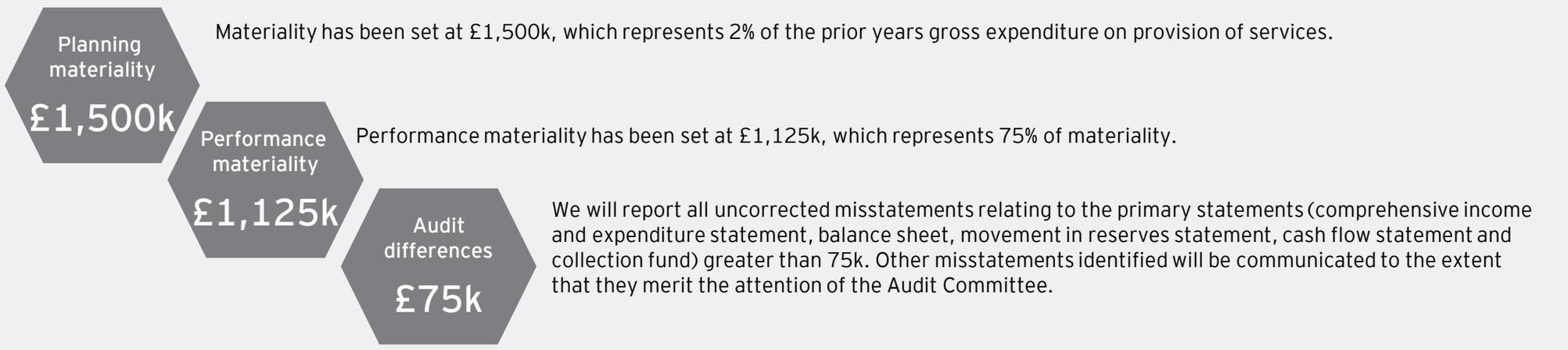
Overview of our 2020/21 audit strategy

Risk / area of focus	Risk identified	Change from PY	Details
<p>Valuation of land and buildings and investment property</p> <p>Page 14</p>	Significant Risk	No change in risk or focus.	<p>Land and Buildings (L&B) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.</p> <p>Material judgemental inputs and estimation techniques are required to calculate the year-end L&B and IP balances held in the balance sheet.</p> <p>As the Council's asset base is significant, and the outputs from the valuers are subject to estimation, there is a higher risk that L&B and IP may be under/overstated or the associated accounting entries incorrectly posted.</p> <p>We are required to undertake procedures on the use of experts and assumptions underlying fair value estimates.</p> <p>The risk is heightened for traditional retail assets due to market difficulties, partly arising from the advent of Covid-19 (C-19), such as reduced consumer confidence and competition from internet based retailers with lower cost bases. This has led to a large number of retailers, including well known names, closing stores, going into administration or otherwise seeking to reduce their rental costs by renegotiating existing leases, perhaps by way of a Creditors Voluntary Arrangements. These difficulties have had a direct impact on the value of the retail units (high street shops, out of town retail parks and shopping centres) leased to retailers or owned by them.</p>
Pension asset Valuation	Inherent risk	No change in risk or focus.	<p>The Local Authority Accounting Code of Practice and IAS19 require the Council 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>The Council's pension fund asset is a material estimated balance and the Code requires that this asset be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the 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. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>

Overview of our 2020/21 audit strategy

Risk / area of focus	Risk identified	Change from PY	Details
Accounting for Covid business grants	Inherent risk	New risk identified this year	Central Government have provided a number of new and different Covid-19 related grants to local authorities during the year. There are also funds that have been provided for the Council to disseminate to other bodies. The Council needs to review each of these to establish how they need to be accounted for. It needs to assess whether it is acting as a principal or agent, with the accounting to follow that decision.
Going Concern: Compliance with ISA	Inherent risk	No change in risk or focus.	The standard is effective for audits of financial statements for periods commencing on or after 15 December 2019. This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. While public sector bodies are generally considered to be a going concern for the purposes of preparing the financial statements. However, ISA 570, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.

Materiality



Overview of our 2020/21 audit strategy

Audit scope

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

- Our audit opinion on whether the financial statements of Horsham District Council give a true and fair view of the financial position as at 31 March 2021 and of the income and expenditure for the year then ended; and
- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

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

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

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

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

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

Audit team changes

Key Audit Partner

Elizabeth Jackson will replace Andrew Brittain as Key Audit Partner for Horsham in April 2021.

Elizabeth has 20 years experience of public sector audit, and joined EY in March 2020. Previous to joining EY Elizabeth was a Director at Grant Thornton in the public sector assurance team.



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02 Audit risks



Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

<p>Misstatements due to fraud or error*</p>	<p>What is the risk?</p> <p>As identified in ISA 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 would otherwise appear to be operating effectively.</p>	<p>What will we do?</p> <ul style="list-style-type: none"> ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks. ▶ Understanding the oversight given by those charged with governance of management’s processes over fraud. ▶ Consideration of the effectiveness of management’s controls designed to address the risk of fraud. <p>Performing mandatory procedures regardless of specifically identified fraud risks, including:</p> <ul style="list-style-type: none"> ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements ▶ Assessing accounting estimates for evidence of management bias, and ▶ Evaluating the business rationale for significant unusual transactions. <p>In addition to our overall response, we consider where these risk may manifest themselves and identify separate fraud risks as necessary below.</p>
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Audit risks

Our response to significant risks

We have set out the significant risks identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Risk of fraud in revenue recognition - inappropriate capitalisation of revenue expenditure*

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Financial statement impact

Inappropriate capitalisation of revenue expenditure would decrease the net expenditure from the general fund, and increase the value of non-current assets.

What is the risk?

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.

From our risk assessment, we have assessed that the risk manifests itself solely through the inappropriate capitalisation of revenue expenditure to improve the financial position of the general fund.

Capitalised revenue expenditure can be funded through borrowing with only minimal MRP charges recorded in the general fund, deferring the expenditure for 30+ years when the borrowing is repaid.

What will we do?

Our approach will focus on:

- ▶ For significant additions we will examine invoices, capital expenditure authorisations, leases and other data that support these additions. We review the sample selected against the definition of capital expenditure in IAS 16.
- ▶ We will extend our testing of items capitalised in the year by lowering our testing threshold. We will also review a larger random sample of capital additions below our testing threshold.
- ▶ Journal testing - we will use our testing of journals to identify high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised.

Our response to significant risks

We have set out the significant risks identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

<p>Risk of fraud in revenue recognition – sales, fees and charges income grant*</p>	<p>What is the risk?</p>	<p>What will we do?</p>
<p>Financial statement impact</p> <p>Inappropriate grant recognition would decrease the net expenditure from the general fund</p>	<p>As one of the responses to the Covid-19 pandemic and its impact on Local Authority finances, the Government introduced a reimbursement scheme for lost fees and charges income. After an initial 5% reduction for annual variability, local authorities are funded for 75% of their claimed losses.</p> <p>There is both incentive and opportunity for local authorities to inflate the returns to Central Government, and claim for funds that they are not entitled to under the scheme. There is also the potential for error.</p> <p>The Council received £1.9m, and therefore, there is the potential this could be materially overstated.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Gain an understanding of the Council's process for completing the fees and charges reimbursement grants returns to Central Government; ▶ Assess whether those returns appropriately follow the guidance; ▶ Review whether the values included can be supported by relevant and appropriate evidence.

Our response to significant risks

We have set out the significant risks identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

	What is the risk?	What will we do?
<p>Valuation of land and buildings and investment property</p> <p>Financial statement impact</p> <p>If land and buildings or investment property are incorrectly valued this would have the impact of understating expenditure</p>	<p>Land and Buildings (L&B) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.</p> <p>Material judgemental inputs and estimation techniques are required to calculate the year-end L&B and IP balances held in the balance sheet.</p> <p>As the Council's asset base is significant, and the outputs from the valuers are subject to estimation, there is a higher risk that L&B and IP may be under/overstated or the associated accounting entries incorrectly posted.</p> <p>We are required to undertake procedures on the use of experts and assumptions underlying fair value estimates.</p> <p>The risk is heightened for traditional retail assets due to market difficulties, partly arising from the advent of Covid-19 (C-19), such as reduced consumer confidence and competition from internet based retailers with lower cost bases. This has led to a large number of retailers, including well known names, closing stores, going into administration or otherwise seeking to reduce their rental costs by renegotiating existing leases, perhaps by way of a Creditors Voluntary Arrangements. These difficulties have had a direct impact on the value of the retail units (high street shops, out of town retail parks and shopping centres) leased to retailers or owned by them.</p>	<p>We will:</p> <ul style="list-style-type: none"> ▶ consider the competence, capability and objectivity of the Council's valuers; ▶ consider the scope of valuers' work; ▶ ensure Property has been revalued with sufficient frequent not to be materially misstated as required by the Code; ▶ consider if there are any specific changes to assets that should have been communicated to the valuer(s); ▶ sample test key inputs used by the valuer(s) when producing valuations; ▶ consider the results of the valuers' work; ▶ challenge the assumptions used by the Council's valuers by reference to external evidence and our EY valuation specialists (where necessary); ▶ test journals for the valuation adjustments to confirm that they have been accurately processed in the financial statements; ▶ test a sample of assets revalued in year to confirm that the valuation basis is appropriate and the accounting entries are correct; and ▶ review assets that are not subject to valuation in 2020/21 to confirm the remaining asset base is not materially misstated.

Audit risks

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
<p><u>Pension asset Valuation</u></p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council 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>The Council's pension fund asset is a material estimated balance and the Code requires that this asset be disclosed on the Council's balance sheet. At 31 March 2020 this totalled £25,335k.</p> <p>The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the 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. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We will:</p> <ul style="list-style-type: none"> ▶ Liaise with the auditors of West Sussex Pension Fund to obtain assurances over the information supplied to the actuary in relation to West Sussex County Council. ▶ Assess the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and ▶ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.
<p><u>Accounting for Covid business grants</u></p> <p>Central Government have provided a number of new and different Covid-19 related grants to local authorities during the year. There are also funds that have been provided for the Council to disseminate to other bodies.</p> <p>Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in the 2020/21 statements. The Council needs to assess whether it is acting as a principal or agent, with the accounting to follow that decision. For those where the decision is a principal, it also needs to assess whether there are any initial conditions that may also affect the recognition of the grants as revenue during 2020/21.</p>	<p>We will:</p> <ul style="list-style-type: none"> ▶ Review the Council's decision for new grant or funding arrangements whether it is acting as principal or agent; ▶ Review whether any initial conditions are attached to grants impacting their recognition; ▶ Assess whether the accounting appropriately follows those judgements; and ▶ Check the Council has adequately disclosed grant income received in the year, under both principal and agent arrangements.

Other areas of audit focus (continued)

What is the risk/area of focus?

What will we do?

Going Concern: Compliance with ISA 570

The standard is effective for audits of financial statements for periods commencing on or after 15 December 2019. This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.

CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 states that an authority's financial statements shall be prepared on a going concern basis; the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future and can only be discontinued under statutory prescription.

However, ISA 570, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report.

The revised standard increases the work we are required to perform when assessing whether the pension fund is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards, and we have therefore judged it appropriate to bring this to the attention of the Audit Committee.

To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.

The revised standard requires:

- ▶ auditor's challenge of management's identification of events or conditions impacting going concern, more specific requirements to test management's resulting assessment of going concern, an evaluation of the supporting evidence obtained which includes consideration of the risk of management bias;
- ▶ greater work for us to challenge management's assessment of going concern, thoroughly test the adequacy of the supporting evidence we obtained, evaluate the risk of management bias, and make greater use of the viability statement. Our challenge will be made based on our knowledge of the pension fund obtained through our audit, which will include additional specific risk assessment considerations which go beyond the current requirements;
- ▶ a stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and
- ▶ necessary consideration regarding the appropriateness of financial statement disclosures around going concern.

Please note that due to the advent of Covid-19 we performed additional detailed work over the Council's assessment of Going Concern in our 2019/20 audit. We do not expect the change in ISA to significantly increase our work beyond the work performed in 2019/20. However, we will discuss the detailed implications of the new standard with finance staff ahead of the 2020/21 accounts production.

Other areas of audit focus (continued)

Auditing accounting estimates

ISA 540 (Revised) - Auditing Accounting Estimates and Related Disclosures applies to audits of all accounting estimates in financial statements for periods beginning on or after December 15, 2019.

This revised ISA responds to changes in financial reporting standards and a more complex business environment which together have increased the importance of accounting estimates to the users of financial statements and introduced new challenges for preparers and auditors.

The revised ISA requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether there is a significant risk or not. At the same time, we expect the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area.

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The changes to the standard may affect the nature and extent of information that we may request and will likely increase the level of audit work required, particularly in cases where an accounting estimate and related disclosures are higher on the spectrum of inherent risk. For example:

We may place more emphasis on obtaining an understanding of the nature and extent of your estimation processes and key aspects of related policies and procedures. We will need to review whether controls over these processes have been adequately designed and implemented in a greater number of cases.

We may provide increased challenge of aspects of how you derive your accounting estimates. For example, as well as undertaking procedures to determine whether there is evidence which supports the judgments made by management, we may also consider whether there is evidence which could contradict them.

We may make more focussed requests for evidence or carry out more targeted procedures relating to components of accounting estimates. This might include the methods or models used, assumptions and data chosen or how disclosures (for instance on the level of uncertainty in an estimate) have been made, depending on our assessment of where the inherent risk lies.

You may wish to consider retaining experts to assist with related work. You may also consider documenting key judgements and decisions in anticipation of auditor requests, to facilitate more efficient and effective discussions with the audit team.

We may ask for new or changed management representations compared to prior years.



03

Value for Money Risks





Value for money

The Council's responsibilities for value for money

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

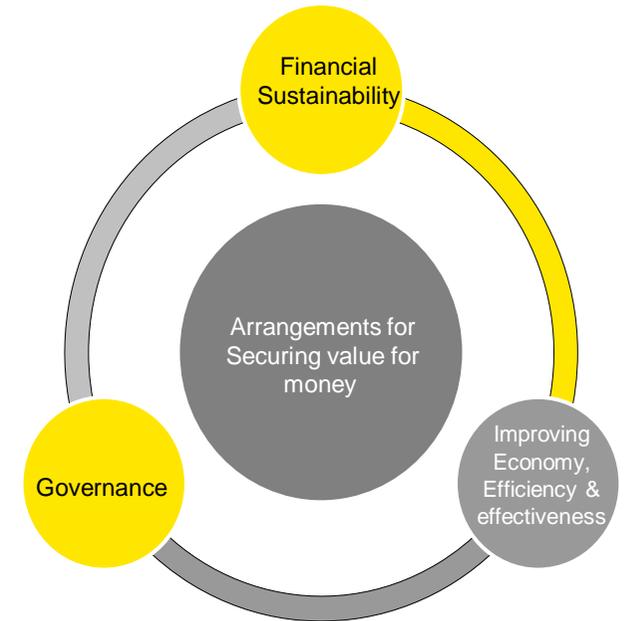
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailor's the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Auditor responsibilities under the new Code

Under the 2020 Code we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer overall evaluation criterion which we need to conclude on. Instead the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability
How the Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance
How the Council ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness:
How the Council uses information about its costs and performance to improve the way it manages and delivers its services.





Planning and identifying VFM risks

The NAO's guidance notes require us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations. This is a change to 2015 Code guidance notes where the NAO required auditors as part of planning, to consider the risk of reaching an incorrect conclusion in relation to the overall criterion.

In considering the Council's arrangements, we are required to consider:

- The Council's governance statement
- Evidence that the Council's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates and other bodies and
- Any other evidence source that we regard as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

- Exposes - or could reasonably be expected to expose - the Council to significant financial loss or risk;
- Leads to - or could reasonably be expected to lead to - significant impact on the quality or effectiveness of service or on the Council's reputation;
- Leads to - or could reasonably be expected to lead to - unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the Council;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves, or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Council's reported performance;
- Whether the issue has been identified by the Council's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Council has had to respond to the issue.



Value for money

Responding to identified risks

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the audit committee.

Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the 2020 Code has the same requirement as the 2015 Code in that we should refer to this by exception in the audit report on the financial statements.

However, a new requirement under the 2020 Code is for us to include the commentary on arrangements in a new Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Status of VfM planning

We have yet to commence our detailed VFM planning. We will present the outcome of risk assessment at the next Audit Committee



04

Audit materiality



Materiality

Materiality

For planning purposes, materiality for 2020/21 has been set at £1,500k. This represents 2% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.

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Gross expenditure
on provision of services
£75,002k

Planning
materiality
£1,500k

Performance
materiality
£1,125k

Audit
differences
£75k

We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality - the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality - the amount we use to determine the extent of our audit procedures. We have set performance materiality at £1,500k which represents 75% of planning materiality.

Audit difference threshold - we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, and collection fund that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Audit Committee, or are important from a qualitative perspective.



05

Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

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

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO

2. Arrangements for securing economy, efficiency and effectiveness (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.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- ▶ Identifying and understanding the key processes and internal controls; and
- ▶ Substantive tests of detail of transactions and amounts.

For 2020/21 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

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

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

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

Internal audit:

We will regularly meet with the Chief Internal Auditor, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.



06

Audit team



Audit team and the use of specialists

The core audit team is lead by Andrew Brittain, Associate Partner and Jack Dunkley as Manager.

As noted on page 8 Elizabeth Jackson will replace Andrew Brittain as Key Audit Partner for Horsham in April 2021

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The area where either EY or third party specialists provide input for the current year audit is:

Area	Specialists
Pensions IAS 19 entries	Hymans Robertson, PwC Actuaries and EY Actuaries
Property valuation	Wilks Head & Eve, and EY Real Estates

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.



07 Audit timeline





Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2020/21.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit committee timetable	Deliverables
	November		
	December		
	January		
	February		
	March		
Planning: Risk assessment and setting of scopes	April	Audit Committee	Audit Planning Report
	May		
	June		
Year end audit: Audit Completion procedures	July	Audit Committee	Audit Results Report Audit opinions and completion certificates
	August		
	Autumn	Audit Committee	Annual Audit Letter

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08

Independence



Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage

- ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us;
 - ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
- The overall assessment of threats and safeguards;
Information about the general policies and process within EY to maintain objectivity and independence.

Final stage

- ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- ▶ Details of non-audit/additional services provided and the fees charged in relation thereto;
- ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
- ▶ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner
- ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;
- ▶ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and
- ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

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

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Andrew Brittain, your audit engagement partner, and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved.

When the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you.

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

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

Self review threats

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

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

Management threats

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

There are no management threats at the date of this report.

Relationships, services and related threats and safeguards

Other threats

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

There are no other threats at the date of this report.

Other communications

EY Transparency Report 2020

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2020 and can be found here:

<https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2020>



09

Appendices



Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2020/21	Scale fee 2020/21	Final Fee 2019/20
	£	£	£
Total Fee - Code work	38,572	38,572	38,572
Scale fee Rebasing: changes in the work required to address professional and regulatory standards (1)	20,352	-	20,352
Revised proposed scale fee	58,924	38,572	58,924
Change in scope (2, 3)	TBC	-	9,054
Total audit fee	TBC	38,572	67,978
Non-audit services (Housing Benefit subsidy certification) (4)	N/A	N/A	43,556
Total fee	TBC	38,572	111,534

Note:

(1) As detailed in our 2019/20 annual audit letter we have submitted a proposed rebasing of the scale fee. PSAA are yet to review conclude on the rebasing.

(2) The prior year scale fee variation has been agreed with management but is still subject to agreement with the PSAA.

(3) As noted in the main section of this report we have identified new risks for 20/21, as well as a change in ISA 540, 570 and the requirements on VfM reporting. These changes will impact on the cost of delivering the 20/21 audit.

(4) The additional housing benefits subsidiary fee has been agreed with management. In order to certify the claim we were required to perform extended testing on 16 different fail types.

All fees exclude VAT.

The agreed fee presented is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.

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

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

Appendix B

Required communications with the Audit Committee

We have detailed the communications that we must provide to the Audit Committee

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.	
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.	
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report	
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit results report	
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	Audit results report	
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Corrected misstatements that are significant ▶ Material misstatements corrected by management 	Audit results report	

Appendix B

Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	Audit results report
Related parties	<ul style="list-style-type: none"> ▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	Audit results report
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Planning Report Audit Results Report
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Audit results report

Appendix B

Required communications with the Audit Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	  When and where	
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	Audit results report	
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	Audit results report	
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report	
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report	
Auditors report	<ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit results report	
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit plan is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Audit planning report Audit results report	
Certification work	Summary of certification work undertaken	Certification report	

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting.
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the financial statements. Reading other information contained in the financial statements, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- ▶ Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition.

Measurement basis of planning Materiality in context of the public sector

The measurement basis for determining materiality is a matter of professional judgment. The measurement base we believe to be most important to the users of the financial statements affects our decision. In the case of a public sector entity, the Financial Reporting Council recommended practice - Practice note 10: audit of financial statements of public sector bodies in the United Kingdom (PN10) states that legislators and regulators are often the primary users of its financial statements. Therefore, we consider these groups use of the financial statements when selecting our measurement basis for materiality. We broadly categorise the measurement bases into three categories;

- Earnings-based measures include pre-tax income; earnings before interest, taxes, depreciation, and amortization (EBITDA); and gross margin
- Activity-based measures include revenues and operating expenses
- Capital-based measures include equity and assets

The Financial Reporting Council's PN10 states the following:

'Gross expenditure or gross assets/liabilities may be more appropriate than profit or revenue as benchmarks for setting materiality for financial statements as a whole'

Our Global methodology sets out that gross expenditure, which is defined as all expenditure the Council incurs including Housing benefits, is the appropriate measurement basis for our Public Sector audits and is therefore used consistently across our Local Government audits.

Annually, our Professional Practice Directorate (PPD) review this approach compared with other firms involved in the audit of Local Government. This review shows gross expenditure is used as the measurement basis for materiality consistently across the sector.

Materiality determines:

- ▶ The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- ▶ The level of work performed on individual account balances and financial statement disclosures.

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

Report to Audit Committee

14th April 2021

By the Director of Corporate Resources

INFORMATION REPORT



Horsham
District
Council

Partially Exempt under Paragraph 5 of Part 1 of
Schedule 12A to the Local Government Act 1972

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 Members understand the key risks facing the Council.

Background Papers

Corporate Risk Register

Wards affected: All

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

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 and exempt appendix 2).

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

	CRR02 CRR03 CRR06 CRR32 CRR33 CRR34 CRR35a	CRR18	CRR01c	CRR19 CRR35
		CRR17 CRR36	CRR01b CRR05	

There are six risks which are currently considered to be high and nine medium.

The high-risk area relates to the following:

CRR19	Ongoing reduction in planning fees; reduced car parking income; increased homelessness; and increased housing benefit claims; leisure centres; property income; investment income.
CRR35	COVID-19 (i) The Council is unable to deliver statutory front line services to the community due to, for example, staff shortages or unavailability of key officers. (ii) Substantial financial loss to the Council.
CRR01c	Decrease in Rateable Value due to appeals and businesses going under. This may cause the Council to fall below the business rates baseline, resulting in loss of funding.
CRR01b	Funding from Government is less generous than assumed in the Medium Term Financial Strategy (MTFS) from 2021
CRR05	Officers are either unaware of expected controls or do not comply with control procedures.
CRR18	(i) A malicious attacker exploits a known or unknown security weakness to penetrate the Council's ICT systems. The level of threat has been raised by the Cabinet Office to amber. (ii) IT not working due to environmental problems: fire, flood, power cut.

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. Risk CRR32 will be removed from the next corporate risk register following the withdrawal of the NHS appeal in March 2021, ending the prospect of any further High Court process. Two Risks, CRR33 and CRR36 are shown in the exempt appendix 2.

3.2 Departmental Risk Registers

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 as this report is for noting.

7 Legal Consequences

- 7.1 There are no legal consequences as this report is for noting.

8 Staffing Consequences

- 8.1 There are no staffing consequences as this report is for noting.

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.

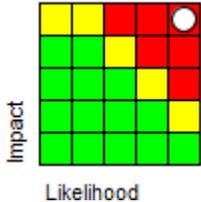
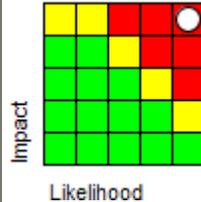
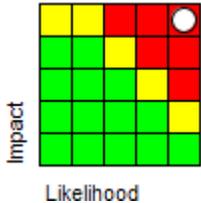
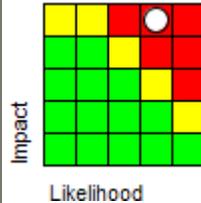
10 Other Considerations

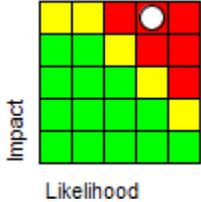
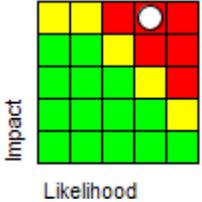
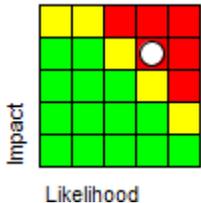
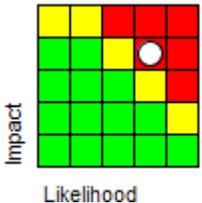
- 10.1 Risk management encompasses all risks within the organisation, including strategic, operational, and project/change risks. This includes consideration of Crime & Disorder; Human Rights; Equality & Diversity; and Green issues.

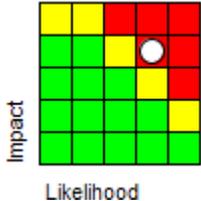
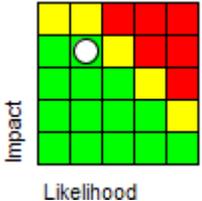
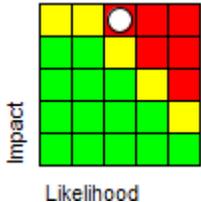
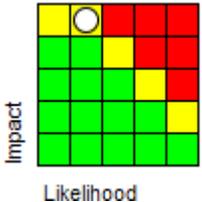
Appendix 1 Corporate Risk Report March 2021

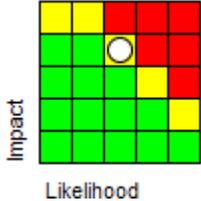
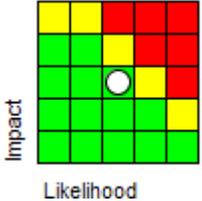
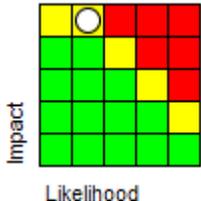
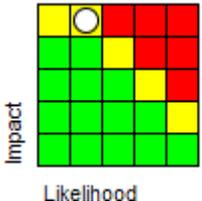
Risks ordered by RAG not numerically

Generated on: 09 March 2021

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
<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. The impact on the financial markets and the pound following Covid-19 has brought forward a deeper recession and caused a slowdown in the property and financial markets. <u>Risk:</u> Ongoing reduction in planning fees; reduced car parking income; increased homelessness; and increased housing benefit claims, leisure centres, property income; investment income.</p>	Financial Service Delivery Compliance with Regulations	Jane Eaton		CRR.19.2 Monitor the external environment	Dominic Bradley		<p>March 2021 update</p> <p>Covid-19 has triggered a sudden and deep recession. The impact on the economy and the Council's income in particular is severe. Estimated £5.4m shortfall compared to budget.</p> <p>Swift action was undertaken to review income and expenditure, including a staff restructure and a reduction in capital programme. This, together with one-off Government funding for expenditure and income for the impact of COVID-19 is expected to cover the Council's 2020/21 losses.</p> <p>A balanced budget was set for 2021/22 as a result of the November 2020 restructure and a better than expected one-year settlement which included further one-off Covid-19 related support. However, budget shortfalls approaching £3m a year are likely by the end of the medium term financial period and the future is very uncertain.</p>
				CRR.19.3 Monitor internal indicators, particularly income generation and respond appropriately to adverse trends	Dominic Bradley		
<p>CRR35 <u>Cause:</u> COVID-19 is an illness that can affect your lungs and airways and is caused by a virus called coronavirus. The illness is highly contagious, and people with underlying health conditions are at a higher risk of becoming very ill. This includes older adults, and/or people with chronic medical conditions such as heart disease; diabetes; and lung disease. <u>Risk:</u></p>	Failure of business objectives Health and safety Financial Service Delivery Compliance with regulations Reputation Staffing and culture	Glen Chipp		CRR.35.1 Essential services have been highlighted with the intention of redeployment of staff from other service areas. Staffing shortages on refuse collection may benefit from availability in the labour market.	Jane Eaton		<p>March 2021 Update</p> <p>(i) The post-Christmas wave, although severe, led only to minor issues in Waste and Street Cleaning and all services were delivered without need for redeployment.</p> <p>(ii) Revenues and Benefits caseload remains high and Business Rate payment is low but beginning to recover. With no further Court dates this year recovery will be difficult.</p>
				CRR.35.2 Funding from Government	Jane Eaton		

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
(i) The Council is unable to deliver statutory front line services to the community due to, for example, staff shortages or unavailability of key officers. (ii) Substantial financial loss to the Council.							Council agreed to use remaining hardship grant to clear debts of CTRS claimants in arrears. (iii) Funding from Government now looks likely to bring the Council close to break-even at year end. The situation for 2021/22 remains uncertain.
CRR01c Financial <u>Cause:</u> The Council is reliant on Central Controlled Government funding (e.g. Business Rates). <u>Risk:</u> Decrease in Rateable Value due to appeals and businesses going under. This may cause the Council to fall below the business rates baseline, resulting in loss of funding.	Reductions in funding Financial	Jane Eaton		CRR.01c.1 Continue to keep a watching brief	Dominic Bradley		March 2021 update With business rates reform postponed and the COVID-19 recession, further reductions in business rates seem inevitable. The impact in 2021/22 may depend on whether Government gives business rate relief to retail and leisure businesses on the same scale again in 2021/22. Appeals to the Valuation Office are increasing, which could trigger backdated refunds. The appeals provision has been significantly increased.
CRR01b Financial <u>Cause:</u> The Council is reliant on Central Controlled Government funding (e.g. Business Rates). <u>Risk:</u> (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 CRR.01b.2 Revisit the MTFS and if necessary 2020/21 budget in year, with Cabinet in September.	Dominic Bradley Dominic Bradley		March 2021 update Government has withdrawn the changes to business rates and revenue funding through the Fair Funding Review for the time being. This has removed this part of the risk temporarily, although Government has only given a one-year settlement in 2021/22, giving little insight into the medium term. With income severely reduced, £3m budget deficits are expected across later years of the MTFS unless significant action is taken. Further Government funding is not expected.

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
<p>CRR05 Governance <u>Cause:</u> Managers are responsible for ensuring that controls to mitigate risks are consistently applied.</p> <p><u>Risk:</u> Officers are either unaware of expected controls or do not comply with control procedures.</p>	<p>Failure of business objectives</p> <p>Health & Safety</p> <p>Financial</p> <p>Service Delivery</p> <p>Compliance with Regulations</p> <p>Personal Privacy Infringement</p> <p>Reputation damage</p>	Jane Eaton		CRR.05.1 Officer training	Jane Eaton		<p>March 2021 Update</p> <p>Compliance issues have continued to increase during the 2021 lockdown. Annual Assurance Statements indicated poor understanding by managers of the issues the council is facing. The Annual Governance Statement action plan being drafted includes an increased focus on training for management and staff in this area. Online training is already in preparation. The s151 and Monitoring Officers are planning visits to sections with known difficulties as lockdown ends.</p>
				CRR.05.3 All Service Managers required to sign an Assurance Statement. (By 30th June Annually) (Cyclical)	Jane Eaton		
				CRR.05.4 "Cultural compliance" Internal Audits identify service-based issues and help managers to resolve these.	Jane Eaton		
<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-disruption to Council services.</p> <p>Cost of investigation and recovery of systems.</p> <p>Fraud/theft.</p> <p>Loss of the integrity of Council Records.</p> <p>Penalties from the ICO.</p> <p>Adverse media coverage.</p>	Jane Eaton		CRR.18.1 Staff and Member Training	Claire Ward / Robert Laban		<p>March 2021 update:</p> <p>Level of attack, particularly Ransomware attacks has been raised by the Cabinet Office. Remediation ongoing.</p> <p>CRR.18.1 IT Security Training has been rolled out to all staff and the IT Security Officer has reviewed the training and some items have been sent out to staff. More staff training to follow.</p> <p>CRR.18.2 This work is ongoing.</p> <p>CRR.18.3 All work is ongoing.</p> <p>CRR.18.4 Patching of devices ongoing.</p> <p>CRR.18.5 PSN Accreditation</p> <p>CRR.18.6 This work is ongoing. New policies have been updated and are reviewed regularly.</p>
				CRR.18.2 Awareness of current threats	Andrea Curson		
				CRR.18.3 An effective ICT Service delivery team	Andrea Curson		
				CRR.18.4 Effective patching and updates to mitigate known vulnerabilities	Andrea Curson		
				CRR.18.5 Compliance with expected security standards. (PSN, PCI-DSS)	Andrea Curson		
				CRR.18.6 Effective policies in place which outline security requirements for users of ICT	Andrea Curson		
				CRR.18.7 Effective back-up and recovery processes in place for Council ICT systems.	Andrea Curson		
				CRR.18.8 Transferring the risks to the cloud provider	Andrea Curson		

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
				CRR.18.9 LGA Cyber Security review plan developed, approved internally and being carried out.	Andrea Curson		CRR.18.7 This work is ongoing. CRR 18.8 This work is ongoing CRR 18.9. Work is progressing.
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 any 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		March 2021 update The service continues to maintain a robust QC process to mitigate financial loss via a qualified subsidy loss. The 2019/20 audit passed with minimal extra identified errors. However, in February 2021 colleagues found a long-standing error relating to a claim assessed under CenSus regime leading to an overpayment of £35,000. This, combined with a small decline in 2020/21 quality due to workload pressure puts the Council closer than it has ever been to the lower threshold for 2020/21 since leaving the CenSus partnership. In the event of the audit putting the claim above threshold then we will complete a full test of the cell.
CRR02 Managerial / Professional <u>Cause:</u> The Council has a legal obligation to protect personal data. The Information Commissioners powers are much more far reaching since they changed in May 2018. <u>Risk 1:</u> Major data breach or leak of sensitive information to a third party. <u>Risk 2:</u> Risk of significant ICO fine for non-compliance with new General Data Protection Regulations (GDPR).	People and businesses come to harm and suffer loss that might not otherwise have occurred Complaints / claims / litigation Resources consumed in defending claims Financial losses Fines from regulators Adverse publicity Reputation damage	Jane Eaton		CRR.02.1 Develop appropriate processes & procedures which underpin the IT Security Policy CRR.02.3 Provide a programme of Induction and at least annual training on Information Security to all staff. CRR.02.4 Annual PSN Accreditation CRR.02.5 Representatives from each department meet every other month to maintain compliance, updates and training	Andrea Curson / Sharon Evans Robert Laban Andrea Curson Sharon Evans		March 2021 update: CRR.02.1 This work is ongoing CRR.02.3 HR has rebuilt the council's e-learning function and the L&D consultant will work with the Information Security Officer to support any rollout of required training, induction training and refreshers as needed. CRR02.4 PSN Accreditation work 2020 Accreditation obtained. Looking to book in Health Checks to allow us to work towards 2021 Accreditation. CRR02.5 This is continuing and is ongoing.

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
<p>CRR03 Legal <u>Cause:</u> The Civil Contingencies Act places a legal obligation upon the Council, with partners, to assess the risk of, plan, and exercise for emergencies, as well as undertaking emergency and business continuity management. The Council is also responsible for warning and informing the public in relation to emergencies, and for advising local businesses.</p> <p><u>Risk:</u> The Council is found to have failed to fulfil its obligations under the Act in the event of a civil 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>March 2021 Update</p> <p>CRR.03.1 Lessons identified through departmental de-briefs are being incorporated into corporate BC plan.</p> <p>2nd wave plan has been written and agreed and implemented by the BC working group.</p> <p>CRR.03.2 All departments asked to complete debrief proforma to capture valuable lessons learned from the last 5 months.</p> <p>Full reviews of department BC plans were due to take place in Oct/Nov but were pushed back to the new year (Mar/Apr) by the second wave.</p> <p>CRR.03.5 All bite size sessions postponed. Debrief and review sessions will be introduced and run once COVID-19 guidelines allow. (Estimated May/June 2021 as roadmap restrictions will be underway by then assuming no extensions take pace).</p> <p>CRR.03.6 BC working group still meeting every two weeks and now the recovery roadmap has been outlined a return to business as usual can be progressed.</p>
				CRR.03.2 Update departmental business continuity plans and regular review.	Rob Jarvis		
				CRR.03.5 Bitesize workshops to address new procedures and processes.	Rob Jarvis		
<p>CRR06 Physical <u>Cause:</u> The Council is responsible for the health & safety of its clients, staff and other stakeholders, owns and maintains significant assets, and also has responsibility for H&S in some partner organisations where it does not have operational control.</p> <p><u>Risk:</u> A health & safety failure occurs.</p>	<p>People come to harm</p> <p>Complaints/claims/ litigation</p> <p>Financial losses</p> <p>Censure by audit / inspection</p> <p>Reputation damage</p> <p>Adverse effect on morale</p> <p>Stress and absenteeism</p>	Glen Chipp		CRR.06.2 H&S Management Forum reviews corporate inspection strategy quarterly.	Robert Laban / Health & Safety Officer		<p>March 2021 update:</p> <p>CRR.06.2 A corporate inspection strategy and training programme have been implemented. Now an ongoing/ quarterly review by the H&S Management Forum.</p>
				CRR.06.3 Training programme includes annual refreshers on a rolling programme. All mandatory training must be completed as part of probation	Robert Laban		

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
<p>CRR32 TO BE REMOVED <u>Cause:</u> 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. <u>Risk:</u> Decrease in Rateable Value, and potentially backdated refunds to 2010.</p>	Reductions in funding Financial	Jane Eaton		CRR.32.1 Continue to keep a watching brief	Dominic Bradley		<p>March 2021 update:</p> <p>A High Court judicial review dismissed the original hearing in November 2019. The claimants appealed to the Court of Appeal and permission for consideration of the appeal was granted on 28 July 2020. On 18 March 2021 however, the appeal was dismissed by mutual consent.</p> <p>One NHS Foundation Trust appeal in the district had been received and was included in the business rates appeals provision at 31 March 2019. No separate provision has been created for appeals that have not yet been received.</p> <p>Following the dismissal of the appeal, this risk will be removed from the corporate risk register.</p>
<p>CRR34 <u>Cause:</u> Uncertainty in the UK and World economy. Instability and recent high-profile failures. <u>Risk:</u> Key contractor failure</p>	Financial	Jane Eaton		<p>CRR.34.1 Regularly check accounts of key suppliers</p> <p>CRR.34.2 Check public liability insurance of key suppliers</p> <p>CRR.34.3 Ask for key suppliers' business continuity plans</p> <p>CRR.34.4 Consider whether the failure of a key supplier needs to go in service business continuity plan</p>	<p>Heads of Service</p> <p>Heads of Service</p> <p>Heads of Service</p> <p>Heads of Service</p>		<p>March 2021 Update:</p> <p>The COVID-19 recession continues to make losses of contractors more likely. The business continuity group continues to monitor progress and we have not yet experienced failures among our suppliers.</p>
<p>CRR35a <u>Cause:</u> Covid-19 infection <u>Risk:</u> Serious risk to the health and safety of workers</p>	Failure of Health and safety, Service Delivery, Compliance with regulations, Reputational loss.	Jane Eaton		<p>CRR.35a.1 The director led Business Continuity Group to oversee H&S measures (staff H&S representative observes)</p> <p>CRR.35a.3 Regular updates on government advice on keeping safe</p> <p>CRR.35a.4 A balanced approach to home/office working in line with government advice</p>	<p>Jane Eaton</p> <p>Robert Laban</p> <p>Andrea Curson/Robert Laban</p>		<p>March 2021 update:</p> <p>Item CRR.35a.3 Regular updates on government advice on keeping safe.</p> <p>The work is ongoing and monitored fortnightly by the Business Continuity Group. The H&S adviser routinely reviews all new HSE, NHS guidance and updates corporate processes/accordingly. The Head of HR&OD communicates any changes as</p>

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
				CRR.35a.5 Re-modelling of workspaces to ensure social distancing	Brian Elliott		appropriate.
				CRR.35a.6 Provision of sanitary products and PPE	Brian Elliott		CRR.35a.4 A balanced approach to home/office working in line with government advice.
				CRR.35a.7 Risk assessments for offices and specific staff	Robert Laban		The work is ongoing and monitored fortnightly by the Business Continuity Group. SLT are reviewing strategic options for hybrid working post Covid; HR are developing new ways of working policies and process for consultation with staff.
				CRR.35a.8 Managed opening /closure of the Capitol, Museum, Leisure, Sports services and Reception in line with safety concerns	Vicky Wise		CRR.35a.7 Risk assessments for offices and specific staff. The work is ongoing and monitored fortnightly by the Business Continuity Group. The H&S Adviser has updated the corporate template for managers to make such assessment.

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By virtue of paragraph(s) 5 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Report to Audit Committee

14th April 2021

By the Director of Corporate Resources



INFORMATION REPORT

Not exempt

Draft Annual Governance Statement 2020/2021

Executive Summary

The annual review of the Council's governance, risk management and internal control arrangements has been undertaken to support the production of the Annual Governance Statement for 2020/2021. This review included information and assurance gathering processes to ensure that the published Annual Governance Statement is correct as well as a review of the Council's Governance framework against the best practice framework devised by CIPFA/SOLACE.

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

Recommendations

That the Committee is recommended:

- i) To approve the draft Annual Governance Statement for 2020/2021.

Reasons for Recommendations

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

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

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

Wards affected: All

Contact: Jane Eaton, Director of Corporate Resources.

Attachments:

- Appendix A: Annual Governance Statement 2019/2020
- Appendix B: Local Code of Corporate Governance
- Appendix C: Governance Assurance Framework
- Appendix D: AGS Action Plan 2020/2021
- Appendix E: AGS Action Plan 2021/2022

Background Information

1 Introduction and Background

- 1.1 The Accounts and Audit (England) Regulations 2015 require the Council to review, at least annually, the effectiveness of its governance arrangements and publish an Annual Governance Statement.
- 1.2 Senior officers have been consulted and supporting documentation has been updated to reflect the current position. A paragraph regarding COVID-19 has been included in section 15 of the Annual Governance Statement.

2 Relevant Council Policy

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

3 Details

- 3.1 The Annual Governance Statement for 2020/2021 is attached in Appendix A.

4 Next Steps

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

5 Outcome of Consultations

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

6 Other Courses of Action Considered but Rejected

- 6.1 None.

7 Resource Consequences

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

8 Legal Consequences

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

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

- (a) conduct a review of the effectiveness of the system of internal control required by regulation 3; and

(b) prepare an annual governance statement;

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

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

(i) by a committee; or

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

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

(i) a committee; or

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

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

9 Risk Assessment

9.1 There are no risks associated with this report.

10 Other Considerations

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

Horsham District Council Annual Governance Statement 2020 - 2021

1. SCOPE OF RESPONSIBILITY

Horsham District Council conducts its business in accordance with the law, regulations and proper standards and it protects public money from waste, extravagance or misappropriation. The Council has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way it provides its services, focusing on economy, efficiency and effectiveness.

Horsham District Council approved and adopted a Local Code of Corporate Governance on 22 March 2017. This is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA), and Society of Local Authority Chief Executives (SOLACE) Framework for Delivering Good Governance in Local Government. Residents and businesses can find a copy of the Local Code on our website. This statement explains how Horsham District Council complied with the Code during 2020/21 and how it meets the requirements of regulation 6(1)(b), the Accounts and Audit (England) regulations 2015 that require all relevant bodies to prepare an Annual Governance Statement.

2. THE GOVERNANCE ASSURANCE FRAMEWORK

Horsham District Council has a Governance Assurance Framework in place for the year ended 31 March 2021 and up to the date of the approval of the Annual Report and Statement of Accounts for the 2020/21 financial year.

The Council's Governance Framework explains how the Council controls and manages its services and strategies to deliver the Council's aims and objectives.

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

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

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

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

D: Determining and planning interventions; to ensure delivery of intended outcomes.

E: Developing the capacity through leadership and other individuals.

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

G: Delivering accountability through good practice in transparency, reporting and audit.

3. CORPORATE GOVERNANCE, VISION AND OBJECTIVES

The Council's Corporate Plan outlines the Council's vision, aims and objectives and aligns these with its Governance Assurance Framework. The Council approved its Corporate Plan on 12 February 2020 and covers the period 2019 - 2023.

- The Council aims to deliver high quality services that meet the needs of the local community. This is set out in the Council's Corporate Plan for Horsham which is the core of the Council's purpose and vision and defines the Council's key priorities and strategic aims. This is formally reviewed and updated each year.

- The Corporate Plan is supported by the Medium-Term Financial Strategy and the Council's annual budget to ensure the implications on the Council's finances are considered when the objectives are set.
- Departmental strategies and annual service plans are developed which support the delivery of the Corporate Plan, by identifying how each department contributes to the delivery of the overall aims and objectives of the Council.
- The Council's Performance Management Framework includes key performance indicators associated with the Corporate Plan. Performance on a basket of key corporate indicators is reported to the Senior Leadership Team, the Cabinet Leads and to the Overview and Scrutiny Committee.
- Every report submitted to the Cabinet or regulatory committees outlines how the recommended action helps to achieve one or more of the Corporate Plan priorities.

4. MEMBERS AND OFFICERS WORKING TOGETHER

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

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

A review of governance arrangements at the Council was reported to Full Council on 27 April 2016. The Governance Review focused on ensuring Horsham District Council has the most suitable and effective governance arrangements. The Council continues to operate the Cabinet Executive Model supported by a number of Policy Development Advisory Groups. The Governance Committee completed a further review of the Constitution during 2018/19 with a particular focus on the effectiveness of planning and decision making. This was reported to Council in April 2019. During 2020/21 the Governance Committee completed a review of the role of the Policy Development Advisory Groups. In addition, the operation of the Constitution is under constant review by the Monitoring Officer in consultation with the Governance Committee to ensure that its aims and principles are given full effect.

During 2020/21 the Overview and Scrutiny Committee carried out its work through the whole Committee with up to three Task and Finish Groups and no standing sub-committees.

The Council participates in a number of partnerships with other local authorities. In particular Revenues and Benefits, Building Control, Internal Audit and Procurement.

From 1 April 2018 the Council delegated its Revenues and Benefits service to the LGSS Councils for five years. From 1 April 2021 LGSS has been disbanded following the local government reorganisation in Northamptonshire. Two of the key partners Northamptonshire County Council and Northampton Borough Council cease to exist on 31 March 2021 and Cambridgeshire County Council has withdrawn from any further involvement in the service. The only remaining original member of the partnership, Milton Keynes, has taken over the running of the agreement until the end of its period. The future of the Revenues and Benefits service will be reviewed during 2021/22.

The 2019/20 trial of an extended procurement partnership with Mole Valley was successful and confirmed as an ongoing relationship in September 2020. In March 2021 Cabinet approved a continuation of the four way procurement partnership for four years, plus an extension of another four years if the good working of this partnership continued by 2025. The Council also engages in local community development work with other local public bodies.

5. VALUES AND HIGH STANDARDS OF BEHAVIOUR

The Council has incorporated in its Constitution a Member Code of Conduct and an Employee Code of Conduct. A register of declared interests is held for officers. All office-based officers are required to submit an annual declaration as well as all officers making declarations when needed. The extension of the officer requirement to all office-based officers was introduced in January 2020 and officers refreshed their declarations in January 2021. Office based officers have now also declared second jobs and family relationships with other officers and Members of the Council.

Members' Registers are available on the Council's website. Members review their registers annually. Members ensure that if there are changes to their interests that the Monitoring Officer for the Council is notified of these changes. The Standards Committee promotes and maintains high standards of conduct by Councillors and also considers whether a complaint or allegation of misconduct by a Member should be investigated. The Council has appointed two Independent People in accordance with the Localism Act 2011. The Council has two Parish Representatives who attend the Standards Committee.

As part of an ongoing Organisational Development Programme to ensure we have employees with the right skills, behaviours and attitudes, the organisation has developed core values of 'customer focus', 'achieving excellence' and 'our people'. The performance management process for staff changed in March 2020 from an annual appraisal to a minimum of four recorded performance and development discussions each year.

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

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

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

The Council's IT Security Officer updated the Council's IT Security Policy during 2020/21.

6. TAKING INFORMED AND TRANSPARENT DECISIONS AND MANAGING RISK

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

All Heads of Service are responsible for implementing strategies at departmental level ensuring adequate communication, training and the assessment and monitoring of risks. All officers are responsible for considering risk as part of everyday activities and provide input to the risk management process. Each Directorate Management Team reviews their service risks each quarter and each Project Team their Project Risks no less than once a quarter. An officer-led Risk Management Group reviews the corporate risk register quarterly before it proceeds to the Senior Leadership Team and the Audit Committee for review.

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

7. CAPACITY AND CAPABILITY OF MEMBERS AND OFFICERS

Training programmes for Council employees are identified from their four-six weekly recorded "conversation" with their manager. All new recruits have a series of basic courses in key areas such as health and safety, data protection, IT security and GDPR which they must complete before they pass their induction, and all staff complete an annual refresher in these core subject areas.

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

8. ENGAGEMENT WITH LOCAL PEOPLE AND OTHER STAKEHOLDERS

The Council works hard to communicate its aims for the District. It conducts a wide range of service specific surveys to ascertain the views and needs of its residents. The Council consults with Parish Councils and the Rural Towns Forum (i.e. a consortium of parish level Community Partnerships). It is a leading partner within Community Safety and Health and Wellbeing Partnerships, linking statutory and non-statutory agencies to provide a coordinated approach to delivery of the programme across the District. The Council works with voluntary and community sector partners to ensure effective provision of community engagement activities across the district. These partnerships share feedback from their own stakeholder consultations.

These groups help the Council to assess the priorities of different sections of the community that have different needs, particularly surrounding grants and funding, Parish Councils and areas that need targeted service delivery. Compliments and feedback received are monitored and reported to the Overview and Scrutiny Committee as part of the quarterly performance management report.

9. DETAILS OF KEY GOVERNANCE MECHANISMS

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

10. WHOLLY OWNED BODIES

The Council owns 100% of a housing company, Horsham District Homes Limited, which owns 100% shares of a holding company, Horsham District Homes (Holdings) Limited.

The Council's Director of Community Services, Head of Property and Facilities and the Corporate Accountant are directors of Horsham District Homes Ltd. This company builds domestic dwellings.

The Council's Director of Community Services, the Head of Property and Facilities, Head of Housing and Community Services, and the Corporate Accountant are directors of Horsham District Homes (Holdings) Ltd. This company lets and operates owned or leased real estate.

The Cabinet and Full Council make decisions relating to these subsidiaries. Full Council approves funds for the companies to operate. These are loans and equity within the development company. Full Council considers any land disposals to the development company that trigger Secretary of State sign-off requirement. The Cabinet reviews each individual development business case and approves the allocation of S106 commuted sums funding to enable the property holding company to acquire the built units from the development company.

11. REVIEW OF EFFECTIVENESS OF THE GOVERNANCE FRAMEWORK

The Council's governance framework includes decision-making processes set out in the Council's Constitution, together with rules and procedures. The Council operates the Cabinet Executive Model.

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

- The Council comprises 48 Members and, as a whole, takes decisions on budget and policy framework matters as defined by the Constitution, including deciding on the aims and objectives of the Council as set out in the Corporate Plan and other decisions that are reserved in law to be taken only by the Council. In February 2020 the Council approved a new Corporate Plan for the current Council term.
- The Overview and Scrutiny Committee is able to scrutinise the decisions of the Cabinet and maintains an overview of Council activities which includes monitoring performance management.
- The Cabinet is ultimately responsible for considering overall financial and performance management.
- The Standards Committee meets quarterly and at every meeting considers an update report on complaints against Councillors. The Committee also keeps under review the Council's policies and procedures for maintaining high ethical standards.
- The Governance Committee meets quarterly and reviews governance with regard to the reviewing and revising of the Council's Constitution.

- The Audit Committee meets quarterly to review the Council's risk management and control arrangements. It also reviews the Council's Treasury Management and Investment Strategies and has delegated authority to review and approve the statutory financial statements and consider reports from the Council's external auditors.
- The role of the Director of Corporate Resources (as Chief Financial Officer) includes stewardship and probity in the use of resources and performance, extracting best value from the use of those resources. The Chief Financial Officer complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government. This post also fulfils the statutory roles of Money Laundering Reporting Officer and Senior Information Risk Owner.
- The Head of Legal and Democratic Services (as Monitoring Officer) has a duty to ensure that operations are carried out lawfully. This post also carries out the statutory Data Protection Officer role.
- An annual internal audit plan is developed, in consultation with senior managers, which outlines the assignments to be carried out and estimated resources. The audit plan is sufficiently flexible to enable the Orbis Partnership Internal Audit team to respond to changing risks and priorities of the organisation.

12. IMPROVEMENTS DURING THE YEAR

The 2019/20 Annual Governance Statement included an action plan for 2020/21. Progress against the risks identified is reported in Appendix D. The following improvements to the Governance Framework were recognised during 2020/21:

- The introduction of annual refresher training for all office-based employees in key areas such as health and safety, IT security and the General Data Protection Regulations.
- A simplification of the Council's suite of IT security policies into one clearer policy.

13. MINOR GOVERNANCE ISSUES DURING THE YEAR

The COVID-19 pandemic has generally weakened officer compliance with the Council's governance due to remote working, the need to work quickly and officer desire to help people and businesses in difficulty without fully thinking through the implications of their actions. Issues included:

- Poor initial control over purchases of food for residents using purchase cards during the first lockdown.
- Officers taking and retaining money for Trade Waste services and not forwarding them through the Council's service.
- Officers giving free parking to a struggling business during lockdown without authority.
- Managers agreeing contractual changes without considering wider implications and additional payments to staff for extra work during lockdown without contract, and exceeding normal overtime allowances.
- Officers giving pre-Christmas offers to customers without Council approval and billing for the new prices on garden waste before Council approval.

Once found, Management investigated these issues in the normal way and took disciplinary action where needed. However, many of these issues seemed to arise due to officer ignorance of the Council's governance arrangements, and the absence of early intervention by the Council's governance officers while officers worked alone for long parts of the year.

Recommendations for the improvement in minor breaches are in the action plan for 2021/22 shown at Appendix E.

In addition Internal Audit found a higher than normal number of services failing to comply with governance processes and awarded more “partial” or “minimal” assurances on their audits than normal. These audits were:

- BACS - partial
- Community Lottery – partial
- Travel Expenses – minimal
- Building Control Cultural compliance – partial
- Capitol Cultural Compliance follow up – partial
- Purchase cards – partial (tbc)

These audits have been, or will be, reported to the Audit Committee who review the actions proposed to resolve high and medium priority issues.

The improvements around the sign off of Cabinet and Committee papers were again not achieved in the year due to the Democratic Services Manager leaving the organisation.

14. SIGNIFICANT GOVERNANCE ISSUES

New significant governance issues are reported to the Audit Committee. This year there were no significant issues that needed immediate reporting.

15. IMPACT OF COVID-19 ON OPERATIONS

How the Council will operate in a world after the final COVID-19 lockdown or as the country learns to live with COVID-19 are, as yet, unclear. Officers have started work on revisiting how we manage our employees and how we monitor our services. This work needs to be completed.

How Councillor mechanisms will work is also unclear because the Government has not yet decided how it will allow public meetings to be held in the future.

The 2021/22 Action Plan in Appendix E includes actions on these pieces of work.

Certification

It is our opinion that Corporate Governance, along with supporting controls and procedures, remains strong for the Council albeit we note there was more non-compliance with controls and procedures this year. We have put in place an action plan to increase officer awareness and reduce the frequency of this type of issue.

Signed

.....

Leader of the Council

.....

Chief Executive

On behalf of the Members and senior officers of the Council

Appendix B - HDC Code of Corporate Governance

HORSHAM DISTRICT COUNCIL LOCAL CODE OF CORPORATE GOVERNANCE

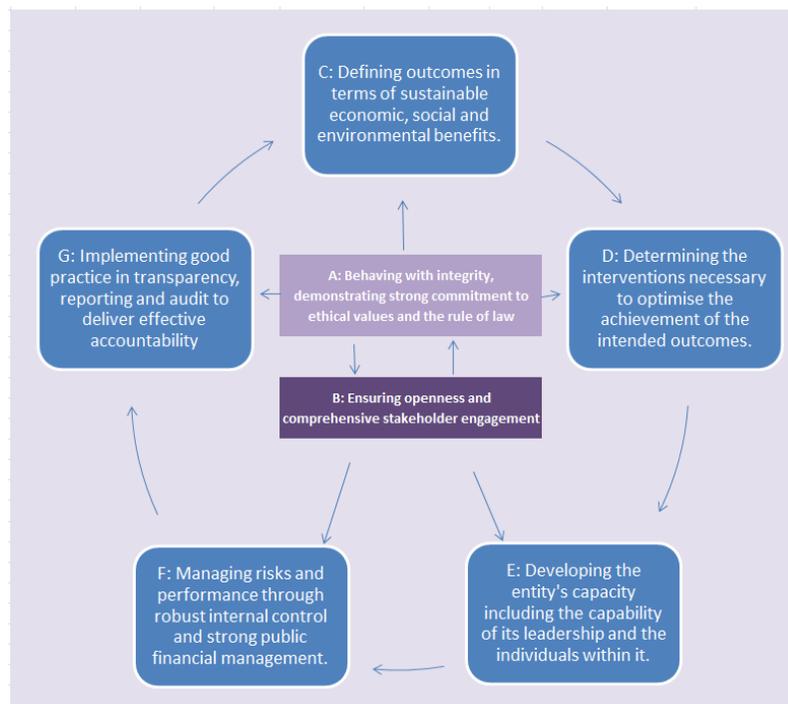
Corporate Governance comprises the systems, processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

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

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

A: Integrity; Ethical Values: the Rule of Law

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



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

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

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

- The Corporate Plan for the period 2019-23 is published on the Council's website identifies key priorities.
- Departmental Service Plans and worklists break down and monitor the objectives of the Corporate Plan with quarterly reports to Overview & Scrutiny Committee.
- The Council ensures objectives are deliverable by producing a Medium Term Financial Strategy and detailed financial budget plans.
- Progress against the Council's aims and objectives is monitored through its performance management framework and reported to management and Overview & Scrutiny Committee.
- The Council Identifies and manages any corporate and departmental risks to achieving its objectives through its risk management process and issues regular reports to senior management and Audit Committee.
- Value for money is driven through the Council's Corporate Procurement Code.
- Information relating to Council plans and initiatives is published via its website, email updates, social media and the Horsham District news magazine.

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

- The Medium Term Financial Strategy is updated at least twice a year and takes into account changes in the financial outlook. It is used as a basis for the annual budget setting process in which all Heads of Service reconsider their departmental budgets. The Annual Budget and Council Tax rate are approved by full Council before the start of each financial year.
- Progress against the budget and key performance indicators are reviewed on a monthly basis and reported quarterly to Overview & Scrutiny.
- The Council continually investigates alternative models of service delivery to improve efficiency whilst meeting the needs of customers.
- The Council is working with Community and Voluntary sector partners to develop projects and deliver efficient and effective services.
- The Council's Technology Strategy was updated during 2019/20 and the Digital Strategy introduced ensure service delivery is supported efficiently and flexibly.
- Benchmarking against others provides information that assists the Council to design services that are fit for purpose by looking at options to improve delivery.

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

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

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

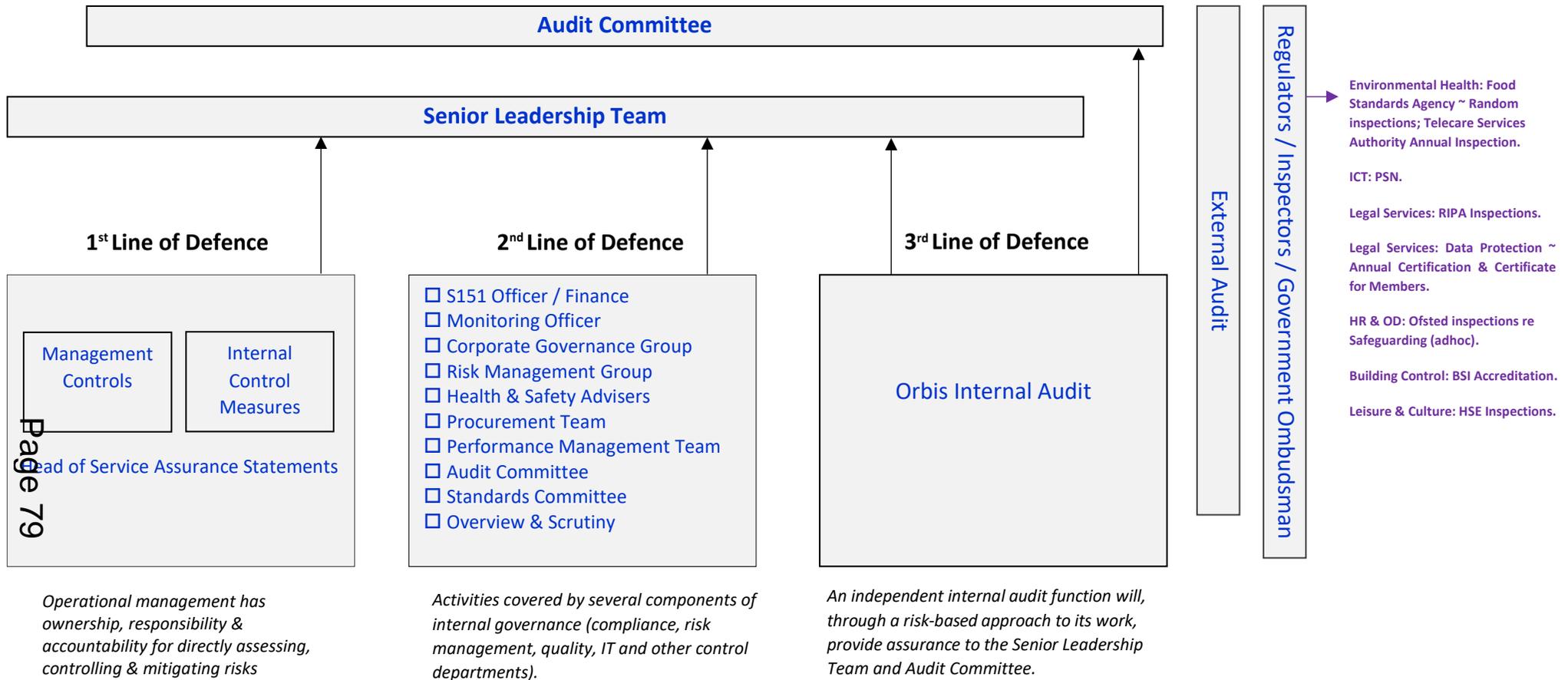
- The Constitution sets out how the Council operates; how decisions are made and which Codes of Conduct are followed. The roles of Members are clearly set out and a Member/Officer protocol is included.
- A Scheme of Delegation in the Constitution determines the levels at which decisions are taken.
- Detailed regulations in the Constitution (for example Financial Regulations and Contract Standing Orders) require officer compliance.
- Managers monitor officer performance and development through regular recorded conversations that support workforce planning. The process also identifies an individual's training needs. The Disciplinary and Capability Policies outline the formal processes for managing officer non-compliance.
- The Standards Committee deals with issues relating to Member performance.
- Partnership agreements are in place for each of the Council's strategic partnerships and managers hold regular meetings to monitor the agreements.
- A health and wellbeing programme is available to all employees.
- An induction training programme is in place for both Members and employees.
- Regular Senior Managers' Forums and all Managers' Conferences enable managers to meet to consider current issues affecting the Council and to work together to identify solutions.

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

- All committee agendas, papers and minutes are available to the public on the Council's website.
- The Council publishes its Audited Annual Accounts and Annual Governance Statement including an action plan for improvement for any areas of concern.
- All external audit reports are published and corrective action is taken to address any issues highlighted as necessary.
- The Council has an effective Internal Audit service which reports to the Audit Committee. Progress to implement agreed actions for improvement in control processes is monitored and reported to Members.
- Delegated partnership arrangements are effectively monitored by senior managers through monthly meetings and Partnership Boards where the Council is a full partner.

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GOVERNANCE ASSURANCE FRAMEWORK



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Assurance Framework Documentation

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

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

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

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**APPENDIX D:
ANNUAL GOVERNANCE STATEMENT ~ ACTION PLAN 2020/21**

No.	Area for Improvement	Actions	Responsible Officer	Outcome
1	Potential overlaps and conflicts between the Policy Development Advisory Groups and the Overview & Scrutiny Committee.	Governance Committee to review the functions and make recommendations to Council for changes (if any).	Head of Legal & Democratic Services	Review reported to Governance Committee in March 2020, no changes.
2	Mandatory governance training courses.	Identify the courses needed, annual refresh and implement a refresh programme, reminders to be issued 31/03/20.	Head of HR & OD	Training completed.
3	S151 and Monitoring Officer sign off for Cabinet decision reports on Modern.gov.	Roll out of tracking and sign off through Modern.gov.	Democratic Services Manager	Not delivered due to the Democratic Services Manager leaving the organisation in July 2020.

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**APPENDIX E:
ANNUAL GOVERNANCE STATEMENT ~ ACTION PLAN 2021/22**

No.	Area for Improvement	Actions	Responsible Officer	Target Date
1	General officer compliance with good governance	Develop remote learning governance course for all office-based staff as part of the suite of annual courses.	Learning and Development Officer	30/9/21
2	Lack of understanding of good governance in local government by all manager and office-based staff in Parking & Waste, Health and Wellbeing, the Capitol and Parks & Countryside	Briefing for Heads of Service Briefing for all managers Visits to these services to by the Monitoring Officer and s151 Officer to explain the Council's processes and the importance of complying with them.	Monitoring Officer & S151 Officer	31/5/21 30/9/21 Within 3 months of the end of lockdown
3	Non-compliance with HR process and procedure by managers	Rewrite of HR processes and procedures as come out of lockdown and training for all managers in the new processes	Head of HR and OD	Within 6 months of the end of lockdown
4	Some performance indicators and key performance indicators are out of date for the current situation	Redraft of our performance indicators and key performance indicators for 2021/22	Head of Finance & Performance	31/5/21
5	Not yet clear how Councillor meetings and Councillor/officer meetings can be held after 7 May 2021.	New proposal for future of Councillor and Councillor/Officer meetings once new law received	Head of Legal & Democratic Services	31/5/21

6	S151 and Monitoring Officer sign off for Cabinet decision reports on Modern.gov (carried forward from 2020/21)	Roll out of tracking and sign off through Modern.gov	Head of Legal & Democratic Services	31/3/22
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Report to Audit Committee

14th April 2021

By the Horsham Chief Internal Auditor



INFORMATION REPORT

Not Exempt

Internal Audit Progress Report – Quarter 3 (01/10/20 - 31/12/20)

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 2020-21

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 October 2020 and 31 December 2020.

Supporting Information

- 1.2 The current annual plan for internal audit is contained within the Internal Audit Strategy and Annual Plan 2020-21 which was approved by the Audit Committee on 01 April 2020.

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 ensures 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 annually 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 eight formal audits finalised during the quarter, one received an opinion of 'substantial assurance'; five received an opinion of "reasonable assurance"; and two received an opinion of "partial 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 Flexibility is 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 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.

4 Next Steps

- 4.1 The Committee will be kept informed about progress in terms of the delivery of the audit plan for 2020/21.

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 relevant Head(s) 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 3 Progress Report 2020/21

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

BACS (2020/21)

- 1.1 The Council processes BACS payments via a secure channel for submitting payments directly to the BACS system. The Council uses BACS to process transactions in relation to Accounts Payable and Council Tax/NNDR. Housing Benefit payments, the processing of which is outsourced to LGSS, are also made via Horsham District Council's BACS system, by LGSS staff.
- 1.2 This audit looked to review the Council's BACS processing arrangements, to ensure adequate controls exist to prevent unauthorised amendments of BACS files and subsequent inappropriate payments.
- 1.3 The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
- BACS files can only be created by authorised officers and are subject to appropriate validation;
 - The transfer of BACS files is subject to robust controls;
 - Processed BACS files are subject to verification and validation.
- 1.4 The audit concentrated on the use of the BACS system for processing payments. The use of BACS for income collection was not covered as part of this audit. Payments made via the Horsham District Council BACS system by LGSS, in relation to Housing Benefits, were only considered from the point that they enter Horsham District Council's systems.
- 1.5 We were only able to provide **Partial Assurance** over the controls operating within the area under review because:
- Issues were identified concerning separation of duties in the processing of BACS; it is possible for the same individual to extract payment information from Technology One, upload it to the Bacway system and electronically sign the submission. Sample testing showed a lack of separation of duties in all six payment runs reviewed.
 - Team procedures are in place to help ensure that BACS files are only processed once, and validation by email takes place by a second officer. However, this occurs outside of the Bacway system and there are no technical controls in place to ensure this validation is completed, nor are any manual checks routinely made.
 - Prior to being processed, BACS files were found to be manually moved between folders and renamed following download which leaves the file vulnerable to manipulation. In addition, if this process is not completed successfully, there is a possibility that duplicate payments could be made.
 - While the above weaknesses have been identified, it is noted that all of our sample of BACS payment runs examined in this audit were found to have been processed accurately and in line with current procedures.
- 1.6 Actions have been agreed with management to rectify the concerns identified within the control environment and one of these actions was implemented prior to the final report being issued.

Community Lottery (2020/21)

- 1.7 The Council established a community lottery scheme in August 2019, which is managed by an external lottery management company, Gatherwell Ltd. At the time of the audit, there were 81 good causes that had signed up to the lottery which had generated approximately £45k.
- 1.8 The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
- Governance arrangements for the set up and operation of the community lottery have been established and are operating effectively, with a comprehensive and agreed contract in place between the Council and the external lottery management company.
 - There are appropriate controls in place to monitor, report and review fluctuations in ticket sales to ensure these can cover the costs of administering the community lottery.
 - Appropriate procedures and processes are in place to ensure all money received through lottery ticket sales is received by those genuine local good causes that the lottery aims to support.
- 1.9 Our work identified areas where improvement was required and, as a result, we were only able to provide an opinion of **Partial Assurance**. In giving our opinion, we recognise that the community lottery relates to a relatively small area of the Council's operations. However, it is important to note that monies received by the Council from the community lottery need to be allocated to good causes across the district. Therefore, it is important that processes are robust to help ensure these monies are received in full, and monies are distributed within a reasonable timescale.
- 1.10 In response to this audit, an action plan was agreed with management that included measures to:
- Seek advice from the Council's Procurement Manager when the contract in place with Gatherwell Ltd, the external lottery management company, ends, to ensure that the appropriate procurement process is followed.
 - Document procedures and processes for the operation of the community lottery, including: the approval of participating organisations/good causes; mitigating potential conflicts of interest; making timely payments; checks and balances/reconciliation of monies received by the Council; and the termination of the community lottery.
 - Undertake periodic reconciliations between the expected and actual community lottery funds received by the Council and subsequently allocated to good causes. This will be undertaken with the support and assistance of the Finance team.

Procurement (2020/21)

- 1.11 According to the most recent analysis of expenditure (2018/19), Horsham District Council had controllable expenditure of around £14.5m with 1,154 suppliers. With this level of expenditure, it is essential that the Council has sound procurement practices to ensure that maximum use is made of its limited resources and that the use of public monies is transparent.

- 1.12 The framework for procurement activity is set out in the Council's Contract Procedure Rules, which form part of the Council's Constitution
- 1.13 The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
- All expenditure is made in compliance with the Council's Contract Procedure Rules, and is subject to approval in accordance with delegated levels of authority;
 - Conflicts of interest are managed, and procurement decisions are made in the interests of the Council;
 - Controls ensure that contracts are in place to support major expenditure.
- 1.14 As a result of our work, we were able to provide **Reasonable Assurance** over the controls in place.
- 1.15 There is a clear framework in place for procuring managers to follow, outlining the steps that should be taken and the approvals required at each point within the process.
- 1.16 However, we did identify a number of areas for improvement which are outlined below:
- Heads of Service will continue to be expected to enforce the Procurement Code as part of their day to day duties.
 - Where aggregate spend has breached the EU threshold for a particular supplier within the audit sample, a waiver will be sought for two years. The spend profile for this supplier will be reviewed in early 2023, and procurement arrangements will then be reconsidered taking into account the post-COVID situation and any changes in legislation.
 - In the event that we are accessing a framework agreement for professional legal advice, the Legal Services Business Manager will ensure that all of the necessary contractual paperwork and approvals are sought. From 1 April 2021, agency staff for Legal Services will be accessed via a new Dynamic Purchasing Agreement.
 - A work request has been raised with the Customer & Digital Services Department to make the exemption approval process electronic.
 - The Procurement team will continue to send out a quarterly reminder to Heads of Service requesting that they update the Council's Contracts Register with any contracts within their service area.
 - The Director of Corporate Resources will continue to request an annual update of declarations of interest from all staff. Heads of Service are responsible for ensuring that their staff complete these.

Parking Income (2020/21)

- 1.17 Car parking income is an important revenue stream for the Council. In 2019/20 this amounted to approximately £4.4m for on and off-street parking, parking permits, and penalty charge notices.
- 1.18 The purpose of this audit was to provide assurance that controls are in place to meet the following objectives:
- There are secure and effective cash banking processes for all parking income;
 - Regular reconciliations are undertaken to ensure that all parking income is collected and banked, and any discrepancies are promptly investigated;

- There is effective monitoring of income trends to help identify thefts, machine breakdowns and other anomalies;
- External contractors involved with the collection of car parking income are performing in accordance with contract and service requirements;
- Payment machines are properly maintained.

1.19 As a result of our work, we were able to provide **Reasonable Assurance** over the controls in place. Most controls were operating as expected and we did not identify any high-risk issues. However, our testing did highlight that there were opportunities to strengthen the process further. A management action plan has been agreed with the Head of Parking and Waste which includes the following measures:

- Complete the reconciliation process documentation and introduce version control and review dates. The documentation will include roles and responsibilities; procedures and an escalation process. In addition, a standard operating procedure will be completed for each parking income stream that will include the reconciliation process.
- Develop an escalation and investigation process if a difference between the expected and actual income received is identified, as part of the reconciliation process. A discrepancy value for investigation will be agreed between the Head of Parking and Waste Services, and the Head of Finance and Performance.
- Review the key holder documents and implement new policies and procedures, including the filing of the electronic copy of key logs. There will be a regular management review of these procedures to ensure that they are being complied with. This review will include ensuring that regular spot checks are being undertaken by the supervisors.
- Revised policies and procedures for controlling keys will be developed and implemented, and regular management reviews will take place, including spot checks by supervisors.
- The documented process for income reconciliations will be completed, and version control and review dates will be introduced.
- Recovery of monies owed to the Council by the supplier of the parking equipment and machines. An amendment to the contract has been signed outlining the payment timeframe for the outstanding monies owed to the Council. The Parking Services team will work with the supplier to ensure that payments are brought up-to-date and agreed timeframes adhered to. The current process for receiving monies is being reviewed with the Legal & Democratic Services team in order to reduce the risk of non-payment and ensure that General Data Protection Regulations (GDPR) are being adhered to.
- Review the machine maintenance process, to ensure this includes the timely resolution of machine faults and the escalation of machine issues. A quarterly review of machine maintenance will be introduced to ensure service level agreement compliance. In addition, a training manual will be developed for staff on how to maintain all types of parking machines; this will be used for refresher training and training will be recorded.

Treasury Management (2020/21)

- 1.20 Treasury management is defined by CIPFA as ‘the management of the authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks’.
- 1.21 As at 31 March 2020, the Council’s external debt was £nil, and investments totalled £39m. During 2019/20 interest of £0.879m was earned on investments, at an average return of 2.1%. The majority of investments are fixed deposits with a variety of UK and foreign financial institutions.
- 1.22 The Council’s Treasury Management activities are regulated by a variety of professional codes, statutes and guidance.
- 1.23 The audit review assessed the adequacy of key controls and procedures across the Council’s Treasury Management arrangements, including cash flow forecasting; segregation of duties; financial investments; and the use of treasury advisers.
- 1.24 The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
- The Council has established an appropriate Treasury Management Policy & Investment Strategy;
 - All lending and borrowing decisions are based on robust cash flow forecasting over the short, medium and long term;
 - Investments are made with approved counterparties within approved limits, are correctly paid, authorised, and are repaid by counterparties with the correct amount of interest;
 - There is regular and independent reconciliation between the Treasury Management record, the Bank Account and the General Ledger;
 - Officers and elected Members receive regular and informative training and performance monitoring information.
- 1.25 We were able to provide **Reasonable Assurance** over the controls operating within the area under review because:
- The cash flow forecasting process is robust, utilising both known information and prudent estimates to determine the Council’s cash requirements. There is evidence of formal management oversight, scrutiny and review.
 - Investment decisions are efficiently managed, and advice on counterparties is secured from a professional advisor as required. It was evident from testing that the Finance team keeps appropriate records and all transactions were subject to review and approval, with appropriate separation of duties.
 - Regular periodic reconciliations of investments and general ledger balances are undertaken and verified.
 - There is evidence of regular meetings to discuss Treasury Management and of accurate reports being issued to the Audit Committee.

- The Horsham DC Constitution addresses the legal and statutory requirements for treasury management; the Treasury Management and Capital Investment Strategy for HDC is congruent with the Treasury Management Guidelines published by the Chartered Institute of Public Finance and Accounting. Whilst this Strategy was approved by the Audit Committee in December 2019, approval by Council wasn't obtained until October 2020.
- 1.26 Two medium priority areas for improvement were identified and appropriate remedial action has been agreed which is summarised below:
- Whilst there are good processes in place for the administration of treasury management, and some procedure notes are documented, it was agreed that more comprehensive written instructions will continue to be compiled covering all aspects of treasury management and cash flow forecasting.
 - An increase in the level of insurance cover will be considered at the next monthly Treasury Management meeting, weighing up the cost of any additional premium against the irregularity of investments over £5m being made.

Jigsaw Computer Application (2020/21)

- 1.27 The Jigsaw application is used to support the management of the Council's front-line Housing service. The system is a cloud based 'software as a service' solution. This audit reviewed all major input, processing and output controls including access controls, and also reviewed the controls in place to interface with the Council's main accounting system.
- 1.28 The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
- System access is restricted to appropriately authorised individuals and the permissions provided to those users are in line with job functions;
 - Data processed through interfaces is authorised, accurate, complete, securely processed and written to the appropriate file;
 - Outputs produced by the system are complete, accurate, reliable, distributed on time and with confidentiality where appropriate;
 - System updates and enhancements are performed in a consistent manner and subject to sufficient testing and authorisation before implementation;
 - Appropriate support arrangements are in place to manage changes within the system.
- 1.29 We have been able to provide an opinion of **Reasonable Assurance** for the following reasons:
- The system contains sufficient input controls to support accurate data quality input.
 - All output from the system is subject to sufficient review to ensure any errors or issues can be identified and promptly rectified.
 - Controls over user accounts and access are fit for purpose with accounts locked after a number of unsuccessful attempts to access the system. In the majority of instances, access is controlled through the use of a single sign-on, with validation coming from a user's corporate network account.

- Whilst we found there is no formal process for potential users or their managers to request access to the system, given the relatively small number of users, this was not considered necessary as each new user request can be reviewed to ensure the request is bona-fide and the access requested is appropriate for the role.
- During the audit, our testing identified that users who have left the Council, or no longer require access, have not been removed from the module in a timely manner due to a concern that all the user's activity would be deleted. Following discussion as part of this audit, this was found to not be the case and all inactive accounts have subsequently been removed (and will continue to be on an ongoing basis).
- We identified three low risk findings, representing opportunities to improve controls through reviewing audit logs to identify any suspicious or unexpected activity which might identify attempts to hack into the system, or to identify any inappropriate activity by the Superuser. We also found that whilst the system provider is responsible for providing system updates and communication, engagement by the supplier with the Council about the nature and timing of these updates could be improved to manage the risks of changes being applied to the system which the Council is unaware of or not expecting. In such cases, this could result in a negative impact on service delivery.

Ulysses Computer Application (2020/21)

- 1.30 The Ulysses Care system is a cloud-based system and has been developed in-house as a replacement for the Community Link system. Ulysses is a comprehensive home care scheduling and electronic monitoring management suite, covering every aspect of organising care: managing referrals; creating care plans; allocating care workers to create their rosters; and issuing rosters electronically via the integrated Mobile application which also enables care workers to log their visit attendance and record information.
- 1.31 The use of Ulysses is designed to enable Horsham District Council's residents to maximise their independence, to have choices in their own lives, and to remain in their own homes for as long as possible. This helps to enhance people's independence so that they are healthier, stronger, more resilient and less reliant on formal health or social care services. The system went live in May 2020.
- 1.32 The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
- System access is restricted to appropriately authorised individuals and the permissions provided to those users are in line with job functions;
 - Data processed through interfaces is authorised, accurate, complete, securely processed and written to the appropriate file;
 - Outputs produced by the system are complete, accurate, reliable, distributed on time and with confidentiality where appropriate;
 - System updates and enhancements are performed in a consistent manner and subject to sufficient testing and authorisation before implementation;
 - Appropriate support arrangements are in place to manage changes within the system.
- 1.33 We were able to provide **Reasonable Assurance** over the controls operating within the area under review because:

- System user access permissions are monitored and reviewed on a regular basis. There is a quarterly checking process in place to review all authorised access. A report/log function of users' names and permission rights can be viewed.
- Whenever a user logs in or attempts to log into the system a log file is created. Any instances of inappropriate access are identified and any attempts from an unauthorised IP address will be denied access.
- Reportable data is reviewed on a monthly basis. This procedure assures data is current and updated. Compliance with the formal Ulysses system contract provides assurance that all data is held securely and in adherence with GDPR requirements.
- Any planned system 'downtime' is communicated clearly to system users in order to prevent a negative impact on service delivery. However, if a change is urgent and needed straightaway in the 'Live' system, an update will take place.
- There will be an annual review of data for all customers. A check will be undertaken between Finance and Control Centre held data. Any discrepancies within the system will be reported to the Ulysses Support team immediately for review and correction by Ulysses or Horsham DC as appropriate.
- System changes and updates are carried out by the Ulysses provider as per the contract. Changes to the system are tested by internal staff and authorised before being introduced into production. Testing will be undertaken prior to an update or patch being applied. However, no updates have yet been implemented so we are unable to provide assurance over this process.
- We have identified two areas where good practice could be implemented. System users are not able to change their own passwords due to current permissions; the only opportunity is within the initial user set-up when first logging on. Passwords also have a low minimum character requirement. It was noted that audit logs produced by the Ulysses system are checked and reviewed by the Horsham DC project owner on a monthly basis. This includes logs for all system administrators, including the project owner's own activity.
- Actions were agreed in response to the one medium and one low risk finding identified during the audit.

Data in Transit / Home and Mobile Working (2020/21)

- 1.34 The demand and ability for organisations and its officers to work in a flexible and mobile way is becoming more desirable. Since the outbreak of the COVID-19 global pandemic and the UK being subject to lockdown measures, the need for officers to be able to work remotely has increased significantly for many organisations, including district councils, to be able to continue to provide services to their residents.
- 1.35 With the number of officers working remotely increasing, this is likely to increase the risk of breaches in relation to data-in-transit (the movement of data from one location to another either via the Internet or across a network), as well as potential data breaches due to an increase in officers taking physical records home with them.
- 1.36 This audit considered the effectiveness of control arrangements in place for the security of all council data when in transit; including data held on laptops and other mobile devices, as well as written notes and other documents. It also considered the effectiveness of arrangements to allow council officers to work remotely.

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

- Data classification has been established to enable council officers to have greater understanding of the levels of protection required for data-in-transit;
- Policies and procedures have been implemented to ensure council officers are aware of the requirements for managing any data-in-transit;
- Appropriate policy and procedures have been implemented to support council officers when mobile working;
- Mobile devices (for example, laptops and other portable devices) are secured accordingly to prevent the unauthorised access of council data;
- Connections between mobile devices and the Council's network are secure when officers are mobile working.

1.38 We were able to provide **Substantial Assurance** over the controls in place for the following reasons:

- The Council have robust policies in place with regards to information security, the protection of data, its classification and acceptable practices when any council data is in transit. These policies provide a clear framework for council officers concerning their responsibilities and what is expected of them.
- In addition to these policies, practical guidance and training is available to council officers on information governance and data protection. This training is compulsory for all officers, with a requirement to undertake a refresher course as part of a rolling programme. However, it has been noted that processes are not in place to monitor whether this requirement is being complied with across the Council. As a result, management would find it difficult to demonstrate to the Information Commissioner's Office that officers understand data protection requirements in the event of a data breach.
- Further policies, guidance and training are available which help to support officers when working from home or in a mobile way. As part of the response to Covid-19, additional technical guidance was issued by IT to provide further support to officers given that a significant number would now be subject to working from home arrangements, who may not be used to working in this environment.
- Corporate devices are subject to appropriate security arrangements in order to prevent unauthorised access to council data. These are controlled through a combination of robust access controls and encryption of disk drives on the device.
- The Council have recently implemented a Bring Your Own Device Policy, which will allow both officers and Members to access their Council emails on their personal device (e.g. mobile phone). The controls involved in this were found to be appropriate, with management approval required prior to access being granted and safeguards in place to allow the Council to prevent access remotely if the device were to be lost or the officer/Member were to leave.
- Remote access controls to the Council's network were found to be appropriate through a Virtual Private Network (VPN) with two-stage authentication in place.

1.39 One low risk finding was identified during the audit and actions were agreed to manage the risk identified.

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.

National Fraud Initiative (NFI)

2.2 The organisation uploaded the required data sets at the end of 2020 / beginning of 2021. Data matches were made available by the Cabinet Office on 28th January 2021, and these are in the process of being investigated.

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. The outcomes from the assessment help to inform the annual internal audit plan

Counter-Fraud Strategy and Framework

2.4 The Orbis Counter Fraud team has developed a Counter-Fraud Strategy and Framework for Horsham. This has been approved by the Council's Senior Leadership Team and is published on the Council's Intranet.

3. Action Tracking

3.1 All high and medium priority actions agreed with management as part of individual audit reviews are subject to action tracking. As at the end of quarter 3, 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
31/12/20	50	1	49	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</p> <p><u>Purchase Orders (P.Os):</u></p> <p>To review the take up of purchase orders and encourage usage, with the expectation that the use of P.Os (as measured by P.Os raised as a percentage of invoices received) will increase.</p>	<p>Corporate Resources</p>	<p>31/12/17</p>	<p>31/03/21</p>	<p><u>March 2021 Management Update:</u></p> <p>The impact of Covid-19 has set back plans to roll out purchase order training. Other day to day activities have been prioritised such as payments of business grants, and remote year end closedown.</p> <p>Plans for the roll out of training have also now been put on hold due to social distancing and remote working. It is felt that remote training in a technical area will not be efficient. This will be revisited as necessary. A few officers have been provided with some adhoc training in the Parkside office.</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 the Community Hubs (Covid-19 Red Response); and
- Purchase Cards, including areas of spend.

4.2 Through the same process, audits have been removed or deferred from the audit plan and, where appropriate, will be considered for inclusion in the 2021/22 plan as part of the overall risk assessment completed during the annual audit planning process:

- Capitol Bar and Catering Facility;
- Volunteers;
- Hop Oast (Cultural Compliance) follow-up;
- Capital Grant Funding / External Funding;
- T1 Access Control;
- Asset Management – Data Migration Assurance.

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 the Audit Committee on 1 st April 2020.
	Annual Audit Report and Opinion	By end July	G	2019/20 report presented to the Audit Committee on 15 th July 2020.
	Customer Satisfaction levels	90% satisfied	G	100%
Productivity and process efficiency	Audit Plan – completion to draft report stage	90%	A	57% completed to draft report stage at the end of Quarter 3, against a target of 67.5%.
Compliance with professional standards	Public Sector Internal Audit Standards complied with	Conforms	G	<p>January 2018 - External assessment by the South West Audit Partnership gave an opinion of ‘Generally Conforms’ – the highest of three possible rankings.</p> <p>June 2020 - Internal Self-Assessment completed. There were no major areas of non-compliance with PSIAS identified.</p> <p>June 2020 - Internal Quality Review completed, no major areas of non-compliance with our own processes identified.</p>
	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	91% 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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Report to Audit Committee

14th April 2021

By the Horsham Chief Internal Auditor (Orbis)



INFORMATION REPORT

Not Exempt

Internal Audit Strategy 2021/22 and Annual Plan

Executive Summary

The purpose of this report is to present the Council's Internal Audit Strategy 2021/22 and Annual Plan.

Recommendations

The Committee is recommended to:

- i) To approve the Council's Internal Audit Strategy 2021/22 and Annual Plan.

Reasons for Recommendations

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

Background Papers

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

Wards affected: All.

Report Author: Paul Miller, Horsham Chief Internal Auditor

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Background Information

1 Introduction and Background

- 1.1 The Council's Internal Audit Strategy 2021/22 and Annual Plan (Annexe A) sets out how the Council will meet its statutory requirements for internal audit, as defined within the Accounts and Audit Regulations 2015. The Strategy proposes an approach based on focusing audit resources in those areas where the highest risk to the achievement of the Council's objectives lies. These areas have been identified and prioritised based on the Council's own risk assessment processes (including corporate and departmental risk registers) and following consultation with senior officers and Members.

2 Relevant Policy / Professional Standards

- 2.1 Internal Audit follows the mandatory standards set out in the Public Sector Internal Audit Standards (PSIAS) published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors.
- 2.2 Internal Audit is conducted in accordance with the Council's Constitution. Financial Procedure Rule 4e 27 states that: "The Chief Finance Officer ensures 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 annually by the Audit Committee".

3 Next Steps

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

4 Outcome of Consultations

- 4.1 As with the previous year, we have sought to focus our audit and assurance activity on supporting the delivery of the Council's five overarching priority outcomes, namely:
- A great place to live
 - A thriving economy
 - A strong, healthy and safe community
 - A cared for environment
 - A modern and flexible council

5 Other Courses of Action Considered but Rejected

- 5.1 Not applicable.

6 Resource Consequences

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

7 Legal Consequences

7.1 There are no legal consequences.

8 Risk Assessment

8.1 The audit plan is a risk-based plan.

9 Other Considerations

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

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Internal Audit Strategy and Annual Audit Plan 2021-2022

Annexe A

1. Role of Internal Audit

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

1.2 The mission of Internal Audit, as defined by the Chartered Institute of Internal Auditors (CIIA), is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight. Internal Audit is defined as *“an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”*

1.3 The organisation’s response to internal audit activity should lead to a strengthening of the control environment, thus contributing to the overall achievement of organisational objectives.

2. Risk Assessment and Audit Planning

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

2.2 The update of the annual plan for 2021/22 has involved consultation with a range of stakeholders, to ensure that their views on risks and current issues, within individual directorates and corporately, are identified and considered. In order to ensure that the most effective use is made of available resources, to avoid duplication and to minimise service disruption, efforts continue to be made to identify, and where possible, rely upon, other sources of assurance available. The following diagram sets out the various sources of information used to inform our 2021/22 audit planning process:



Annexe A

2.3 In order to ensure audit and assurance activity is properly focussed on supporting the delivery of the Council's priorities, the audit plan has taken into account the key corporate goals of the Council as set out within the Council's Corporate Plan:

- A great place to live
- A thriving economy
- A strong, healthy and safe community
- A cared for environment
- A modern and flexible council

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

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

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

2.6 During the last four years, Surrey County Council, East Sussex County Council and Brighton and Hove City Council have been working together to develop and form the Orbis Partnership, covering a range of business services, including internal audit. This work has resulted in the formation of a single, integrated internal audit service from April 2018, involving three locality based teams supported by two specialist teams in the areas of ICT audit and counter fraud. It is our ambition that this will provide greater resilience and capacity for our partner and client councils, such as Horsham District Council, whilst also building on existing high quality services.

3. Key Issues

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

3.2 Internal Audit must therefore be in a position to give an opinion and assurance that covers the control environment in relation to both existing systems and these new developments. It is also essential that this work is undertaken in a flexible and supportive manner, in conjunction with management, to ensure that both risks and opportunities are properly considered. During 2021/22, a number of organisational and new system initiatives are featured within the audit plan, with the intention that Internal Audit is able to provide proactive advice, support and assurance as these programmes progress. These include:

Annexe A

- Bulky Waste Collections Service
- New ANPR System, Computer Application Controls
- New Ways of Working Project
- Carbon Reduction Programme
- Uniform Software System Replacement
- Horsham District Homes – Operations and Transactions
- New Repairs and Maintenance Contract

3.3 In recognition that in some cases, sufficient information regarding the full extent of future changes and associated risks may not yet be known, the 2021/22 audit plan includes a proportion of time classified as ‘Emerging Risks’. This approach has been adopted to enable Internal Audit to react appropriately throughout the year as new risks materialise and to ensure that expertise in governance, risk and internal control can be utilised early in the change process.

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

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

- Cyber Security and Organisational Response
- Network Access Management
- Capital Programme
- Surveillance Cameras
- Economic Development, Strategy and Grants
- Private Sector Housing Assistance Grants
- Planning Fees

3.6 The results of all audit work undertaken will be summarised within quarterly update reports to the Senior Leadership Team, and the Audit Committee, along with any common themes and findings arising from our work.

4. Counter Fraud

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

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

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

services from fraud loss. This will include leading on the National Fraud Initiative data matching exercise on behalf of the the Council.

5. Matching Audit Needs to Resources

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

5.2 Orbis Internal Audit is contracted to provide 400 days to Horsham District Council for the provision of internal audit and counter fraud services.

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

6. Audit Approach

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

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

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

- Contingency – an allowance of days to provide capacity for unplanned work, including special audits and management investigations. This contingency also allows for the completion of work in progress from the 2020/21 plan;
- Advice, Management, Liaison and Planning - an allowance to cover provision of ad hoc advice on risk, audit and control issues, audit planning and annual reporting, ongoing liaison with service management and Members, and audit management time in support of the delivery of all audit work, planned and unplanned.

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

7. Training and Development

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

7.2 The team is also committed to coaching and mentoring its staff, and to providing opportunities for appropriate professional development. This is reflected in the high proportion of staff holding a professional internal audit or accountancy qualification as well as several members of the team continuing on apprenticeship and other professional training during 2021/22.

8. Quality and Performance

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

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

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

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

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

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

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

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

Table 2: Performance Indicators

Aspect of Service	Orbis IA Performance Indicators	Target
Quality	<ul style="list-style-type: none"> Annual Audit Plan agreed by Audit Committee Annual Audit Report and Opinion Satisfaction levels 	<p>By end April 2021</p> <p>To inform AGS by July 2021</p> <p>90% satisfied</p>
Productivity and Process Efficiency	<ul style="list-style-type: none"> Audit Plan – completion to draft report stage by 31 March 2022 	90%
Compliance with Professional Standards	<ul style="list-style-type: none"> Public Sector Internal Audit Standards Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act 	<p>Conforms</p> <p>Conforms</p>
Outcomes and degree of influence	<ul style="list-style-type: none"> Implementation of management actions agreed in response to audit findings 	95% for high and medium priority
Our Staff	<ul style="list-style-type: none"> Professionally Qualified/Accredited 	80%

Paul Miller
Horsham Chief Internal Auditor

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APPENDIX A

Planned Audit Reviews

Review Name	Outline Objective
Accounts Payable	To review the processes and key controls relating to the Accounts Payable system, including those in place for ensuring the accuracy of vendor details, the processing of invoices, goods receipting and promptness of payments.
Accounts Receivable	To review the processes and key controls relating to the Accounts Receivable system, including those in place for ensuring the accuracy of customer details, completeness, accuracy and timeliness of invoicing, recording and matching payments to invoices, and debt recovery.
Payroll	To review controls in relation to the staff payment system, including those relating to starters, leavers, temporary and permanent payments, variations of pay, and pre-employment checks.
Treasury Management	To review the adequacy of key controls and procedures across the Council's treasury management arrangements, including cash flow forecasting, segregation of duties, financial investments and use of treasury advisers.
Capital Programme	To review processes and key financial controls across the Council. The review will include capital expenditure monitoring, funding, receipts, borrowing and capital accounting.
Hop Oast (Cultural Compliance) Follow Up	This review will assess the implementation of the agreed actions arising from the Hop Oast (Cultural Compliance) audit that was completed in 2019/20 which received an audit opinion of minimal assurance.
Building Control (Cultural Compliance) Follow Up	This review will assess the implementation of the agreed actions arising from the Building Control (Cultural Compliance) audit that was completed in 2020/21 which received an audit opinion of partial assurance.
Community Lottery Follow Up	This review will assess the implementation of the agreed actions arising from the Community Lottery audit that was completed in 2020/21 which received an audit opinion of partial assurance.
Strategic Planning (Cultural Compliance)	Culture and ethical behaviour are an important aspect of the Council's control environment. The audit will include a review

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	of roles and responsibilities, standards, awareness, and compliance with corporate policies and procedures.
Community Safety, Health & Wellbeing (Cultural Compliance)	Culture and ethical behaviour are an important aspect of the Council's control environment. The audit will include a review of roles and responsibilities, standards, awareness, and compliance with corporate policies and procedures.
Bulky Waste Collections Service	This audit will review the bulky waste collections service which was brought back in-house in April 2020, ensuring that appropriate systems and controls are in place to safeguard the Council against loss of income.
Private Sector Housing Assistance Grants	This audit will review the main controls and procedures for the management and award of Private Sector Housing Assistance Grants, ensuring that there are sound arrangements in place for selecting contractors and monitoring works through to completion.
Repairs & Maintenance (Contract Management) Mountjoy	The review will focus on how effectively the contract is being managed, and in particular, ensure that the service is being managed in accordance with the contract.
Surveillance Cameras	This audit will review the effectiveness of the controls in place to meet the requirements of the Security Camera Commissioner's Code of Practice. This will include the deployment of surveillance camera systems in public spaces and that any personal information captured is managed in accordance with data protection legislation.
Horsham District Homes – Operations and Transactions	Internal Audit carried out a review of the Governance arrangements for Horsham District Homes during 2019/20. This audit will review how the company is operating, with particular focus on transactions; compliance with regulations; adherence to internal procedures; and the accuracy of management information.
Planning Fees	The audit will review the process for dealing with planning applications, to ensure that there is a sound system in place for the collection, recording and receipting of all income.
Economic Development - Strategy & Grants	The review will examine progress against the Council's Economic Development Strategy 2017/27 and any planned changes to the strategy post-Covid in terms of future recovery. The review will also examine the controls in place to ensure that grant conditions for the various grants received are being complied with. This includes the Safer Town grant, the Y-Wish and In2Work grants, and the LEAP and Local Journey to Work grants.

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Technology One (T1) Access Control	This audit has been requested by the Head of Finance to provide assurance over a specific activity relating to the creation and administration of permissions within the T1 system.
Cyber Security & Organisational Response	The audit will review the Council's arrangements for protecting its systems and services from cyber-attack, including arrangements for effectively responding to a cyber-attack should one occur.
Network Access Management	This audit will review the effectiveness of the controls in place to ensure that staff network accounts are up to date and have the correct access permissions relevant to their job roles; new starters accounts are set up with the correct access for their role; and leavers' permissions are removed in a timely manner.
New ANPR System - Application Controls	Automatic Number Plate Recognition is in use within three multi-storey car parks: Piries Place; Swan Walk; and the Forum. The system is used to improve the efficiency of the process for paying for parking. This application audit will review all major input, processing and output controls and will review the controls in place to interface with any other systems and ensure appropriate system ownership and responsibilities are known.
New Ways of Working – Project Support	Internal audit will attend project team meetings, as appropriate, to provide independent advice, support and challenge on risk, control, probity and governance issues. In addition to attendance at project team meetings, we will identify a number of key focus areas to support the project.
Carbon Reduction – Project Support	Internal audit will attend project team meetings to provide independent advice, support and challenge on risk, control, probity and governance issues. In addition, we will identify a number of key focus areas to support the programme.
Uniform Software System Replacement - Project Support	Orbis IA will attend project board/working group meetings to provide independent advice, support and challenge on risk, control, probity and governance issues. In addition to attendance at these meetings, we will identify a number of key focus areas to support the project.
Anti-Fraud and Corruption	To cover the investigation of fraud and irregularities, as well as proactive work, including the National Fraud Initiative (NFI) data matching exercise.

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Internal Audit Service Management and Delivery

Review Name	Outline Objective
Action Tracking	Ongoing action tracking and reporting of agreed medium and high priority actions.
Annual Internal Audit Report and Opinion	Creation of Annual Report and Opinion.
Audit and Fraud Management	Overall management of all audit and counter fraud activity, including work allocation, work scheduling and Orbis Audit Manager meetings.
Audit and Fraud Reporting	Production of periodic reports to management and the Audit Committee covering the results of all audit and anti-fraud activity.
Audit Committee and other Member Support	Ongoing liaison with Members on internal audit matters and attending Audit Committee meetings and associated pre-meetings as appropriate.
Client Service Liaison	Liaison with clients and departmental management teams throughout the year.
Client Support and Advice	Ad hoc advice, guidance and support on risk, internal control and governance matters provided to clients and services throughout the year.
External Liaison	Liaison with external auditors and other external bodies, including attendance at regional and national audit groups and counter fraud hubs.
Organisational Management Support	Corporate Governance Group; Risk Management; and Horsham Management meetings (e.g. Departmental Team Meetings; Manager's Forums; Conferences).
Strategy and Annual Audit Planning	Development and production of the Internal Audit Strategy and Annual Audit Plan, including consultation with management and Members.

INTERNAL AUDIT CHARTER

1. Introduction

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

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

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

2. Internal Audit Purpose

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

Internal Audit is defined in the PSIAS as “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

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

3. Statutory Requirement

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

These regulations require any officer or Member of the Council to

- make available such documents and records; and

- supply such information and explanations;

as are considered necessary by those conducting the audit.

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

In addition, the Council's S151 Officer has a statutory duty under Section 151 of the Local Government Act 1972 to establish a clear framework for the proper administration of the authority's financial affairs. To perform that duty the Section 151 Officer relies, amongst other things, upon the work of Internal Audit in reviewing the operation of systems of internal control and financial management.

4. Internal Audit Responsibilities and Scope

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

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

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

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

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

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

5. Independence

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

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

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

6. Reporting Lines

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

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

7. Fraud & Corruption

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

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

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

8. Consultancy Work

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

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

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

9. Resources

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

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

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

10. Due Professional Care

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

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

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

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

11. Quality Assurance

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

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

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

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

January 2021

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